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Obstacles to Regional Integration in Latin America and the Caribbean: Compliance and Implementation Problems

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OBSTACLES TO REGIONAL INTEGRATION IN LATIN AMERICA AND THE CARIBBEAN: COMPLIANCE AND IMPLEMENTATION PROBLEMS*

Laura Gómez Mera †

Introduction

The 1990s saw a resurgence of regional trade initiatives in Latin America and the Caribbean (LAC). Triggered by security, political and economic motivations, these schemes were initially viewed as positive developments. In particular, analysts emphasized the differences between this new wave of “open” regionalism and the inward-oriented regional integration projects of the 1950s and 1960s (Devlin and Estevadeordal, 2001). Yet a closer look suggests that the performance of many of these agreements has been far from impressive. Progress on tariff cuts has been slow and the implementation of signed treaties, uneven. The failure of many LAC countries to follow through on the commitments they undertake at the regional level undermines the economic and political sustainability of these organizations, ultimately compromising their underlying objectives.

Scholars frequently acknowledge the existence of serious commitment problems in LAC regional organizations (Devlin and French-Davis, 1998; Bouzas, 2001; Duran and Maldonado, 2005; etc.). Yet, there have been few attempts to systematically measure and take stock of the implementation and compliance deficit in these blocs. This paper seeks to contribute to the literature on regional integration in LAC, by presenting and analyzing original data on the compliance and implementation records of members of the four main blocs in the region, namely, the Southern Cone Common Market (MERCOSUR), the Andean Community (CAN), the Central American Common Market (CACM) and the Caribbean Community (CARICOM). The empirical evidence presented in this paper suggests that there are indeed commitment problems in the four organizations. It also shows that there are variations both across and within the four agreements.

The paper draws on International Relations (IR) and International Political Economy (IPE) theoretical perspectives to account for these variations. It argues that the two main perspectives in the debate on compliance with international agreements, the enforcement and management approaches, are useful to account for patterns of cross-national implementation and compliance in Latin America and the Caribbean. Yet, the tendency of these approaches to neglect the role of external influences could prove misleading when examining implementation and compliance gaps in regional trade agreements among developing countries. The paper thus argues that greater attention needs to be paid to external constraints, and in particular, to the role of globalization. The empirical findings presented here suggest that international interdependence

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and vulnerability have had an impact on the ability and willingness of LAC countries to honor their regional commitments.

The paper is structured as follows. The next section begins with a general discussion of the concepts of commitment, compliance and implementation in the IR literature, and then presents the main theoretical perspectives on the sources of non-compliance with international agreements. The third section assesses whether such problems are in fact present in LAC regional agreements by examining different indicators of compliance and implementation. It then examines the sources of commitment problems in LAC regional organizations, focusing specifically on the determinants of practical implementation. The final section summarizes the main empirical results and their theoretical implications and discusses avenues for future research.

Theoretical Framework

Conceptualizing Commitment, Compliance and Implementation

Neoliberal institutionalist scholars have emphasized the role of international institutions in helping self-interested states to achieve and sustain cooperation in an anarchic international setting. Yet the effectiveness of institutions in promoting cooperation remains contingent on member states' commitment to undertaking and observing the institution's norms, rules and regulations. In this paper, commitment is viewed as encompassing the two interrelated but distinct notions of implementation and compliance. Following Underdal (1998: 26), I define implementation as "the measures that governments take to translate international accords into domestic law and policy" and compliance as the extent to which they adhere to the provisions of these agreements. A further distinction can be made between legal and practical implementation. According to Tallberg (2002), the former refers to the "measures that states take to make international accords effective in their domestic law," and the latter to the practical steps they take to adjust their behavior to these accords. In this sense, and consistent with Young (1979) and Simmons (1998), implementation entails the practical and legal adoption of treaty regulations that are expected to facilitate and promote compliance.

Three additional considerations are relevant when discussing compliance and implementation in regional trade organizations. First, the two concepts are independent of the notion of *regime effectiveness*, which tends to refer to the extent to which an organization is able to achieve its stated or implicit objectives (Simmons, 1998; Underdal, 1998). This is useful to understand the survival of some economically irrelevant regional organizations in the developing world. Some customs unions among developing countries, for example, are created with the ultimate (but perhaps implicit) goal of increasing member states' leverage in multilateral trade negotiations. In such cases, compliance and implementation problems may not necessarily undermine their underlying strategic rationale. At the other extreme, a regional trade agreement created mainly to promote trade among partners could generate high levels of compliance and implementation but fail to significantly expand intra-bloc interdependence for a number of reasons (e.g. small market size, lack of complementarity among partners' economic structures, unfavorable external or domestic circumstances). Ultimately, we would expect commitment problems to work to undermine regime effectiveness (Young, 1992). Yet, this paper focuses on the former and does not directly address the latter.

Second, scholars tend to differentiate between "first" and "second order" compliance. First-order compliance implies adherence to original or standing rules and treaties signed by states. In contrast, the concept of "second order" compliance is typically used to refer to compliance with legally binding decisions taken by a third-party, usually in response to a case of first order non-compliance (Chayes and Chayes, 1995). The advantage of focusing on second-order compliance, which has been frequent in research on the GATT/WTO dispute settlement

mechanism, is that it is easier to empirically establish the “rate of compliance” (Simmons, 1998). In this paper, however, I focus on first-order compliance.

Finally, as Underdal (1998: 6) points out, both implementation and compliance are matters of degree-- “an actor may comply with some provisions but not with others, and meet some obligations *partially*.¹ In the context of a customs union, for example, member states may observe their commitments to eliminate all barriers to intra-bloc trade, but might fail to implement common external tariff agreements (CET), maintaining different levels of tariffs on third parties’ products. Similarly, a country might adjust its external trade policy to implement the CET in all but a number of sectors or product lines. This understanding of compliance and implementation in degrees of intensity has important methodological implications. Drawing on these insights, Figure 1 summarizes the concepts of implementation, compliance and commitment that will be used in the rest of the paper. The table distinguishes between the process of policy and/or norm formulation and the subsequent ability of states to commit themselves to that policy. The notion of commitment is viewed as including both the ability and/or willingness of a state to implement and to comply with it after implementing it. A further distinction is made between “legal” and “practical” implementation.

FIGURE 1: The Different Dimensions of Commitment to Regional Policy and Agreements

| | | | |
|--|--|-------------|---|
| Policy Formulation | Policy Commitment | | |
| | Policy Implementation | | Policy Compliance (First-Order) |
| | Legal | Practical | |
| Decision-Making ↓ Directives/Decisions Rules | Transposition ↓ Domestic Legislation | Application | Conformity to regional rules and policies |
| <i>Monitoring and Enforcement</i> | | | |

Source: Adapted from Treib (2006)

The Sources of Commitment Problems

Two main perspectives can be identified in the debate on the sources of compliance with international agreements: the enforcement and the management approaches (Chayes and Chayes, 1995; Downs, Roque, and Barsoom, 1996). These two approaches diverge on what determines and on how to address problems of non-compliance and implementation.

Enforcement scholars assume that states are rational actors whose compliance and implementation decisions depend on the structure of material incentives that they face. This is consistent with traditional IR perspectives on cooperation, and particularly with the realist view that international institutions are “epiphenomenal” and that states are cynical when joining them,

knowing that they might subsequently decide to renege on their rules. In Tallberg's (2002: 611) words, "states' interests may include signature but not compliance." From this perspective, non-compliance can only be deterred through effective monitoring and enforcement mechanisms.

The enforcement approach assumes that both systemic and domestic level factors could alter the structure of incentives at a particular time, leading states to shirk on their commitments (Downs, Rocke and Barzooom, 1996). Consistent with power politics approaches, one group of scholars argues that powerful states tend to be less sensitive to changes in the structure of material incentives (Borzel et. al., 2006). According to the power preponderance hypothesis, therefore, economically and politically strong states are less likely to comply with and to implement international agreements. In contrast, others argue that stronger states are able to exercise their power at the decision-making and negotiating stages, so that only those agreements that reflect their preferences will emerge. Powerful states are thus expected to exhibit higher levels of compliance and implementation. Moreover, and consistent with hegemonic stability theory, regional hegemons can act to provide centralized mechanisms for monitoring and sanctioning defection, thus leading to higher levels of compliance and implementation within the organization (Mattli, 1999).

Neoliberal institutionalist insights on cooperation are also consistent with enforcement approaches to compliance. Like realists, neoliberals focus on material incentives for compliance and implementation, but they emphasize the role of institutional mechanisms in promoting and facilitating compliant behavior (Keohane, 1984). Institutions work to provide information and increase transparency, reducing uncertainty about partners' behavior and underlining the reputational consequences of uncooperative behavior. Crucially, institutions provide monitoring and enforcement mechanisms that increase the costs of defection. Drawing on this perspective, Smith (2000: 2) has argued that more legalized dispute settlement mechanisms are expected to improve compliance rates "by increasing the costs of opportunism."

A third set of arguments, also consistent with the rationalist underpinning of enforcement approaches, emphasizes instead the role of domestic level variables. Several studies have examined the links between regime type and compliant behavior. Two contending hypotheses have emerged from this literature. The first predicts a positive relationship between democracy and compliance and implementation, emphasizing two main causal mechanisms. According to the "democratic legalist" argument, liberal democratic regimes tend to be more willing to observe and respect international law because of their commitment to the rule of law and to legal institutions (Simmons, 2000). Other scholars point instead to the importance of domestic public opinion and "audience costs" in deterring non-compliant behavior in democracies. In this view, democratic leaders who renege on international commitments may face negative electoral consequences and will thus face stronger incentives to comply than autocrats (Fearon, 1994; Mansfield, Milner and Rosendorff, 2002).

An alternative view highlights the domestic distributional implications of international agreements, challenging the contention that domestic pressures always deter non-compliance. Because those groups that are harmed by international commitments will lobby their governments for non-compliance, democratic leaders might face simultaneous pressures for and against compliance. Ultimately, whether a democratic state chooses to comply or not will depend on the balance of power among these domestic groups (Tomz, 2002; 2003). This argument is particularly relevant when studying commitment problems in regional trade agreements, which have clear distributional consequences at the domestic level.²

In contrast to the enforcement perspective, the **management** approach assumes that states in general do (or at least want to) comply with their international obligations (Chayes and Chayes, 1995; Chayes, Chayes, and Mitchell, 1998). Non-compliance, according to this perspective, is involuntary. States do not comply because they are constrained either by norm ambiguity (vagueness and uncertainty in treaty wording, inadequate time tables, etc.) or by capacity limitations. In some cases, lack of information constrains the ability of states to come through on

their commitments. Non-compliance may thus be “inadvertent” (Chayes and Chayes, 1995). As a result, for management scholars problems of non-compliance and non-implementation can only be addressed through capacity-building, more flexible time-tables, and greater rule specification. International institutions play an important role in this respect, not in providing enforcement and sanctioning mechanisms as enforcement scholars would expect, but in promoting capacity building and disseminating information.

Two types of state capacity problems can hinder compliance and implementation: administrative and political limitations. Small states, for example, might be constrained by inadequate financial and human resources and technical capacity limitations in their attempts to implement certain types of international agreements (Borzal et. al. 2006). Macroeconomic conditions might also indirectly affect the administrative capacity of a state and hence influence its international behavior (Tallberg, 2002). Other management scholars emphasize the role of political capacity and autonomy, arguing that the number of domestic level actors that are able to block political decisions (i.e. veto players) affects the extent to which a state is able to observe international commitments. The main theoretical expectation is that a higher number of veto players decreases the likelihood of compliance and implementation.³

FIGURE 2: Summary of Hypotheses*

| | Voluntary (Enforcement) | Involuntary (Management) |
|----------|--|--|
| Systemic | H1: Power Preponderance (-) H2: Hegemonic Stability (+) H3: Institutional Mechanisms (+) | H8: Treaty Vagueness (-) H9: Globalization? |
| Domestic | H4: Democratic Audiences (+) H5: Economic Interests (-) | H6: Administrative Capacity Constraints (-) H7: Veto Points (-) |

*Sign of expected impact on commitment to regional trade agreements between parentheses.

Economic Globalization, Power Asymmetries and Regional Commitment

Both the enforcement and management perspectives provide plausible hypotheses for explaining commitment problems in LAC regional organizations. These are summarized in Figure 2. One

problem with these explanations, however, is that they tend to neglect the role of exogenous (or extra-agreement) influences, such as global economic forces and extra-regional power asymmetries. This may not be too consequential when examining the sources of non-compliance in international agreements among developed countries (like the EU, for example). But it could be quite misleading when looking at agreements among developing countries, which tend to be significantly more vulnerable to external forces. Here it is useful to incorporate insights from the IPE literature on regional cooperation, and in particular, from the “new regionalism” approach (Breslin et. al., 2003; Söderbaum, 2003; Soderbaum and Hettne, 2005; etc). This work underlines the important and multifaceted interconnections between globalization and regionalism. According to this body of literature, globalization promotes regionalism among developing countries through a number of causal mechanisms.⁴

While highly illuminating, this literature suffers from two main weaknesses. First, these arguments neglect the possibility that increased economic interdependence and global power asymmetries might, under certain conditions, work to hinder (not promote) compliance and implementation. These scholars view regionalism as either a reaction against or an instrument of US-led “neoliberal globalization.” They overlook the fact that many developing countries, particularly in the Americas, have had a positive reaction to the more recent US strategy of aggressively pursuing bilateral free trade agreements in the region (Schott, 2004; Zoellick, 2007).⁵ While in the case of MERCOSUR, US bilateralism has created further defensive incentives for regional cooperation, in other cases it has had the opposite effect. According to Phillips (2005: 21), for example, US bilateralism has “worked to undermine the cohesion of sub-regional groupings” in LAC. This is nowhere as clear as in the case of the Andean Community. In April 2006, Venezuelan President Hugo Chavez decided to exit the bloc, accusing partners Colombia and Peru of “killing” the Community, after completing FTAs with the US.⁶

In addition, the proliferation of bilateral and plurilateral agreements in LAC, not only with the US but with other countries within and outside the Western Hemisphere, has practical implications in terms of compliance and implementation. In line with the “spaghetti bowl” argument (Bhagwati and Panagariya, 1996), the proliferation of overlapping agreements increases the administrative costs of compliance and implementation. It could also lead to confusion about implementation. Several analysts have, for example, referred to the uncertainties created by the DR-CAFTA and its interaction with pre-existing CACM agreements and regulations in Central America (Granados and Cornejo, 2006; Gonzalez, 2005).⁷ Overlapping and “crisscrossing” agreements also have a clear impact in LAC states willingness and ability to implement CET agreements. In the 1990s, the Menem’s government attempts to have Argentina sign a bilateral agreement with the US almost resulted in the downgrading of MERCOSUR to a FTA (Gómez Mera, 2005b). More recently, according to INTAL (2002), negotiations with third parties have worked to divert CACM members’ attention and to hinder progress towards the implementation of the CET.

A second shortcoming of the new regionalism literature lies in its lack of attention to the impact of trade and financial vulnerability on states’ ability and willingness to observe regional commitments. Here it might also be useful to differentiate between the distinct effects of trade and financial interdependence. The literature on financial globalization has highlighted the important constraints that capital mobility places on developing countries’ policy autonomy (Andrews, 1994; Cohen, 2000; Haggard and Maxfield, 1996). Several empirical studies, on the other hand, have documented the complex impact of global financial pressures on regional trade cooperation. Bowles (2002), for example, examines the impact of the Asian Crises on regional cooperation in East Asia and in South America. Both ASEAN and MERCOSUR were severely affected by the capital outflows that hit the two regions in the late 1990s.

In South America, capital outflows in the late 1990s exacerbated balance of payments problems increasing the costs of observing regional trade commitments. For Brazilian and Argentine policy-makers, protectionist measures were an attempt to moderate balance of

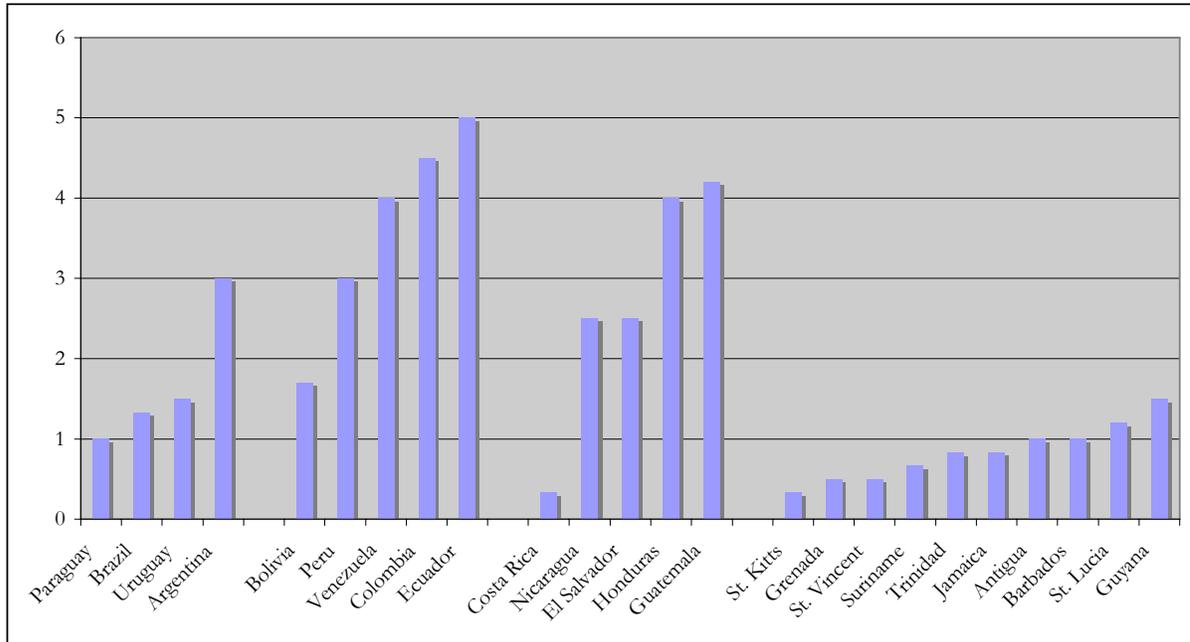
payments deficits. The recessionary and macroeconomic effects of the financial crises also worked to exacerbate distributional tension at the domestic level, leading to a protectionist backlash against regional integration both in MERCOSUR and ASEAN (Solingen, 2001; Gómez Mera, 2005a). In addition, as Phillips and Higgott (1999) have noted, the crisis of confidence that hit emerging markets in the late 1990s created tension within blocs, as members sought to “differentiate” themselves from their troubled partners. This suggests that it might be worth examining and comparing the effects of both trade and financial openness and vulnerability when examining the sources of commitment problems in RTAs.

Commitment Problems in LAC Regional Organizations

There have been few attempts to systematically measure and take stock of the problems of implementation and compliance in LAC regional organizations. To a great extent, this reflects the scarcity of reliable and consistent data on LAC countries’ compliance and implementation records. Here the contrast with the European Union (EU) is daunting. EU scholars benefit from the wide availability of information on member-states’ infringements, which has facilitated the emergence of a rich body of quantitative and qualitative research on the sources of commitment problems among European countries (Borzel et. al. 2006; Tallberg, 2002; Sverdrup, 2004; Falkner et. al., 2004; etc.). This data is collected and periodically released by the European Commission, as part of its monitoring activities. In contrast, not all regional organizations in LAC have supranational bodies that provide centralized systems of enforcement and/or that systematically collect and disseminate information on infringements and implementation failures.⁸ A related problem derives from the fact that different blocs rely on different enforcement mechanisms and thus, when available, the information on non-compliance tends to be uneven and not easily comparable across blocs.⁹ As a result, it is difficult to measure and compare the record of commitment of LAC countries *across* blocs.

The information provided by each regional organization could, under certain conditions, be used to examine patterns of compliance and implementation within these trade organizations. This could serve as a starting point for analyzing broader patterns of commitment with trade agreements in the region. As a proxy of non-compliance, I use the average number of formal complaints (presented by either partners or by the regional bodies) against each country in MERCOSUR, CAN, CACM and CARICOM.¹⁰ This information is summarized in Figure 3.

FIGURE 3: Average Number of Violations in LAC Blocs, 1998-2005



Source: MERCOSUR (2002; 2003; 2004); Duran Lima and Maldonado (2005), CAN Secretariat (2004), Costa Rica's COMEX website, CARICOM website, ECLAC (2003; 1999); CARICOM (2002); INTAL (1999; 2000; 2001; 2002; 2003; 2004; 2005; 2006).

Figure 3 would, at first glance, suggest that there is significant variation across and within blocs in terms of compliance. It shows that countries like Guatemala, Argentina, Ecuador and Colombia exhibit poor records of compliance, while their partners Costa Rica, Paraguay and Bolivia (respectively) fare much better. This suggests that there might be a negative relationship between size and compliance, although this hypothesis would be rejected if we look at the case Uruguay in MERCOSUR. Comparing the standard deviations of the average violations for each bloc, it emerges that the extent of intra-agreement variation in terms of compliance occurs in CACM (1.55) and the lower in CARICOM (0.35).

Nevertheless, there are good reasons to challenge the validity and reliability of this indicator (formal complaints presented at the bloc's dispute settlement fora), to measure non-compliance. First of all, it excludes the cases of undetected and unreported non-compliance or those that are successfully managed directly between the aggressor and the affected partners. Partners and/or regional bodies might fail to detect a violation, or they might choose not to formally report it. Second, in the case of MERCOSUR, for example, it is mainly partners who present formal complaints to the Common Market Group. The validity of the indicator could thus be affected if some partners exhibit a greater tendency to present complaints than others. Alternatively, regional bodies may be biased towards or against some partners. Third, given that LAC blocs tend to be characterized by significant exemptions among partners, the number of complaints does not take into account the fact that those partners who benefit from a larger number of exemptions might have a lower need to violate regional agreements.¹¹

It is even more challenging to measure and compare practical **implementation** levels within and across blocs.¹² Several attempts have been made by regional integration scholars to design indicators of the "success" and depth of integration (e.g. Hufbauer and Schott, 1994; Feng and Genna, 2005; Ruiz, 2004).¹³ However few of these have focused on the issue of implementation. One exception is Haftel (2007), who creates an index of economic scope and implementation that first considers the stated depth of integration of different agreements and then assesses the extent to which these are implemented. This index, however, uses the regional

organization as the unit of analysis, assuming that all countries within the bloc implement agreements to the same extent. This is a questionable assumption.

In order to make more reliable comparisons across countries in terms of implementation, I create a composite index or “Implementation Achievement Score” (IAS), which assesses a state record in undertakings its regional commitments in three main areas: (1) the customs union (implementation of the common external tariff); (2) the internal market (removal of tariff and non-tariff barriers to intra-regional trade of goods and services); and (3) macroeconomic convergence (the extent to which it has been able to reach the agreed convergence targets). I use an ordinal scale of 0 (no implementation at all) to 4 (complete implementation) for the first two of these components and a scale of 1 to 3 for the latter.¹⁴ Perfect compliance would result in an IAS of 11 points. To code the achievement of each state (to the year 2005), I rely on progress reports published both by individual governments and by the regional organization, independent evaluation reports by international organizations, such as ECLAC and the IADB, as well as newspaper reports and other qualitative assessments by integration experts.¹⁵

The results are summarized in Figure 4. The latter shows that there are significant variations across LAC countries in terms of the implementation of regional commitments (See also Table A1 in Appendix). It also suggests that overall levels of implementation are not particularly high within the region. The average implementation score for the year 2005 was 6.42. In fact, no country was given the top score for (11 points), with top performer Trinidad and Tobago obtaining just 9 points. The distribution of the IAS scores seems to cluster around the average value, with no cases under 4 or above 9 points.

Figure 4 also shows that the top performers in terms of compliance are not necessarily the best in terms of practical implementation. Patterns of implementation seem not to be too consistently related to size, in contrast to what enforcement scholars would predict. Figure 5, in turn, suggests that there are also important variations within each bloc. The greater variance happens in CAN, where Colombia has been quite committed to implementing its agreements, and smaller partners Peru and Bolivia have received special treatment since the bloc’s inauguration. In contrast, in MERCOSUR partners exhibit consistently low levels of implementation of regional agreements.

If the average IAS is calculated for each bloc (See Figure A2 in the Appendix), we find that MERCOSUR is the worst performer with an average score of 5, and CACM is the leader with a score of 6.8. However, the differences among CACM and CARICOM (6.6) are very small. Figure A2 (See Appendix) in fact shows that there are not dramatic differences in overall performance among LAC blocs. It would be more interesting, however, to compare the implementation record of LAC agreements with other integration schemes among developing countries.

FIGURE 4: Implementation Achievement Score, 2005

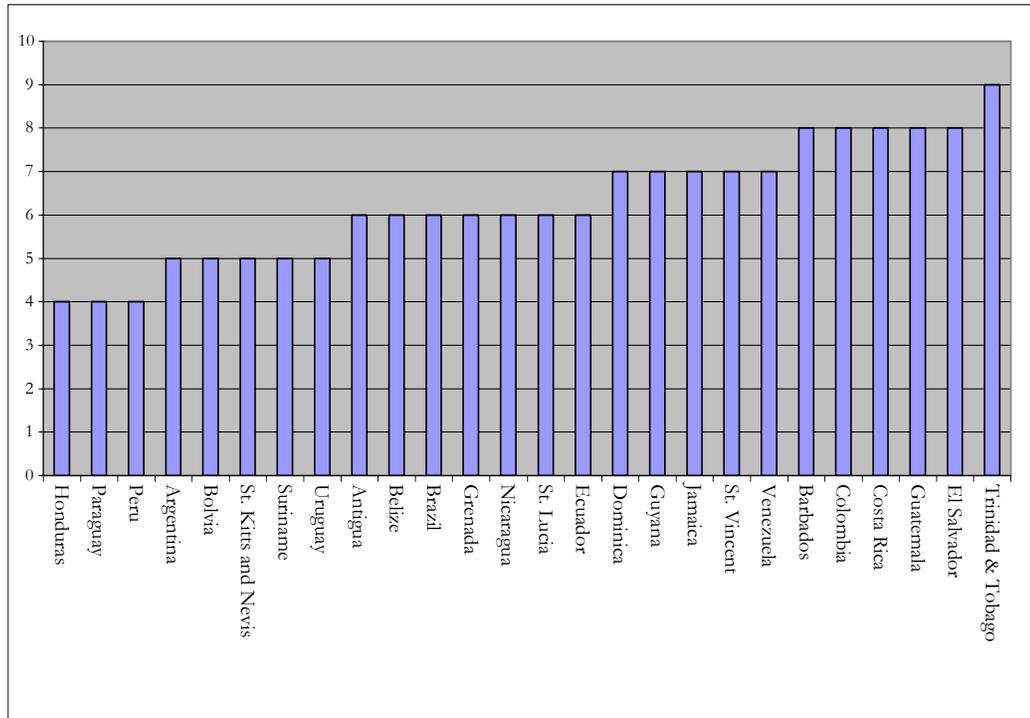
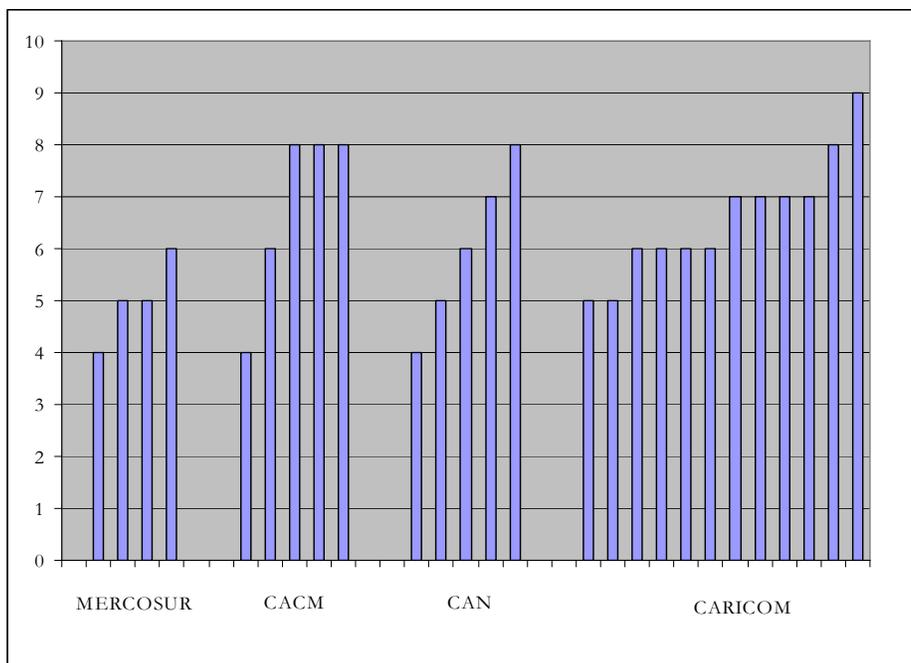


FIGURE 5: Implementation Achievement Score for the main LAC Blocs



Explaining Commitment Problems in LAC Agreements

How relevant are the theoretical approaches discussed earlier, typically used to explain implementation and compliance problems in the EU, when trying to account for the sources of these problems in LAC trade agreements? Statistical analysis can be used to test empirically the hypotheses derived from the enforcement and management approaches. This analysis uses the state as the unit of analysis, which results in a dataset of 26 observations. Given the small number of observations, ordinary least squares (OLS) is used. Given the suspect validity of the number of reported complaints as an indicator of compliance, the discussion here focuses on practical implementation, as proxy for commitment. The dependent variable for this analysis is thus the IAS, measured as the progress in practically implementing regional commitments (intra-bloc liberalization of trade in goods and services, adoption of the CET and macroeconomic convergence) up to 2005.

The independent variables, their operationalization, and the data sources used in their measurement are summarized in Table 1. To test the general enforcement hypothesis that states will be more likely to implement and comply with agreements when the benefits of participating outweigh the benefits of non-compliance, I use the variable TRADE DEPENDENCE, measured in terms of export reliance on the regional market (exports to the bloc as a proportion of total exports).¹⁶ I expect that the more dependent a state is on the bloc for placing its exports, the more committed it will be to implementing agreements. To test the realist hypothesis on the effects of POWER on compliance and implementation, I use real GDP as a proxy for economic power.¹⁷ To test whether being a “regional hegemon” affects states’ implementation behavior, I use a dummy variable (HEGEMONY) that is 1 if the country is considerably larger than its partners.¹⁸ Domestic level hypotheses on the role of democracy are tested using the Freedom House index of political rights (FREEDOM)¹⁹ and the RULE OF LAW indicator from the World Bank’s governance indicators (WBI).²⁰ WBI Indicators are also used to test propositions derived from the management approach. GOVERNMENT EFFECTIVENESS seeks to capture the administrative, financial and technical capacity of the state.²¹

Finally, a number of variables are used to test the globalization and external influences hypotheses. I use two indicators to measure external vulnerability: OPENNESS, measured as exports and imports as a proportion of GDP and as current account as a percentage of GDP. To capture the impact of financial globalization and vulnerability to capital flows I use INTERNATIONAL BORROWING, measured as the value of all foreign loans and bonds.²² The hypothesis linking the number of free trade agreements that each country has signed and its ability and incentives to implement previous regional commitments is tested with the variable FTA (the number of free trade agreements with LAC and third countries completed to December 2005). The US dummy variable is 1 if the country has an agreement with the US.

TABLE 1: Summary of Hypotheses, Variables and Data Sources

| <i>Theoretical Approach</i> | <i>Variable</i> | <i>Measure</i> | <i>Source</i> |
|-----------------------------|---------------------|--------------------------|-----------------|
| 1. Enforcement | Trade dependence | Intra-bloc X/Total X | BADECEL, WDI |
| | Power preponderance | GDP (constant 2000 US\$) | WDI |
| | Power asymmetry | Hegemony (dummy) | |

| | Democracy | Rule of Law | WBI |
|---|--------------------------|--------------------------------|-----------------|
| 2. Management | State capacity | Gov. effectiveness | WBI |
| | | Regulatory quality | |
| 3. Globalization & Vulnerability | Trade openness | Exports + Imports/GDP | BADECEL, WDI |
| | Current account | CA/GDP | WDI |
| | Financial vulnerability. | International Loans + Bonds | WDI |
| | Proliferation of PTAs | N. of PTAs signed to 2005 | WTO |
| | | FTA w/US (dummy) | |

Results are reported in Table 2. Models 1 and 2 test the two conventional approaches, enforcement and management. Models 3-5 add the globalization and vulnerability variables to test the claim that globalization affects implementation levels. The empirical results suggest, first of all, that there is not a significant relationship between economic power and implementation achievements. POWER, operationalized as GDP is not significant in models 1 and 2. These results challenge neorealist-inspired hypotheses on power preponderance and commitment to international agreements. By contrast, the dummy variable HEGEMONY is significant in all specifications of the model, suggesting that regional hegemons tend to be more committed than their weaker partners.²³ Controlling for other factors, being a regional hegemon improves the implementation score in about 1.8 points (Model 4).

Second, and consistent with the enforcement approach, the empirical analysis shows that there is a positive relationship between TRADE DEPENDENCE and implementation achievement. This suggests that the greater the export reliance of a state on the regional market, and thus the greater the expected benefits of being a member of the bloc, the greater a member state's commitment to implementing regional agreements. The substantive impact of this variable on the index of implementation is nevertheless quite small: a 1% increase in trade dependence results in an increase of less than 0.04 in the implementation achievement score.

Third, the findings presented in Table 3 challenge conventional expectations on the role of domestic level variables, such as regime type and state capacity on implementation of regional agreements. RULE OF LAW was not found to have a significant impact on the dependent variable, when controlling for other systemic and domestic level factors (See Model 2).²⁴ The variable GOVERNMENT EFFECTIVENESS did not appear to have a significant effect on implementation achievement levels, either (Models 2 and 4). These could be seen as challenging the management approach argument on state capacity, although it could be well argued that other indicators of the latter could lead to more promising results. Similar results were, however, obtained using REGULATORY QUALITY and, following Borzel et. al. (2006), using real GDP per capita.

Finally, the empirical analysis supports the argument presented in this paper regarding the importance of considering the links between globalization, vulnerability and commitment to regional trade agreements. Trade openness has a positive and significant impact on implementation achievements, indicating that greater trade interdependence creates incentives for states to comply with and implement regional trade agreements. Models 3 suggests that the

substantive impact of this variable might not be very important, however. Nevertheless, this result could be seen as providing empirical support for claims that globalization promotes regional cooperation. The variable PTA, on the other hand, is statistically significant and substantive in models 4 and 5. However, the coefficient of PTA does not have the expected sign. The results obtained would suggest that the greater the number of agreements a country has signed, the more committed it is to its original bloc. This would challenge claims that the proliferation of overlapping agreements acts to divert governments' attention and create information and capacity problems. Instead, the empirical findings suggest that multiple membership in agreements of different scopes could work to increase capacity of implementation, for example. This result could also be interpreted as suggesting that increased participation in preferential trade agreements leads to an improvement of competitiveness and hence pro-integration stance of export-oriented sectors. International borrowing, on the other hand, seems to have a negative impact on implementation achievement. However, this variable does not seem to have a significant impact on the dependent variable.

Conclusions

This paper has focused on compliance and implementation gaps in the four main regional organizations in Latin America and the Caribbean, namely, CACM, CAN, MERCOSUR and CARICOM. While frequently acknowledged, the extent and sources of these commitment problems have been under-examined. The paper seeks to take a step in that direction by applying insights from the International Relations literature, and in particular, from work on the EU. While the results presented are preliminary and the measurement and coding strategies need further refinement, the purpose is to highlight the importance of studying these issues systematically and to suggest ways in which to do this.

The paper begins by clarifying the distinction between the concepts of implementation and compliance and the different indicators that can be used to measure each of these. Preliminary data on reported complaints against member states at the regional administrative and dispute settlement bodies is presented. This data suggests that there are significant variations in within-bloc compliance levels. To measure implementation, the paper uses an Implementation Achievement Score, which assesses the progress made by each country in the LAC region towards meeting their regional trade commitments. The examination of this indicator across a sample of LAC countries suggests that overall levels of implementation are quite low. Although there are not significant differences in the average levels of the IAS across blocs, there are marked differences within each bloc.

To account for these cross-national differences, the paper performs a preliminary empirical analysis that tests the explanatory power of competing hypotheses derived from International Relations theoretical debates on compliance. The results suggest that, consistent with enforcement perspectives, trade dependence on the regional market and regional hegemony are important explanatory variables for predicting implementation achievements. By contrast, limited empirical support is found for hypotheses linking regime type and state capacity with implementation. Given that the observation of the distribution of the IAS score across countries suggests that smaller states have had greater problems implementing agreements, this result could change if an alternative proxy for state capacity is used.

Most importantly, the empirical findings confirm the importance of considering exogenous factors in the examination of implementation and compliance in international agreements among developing countries. Both external vulnerability and the number of PTAs signed by a LAC country appear to have a significant effect on its implementation record. Further research will focus not only on refining the measurement and operationalization of the dependent and independent variables but also on incorporating the temporal dimension to the cross-national analysis presented here. Ultimately, however, and given the inherent inter-linkages between many

of the explanatory factors considered here, there are limits to a quantitative approach to the problem of compliance and implementation. A qualitative examination of the mechanisms through which global economic forces and external power asymmetries interact with domestic level variables (not only state capacity and democratic institutions but also configurations of domestic political institutions and interests) would greatly enhance our understanding of commitment problems in RTAs among developing countries.

TABLE 2: OLS Determinants of the Implementation Achievement Score for LAC Countries, 2005

| <i>Y = IAS</i> | | | | | |
|------------------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| <i>Independent Variables</i> | <i>Model 1</i> | <i>Model 2</i> | <i>Model 3</i> | <i>Model 4</i> | <i>Model 5</i> |
| TRADE DEPENDENCE | 0.026** (1.931) | 0.029** (1.934) | 0.036* (2.955) | 0.036*** (3.035) | 0.040*** (3.428) |
| HEGEMONY | 2.032** (2.741) | 2.205*** (2.909) | 1.902** (2.642) | 1.871*** (3.516) | 1.729*** (3.069) |
| POWER | -0.0000 (-1.129) | -0.000 (1.090) | | | |
| GOV. EFFECTIVENESS | 0.689 (1.423) | | | 0.476 (1.232) | |
| REGULATORY QUALITY | | | 0.730 (1.412) | | |

| | | | | | |
|----------------------------|----------------------|----------------------|---------------------|---------------------|---------------------|
| RULE OF LAW | | 0.492 (1.190) | | | |
| OPENNESS | | | 0.032* (1.950) | | |
| PTA | | | | 0.724*** (3.846) | 1.057*** (4.028) |
| US | | | | | -0.938 (-1.634) |
| INTERNATIONAL BORROWING | | | | | 0.000 (0.673) |
| CONSTANT | 5.552*** (11.130) | 5.512*** (10.961) | 4.749*** (8.440) | 1.701 (1.609) | 0.570 (0.501) |
| Adj. R ² | 0.26 | 0.23 | 0.343 | 0.533 | 0.54 |
| Observations | 26 | 26 | 26 | 26 | 26 |

OLS Regressions with two-tailed t-tests. T- statistics in parentheses. ***p <0.01; **p<0.05; *p<0.1.

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APPENDIX

TABLE AI: Implementation Achievement Score

| | <i>FTA</i> | <i>CU</i> | <i>MC</i> | <i>Total</i> |
|--------------------------|------------|-----------|-----------|--------------|
| MERCOSUR | | | | 5 |
| Argentina | 2 | 2 | 1 | 5 |
| Brazil | 3 | 2 | 1 | 6 |
| Uruguay | 2 | 1 | 2 | 5 |
| Paraguay | 2 | 1 | 1 | 4 |
| | | | | |
| CACM | | | | 6.8 |
| Nicaragua | 3 | 2 | 1 | 6 |
| El Salvador | 3 | 3 | 3 | 8 |
| Guatemala | 3 | 3 | 2 | 8 |
| Honduras | 2 | 1 | 1 | 4 |
| Costa Rica | 3 | 3 | 2 | 8 |
| | | | | |
| CAN | | | | 6 |
| Bolivia | 2 | 2 | 1 | 5 |
| Ecuador | 2 | 2 | 2 | 6 |
| Colombia | 3 | 3 | 2 | 8 |
| Venezuela | 3 | 3 | 1 | 7 |
| Peru | 2 | 0 | 2 | 4 |
| | | | | |
| CARICOM | | | | 6.6 |
| Antigua | 2 | 2 | 2 | 6 |
| Barbados | 2 | 3 | 3 | 8 |
| Belize | 1 | 3 | 2 | 6 |
| Dominica | 3 | 2 | 2 | 7 |
| Grenada | 2 | 2 | 2 | 6 |
| Guyana | 2 | 3 | 2 | 7 |
| Jamaica | 3 | 3 | 1 | 7 |
| St. Kitts & Nevis | 2 | 1 | 2 | 5 |
| St. Lucia | 2 | 2 | 2 | 6 |
| St. Vincent & Grenadines | 2 | 3 | 2 | 7 |
| Suriname | 1 | 1 | 3 | 5 |
| Trinidad & Tobago | 3 | 3 | 3 | 9 |
| | | | | |

FIGURE A1: Distribution of IAS Scores

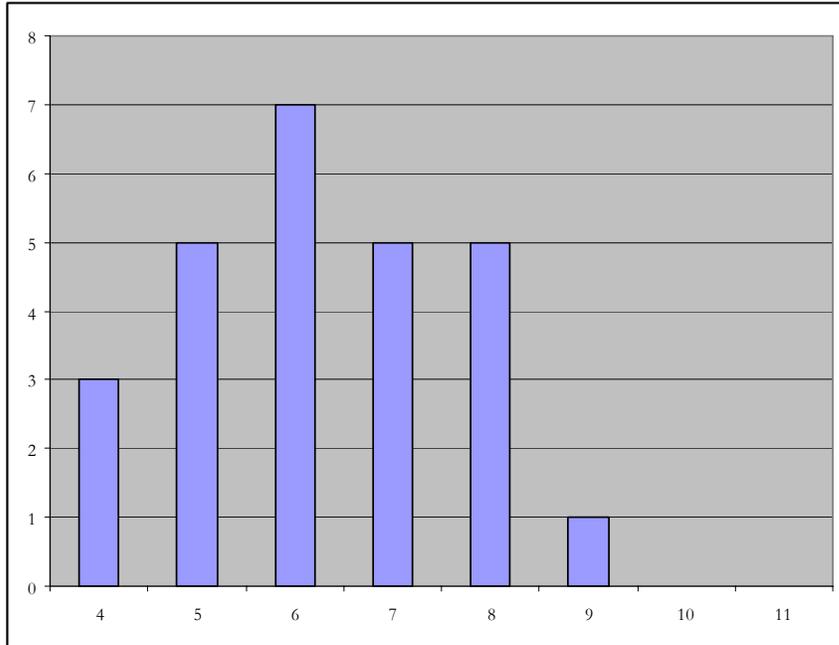
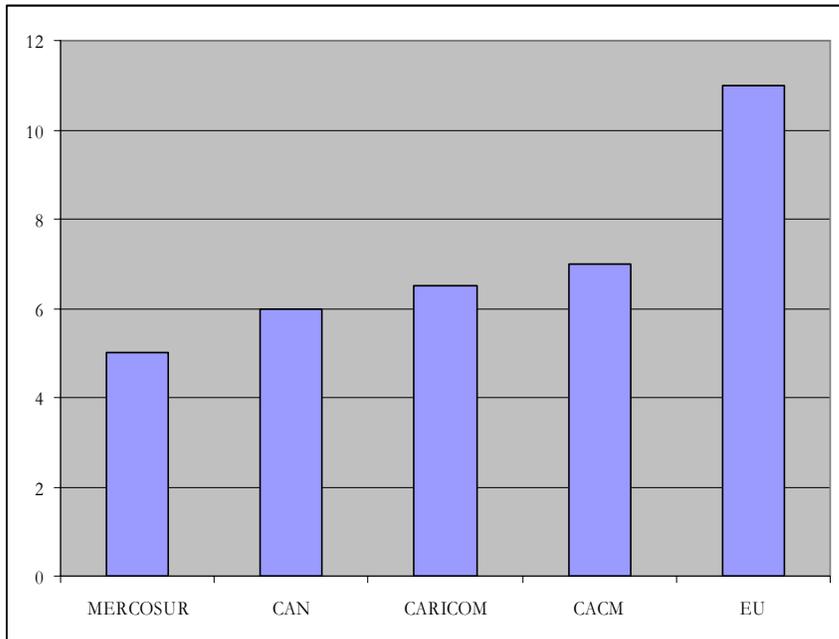


FIGURE A2: Average IAS by Bloc



¹ Underdal states that, therefore, “a useful model should be able to account for a significant amount of the variance at the level of individual actors as well as at the level of regimes.”

² The literature on regionalism has also highlighted the role of interest groups and other societal actors both in pushing for regional integration and in conditioning the extent and pace of the process of integration (Milner, 1997; Moravcsik, 1998; Chase, 2003).

³ Several European Union (EU) scholars, however, have found that countries with several veto points in fact decreases the average number of infringements and improves the record of legal implementation (Borzel et. al. 2004).

⁴ Several interrelated arguments can be identified within this literature. A first body of work has implicitly and/or explicitly viewed regionalism as a negative manifestation of the process of global economic integration, and in particular, as a mechanism for facilitating the “regional hegemony” of the neoliberal ideology (Gamble and Payne, 1996; Gill, 1999; Phillips, 2004). Other scholars within this group have instead viewed regionalism more as a deliberate defensive *response* to the economic and competitive pressures posed by economic globalisation and by the spread of neoliberal policies in the 1990s (Breslin and Higgott, 2000; Bowles, 2002; Phillips, 2002). In some cases, regional integration is viewed as an intermediate step to full participation in the global economy—for example as an attempt to improve competitiveness within a protected extended market before facing global competition (Phillips, 2000). Alternatively, regionalism among developing countries has been viewed as a strategy to improve their market access in a context of “dysfunctional” multilateralism. Finally, regionalism has been interpreted as an attempt to provide marginalised countries with a viable alternative to the multilateral level (Mistry, 2003; Tussie, 2003).

⁵ Admittedly, this “positive” reaction could be linked to the asymmetries of power in US-LAC countries relations and associated fears of marginalization.

⁶ See BBC News, “Venezuela quits Andean Trade Bloc,” (20 April 2006).

⁷ For a comparison of divergences in the Rules of Origins regimes in CAFTA and CACM see Granados and Cornejo (2006), Appendix C. For a comparison of the coverage and scope of the two agreements, see Gonzalez (2005).

⁸ CARICOM members, for example, have only recently inaugurated the Caribbean Court of Justice (CCJ), which will be in charge of monitoring the implementation of the Single Market and Economy (CSME) and managing the bloc’s dispute settlement mechanism. The agreement establishing the CCJ was signed on February 14, 2001 by the governments of Antigua and Barbuda, Barbados, Belize, Grenada, Guyana, Jamaica, St. Kitts & Nevis, St. Lucia, Suriname and Trinidad and Tobago. The agreement was later signed by Dominica and St. Vincent and the Grenadines on February 15 2003. For further information, see <http://www.caribbeancourtjustice.org>

⁹ For a detailed comparison of the dispute settlement mechanisms in the different blocs, see Lacarte and Granados (2004).

¹⁰ Where possible, I tried to check this information with additional reports by international organizations (in particular, ECLAC and the IADB) and with news reports and other official documents.

¹¹ Focusing on the case of the EU, Borzel (2000) argues that infringements (or complaints) data can be used only if it can be assumed that the reported cases represent a random sample of all existing cases and that there are no major sources of bias.

¹² Several EU scholars have used the transposition deficit (the rate at which member states transpose regional regulations to the domestic level) as a proxy for legal implementation and commitment.

¹³ See De Lombaerde, Pietrangeli and Weeratunge (2006) for a comprehensive overview of different indicators used to monitor progress in regional integration initiatives.

¹⁴ This scale seeks to improve on Haftel’s (2007), which only includes three quite restrictive categories.

¹⁵ For the CET IAS, I use the following coding rules: (1) IAS1=0 if no steps taken to implement the previously agreed on CET; (2) IAS1= 1 if CET applied to less than 50% of state’s trade and high variability in tariff levels; (3) IAS1=2 if CET applied to more than 50% but less than 85%; (4) IAS1=3 CET applied to over 85% of tariff lines; (5) IAS1= 4 full implementation. For the internal market IAS: (1) IAS2=0 if no concrete steps have been taken to remove tariff and non-tariff barriers (NTBs) to intra-regional trade of goods and services; (2) IAS2=1 if the state has made very little progress in removing barriers to intra-regional trade (e.g. heavy reliance on non-tariff barriers, exemption lists, etc.); (3) IAS2=2 if state has liberalized regional trade considerably but maintains restrictions, exemption lists and special regimes; (4) IAS2=3 high levels of liberalization – if state has liberalized intra-regional trade almost completely but maintain negative lists or sectorial exemptions; (5) IAS=4 complete intra-bloc liberalization of goods and services. Finally, for macroeconomic convergence: (1) IAS3= 0 if state diverged from target in 10% or more; (2) IAS3=1 if state diverged from target in less than 10% and more than 1%; (3) IAS3=2 if state diverged from target by 1% or less; (4) IAS3=3 if state met (or surpassed target). I use this coding rule for each target and then average the different scores to obtain the final IAS3.

¹⁶ Annual intra-bloc exports as a percentage of total exports. Value for each country is the five-year average (2000-2004) of annual export dependence.

¹⁷ GDP at constant 2000 US\$ prices. Values are five -year average of annual GDP (2000-2004). The rest of the independent variables are also averaged (and lagged).

¹⁸ Countries coded as hegemons are: Brazil (MERCOSUR), Colombia and Venezuela (CAN) and Jamaica and Trinidad and Tobago (CARICOM).

¹⁹ See <http://www.freedomhouse.org>

²⁰ See <http://www.worldbank.org/wbi/governance>. Rule of law is conceptualized as “the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence.”

²¹ Governance effectiveness is conceptualized as “the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.”

²² See Leblang (1997).

²³ The fact that the coefficient of the variable hegemony is consistently significant (and has a positive sign), however, tell us nothing about the extent to which they are able to promote higher levels of implementation within their blocs. To study this, it would be necessary to use the regional organization as the unit of analysis and to explore the role of hegemony in overall levels of implementation/compliance.

²⁴ The same results were found using FREEDOM instead of RULE OF LAW.