A step further in the theory of regional integration: A look at the Unasur's integration strategy

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Keywords:
Economic integration, Physical integration, Political integration, Regional integration, South America, Survey

JEL codes:
F02, F15

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Abstract

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1 Introduction

Globalization, changing market conditions, greater competition, and associated uncertainty in international economic and political relationships have posed new imperatives for the way countries are organized. The current world is a network of nation states that tend to integrate their economies in the pursuit of, among others, macroeconomic stability, economic development, efficiency, and active economic growth.

Economic integration at a regional level seems to be the new global trend. In the past two decades, several regional blocs have been formed in Africa, Asia, Europe, and Latin America, including the Southern African Development Community (SADC) in 1992, the West African Economic and Monetary Union (UEMOA) in 1994, the Association of Southeast Asian Nations (ASEAN) together with China, Japan, and Korea (ASEAN+3) in 1997, the Economic and Monetary Community of Central Africa (CEMAC) in 1998, the Eurozone in 1999, the East African Community (EAC) in 2000, the Union of South American Nations (Unasur) in 2008, and the Pacific Alliance in 2011.[1] Apart from the South American regional integration initiative, which emerged as a political alliance, all these regional blocs are economic associations.

The main difference between the South American strategy (Unasur) and, for instance, the European strategy of integration is precisely the political and economic nuances of their respective projects. The original purpose of the European Union (EU) and the Eurozone was to bring about economic integration— it has become the most advanced economic union, according to (Balassa, 1961b)'s theory. On the other hand, the Unasur, despite its Constitutive Treaty declaring it to be a project of political, economic and social content, up to now functions mainly as a forum for political and strategic discussion to pursue regional cooperation in defense, social development, education and science,

[1]The reference here is to the ASEAN+3—an exclusively economic association—and not to the ASEAN—a political and economic association.

democracy, infrastructure, energy provision, among other areas.[2] Put differently, the South American initiative is an institutional and politically driven regional integration plan whereas the European initiative is an institutional and economically driven one. This does not mean, however, that the South American integration project is exclusively political nor that the European one is solely economic. On the contrary, political integration and economic integration are closely interdependent (see Subsection 3.3).

However, political–economic interdependence is not new in regional integration debates.[3] What is innovative and quite interesting is that, while the European experience suggests the necessity of political integration as a subsequent step of economic integration, Unasur's proposition is that political integration is a necessary prior step of economic integration.

The break with the traditional paradigm of the South American regional integration strategy is twofold. On the one hand, the earliest regional integration debates affirmed that economic integration must lead to political integration (Vilfredo Pareto at the Peace Congress at Rome, 1889) and not the inverse.[4] Even the theory of economic integration of Bela Balassa (Balassa, 1961b)—which continues to be the reference on this topic (Sapir, 2011)—talks about political unity as a crucial means of evolving toward economic integration stages (see Subsections 3.2 and 3.3), thus, placing economic motives before political motives and relegating political union to an instrumental role. Balassa (1961b) places political unification at the end of the process, as a necessary complement of the last stage: total economic integration. Contrary to the conventional practice, the Unasur approach is that political aspects prevail over economic ones in the pursuit of regional integration.[5]

On the other hand, the Unasur's strategy introduces a new dimension to the traditional regional integration theory, namely, a physical dimension. The unprecedented *Initiative for the Integration of Regional Infrastructure* (IIRSA) is an ambitious regional infrastructure project aimed at creating interconnected networks of transport, energy, and communications infrastructure over South America's 12 countries. The economic externalities of such a physical integration plan are numerous, as detailed in Subsection 3.4. Together with the political element, the physical dimension is a priority in the Unasur's agenda. Because investing in infrastructure projects is a structural policy, the physical is a crucial aspect of regional integration: the sustainability of economically integrated zones is at the core of a debate since the recent euro debt crisis revealed flaws with the European Monetary Union (Fligstein, Polyakova, and Sandholtz, 2012; Issing, 2011).

Based on the South American integration strategy, regional integration can be analyzed from at least three angles: *economic integration*, which includes different degrees or stages of integration—preferential trade agreements, free trade areas (FTAs), customs unions (CUs), common markets (CMs), and economic and monetary unions (Subsection 3.2); *political integration*, which implies greater depth, coordination, and harmonization of actions among members in the governmental and institutional spheres, i.e., new regional governance (Subsection 3.3); and *physical integration*, featuring regional infrastructure projects as the key drivers (Subsection 3.4) (ECLAC, 2009). All three dimensions are related intimately to each other. Thus, the Unasur integration project has inspired the development of a new approach to regional integration theory.

Considering the Unasur regional integration project is a matter of interest for at least two reasons. First, in light of the current debate on economic integration, we should consider the novel approach of inverting the traditional sequence of evolution toward full regional integration, namely, that political integration precedes economic integration rather than follows it. Second, considering the physical integration component as part of a regional integration process that potentially supports economic integration between countries constitutes a strategic structural regional policy. Such a structural characteristic potentially guarantees the long-term sustainability of the integrated zone. These reasons are even more important at a time when there are new challenges for regional governance (as detailed in Subsection 3.3).

[2]Section 3 describes the Unasur project of regional integration.

[3]The debate re-emerged because the European sovereign debt crisis showed that an economic union could not work without a political union (Fligstein, Polyakova, and Sandholtz, 2012; Issing, 2011; Sapir, 2011).

[4]Pareto's argument was that customs unions and other international economic organizations constitutes powerful instruments for improving political relationships.

[5]The Unasur plan has made major progress on energy, democracy, defense, and drug trafficking, which, according to (Peña, 2009), are the causes of growing regional interdependence in South America (see Tables 3 and 2).

In this manner, this article introduces a tri-dimensional approach to the debate on regional integration by asking whether it is necessary first to add political and physical steps to Balassa's theory of economic integration as a means to enable the long-run sustainability of integrated areas through the structural convergence of their economies. This novel tri-dimensional approach is very rare in the literature, which assumes political integration as the final stage of economic integration, but it is certain to appear in discussions of future regional integration projects considering the flaws and incompleteness of actual economic regionalization unaccompanied by political and physical considerations. Indeed, tackling not only economic but also political and physical integration constitutes a solid foundation for the integration process and potentially guarantees its sustainability.

This paper will proceed as follows. Section 2 briefly surveys the controversies around the term regional integration highlighting the need for a new approach. In Section 3, it is argued that a three dimensional approach for evaluating regional integration projects is suitable, the South American region is chosen as the case of study. And, Section 4 summarize the arguments and concludes.

2 Regional integration: a still changing concept

It is well known, thanks to the rich history of the economic thought, that economic concepts evolve hand in hand with the society. Like the society, the economic environment is mutable, so, new theoretical challenges and new controversies appears every day. The theory of regional integration is not exempted of such a dynamic character of the economic science: despite of being one of the most studied topics in economics, the very definition of regional integration is still controversial. Fundamental differences persist not only between the major schools of thought but also among authors of the same schools of thought (Suarez, 2009). Moreover, the lack of consensus causes confusion when referring to related topics: it is common for the terms *regional integration*, *regionalism*, and *regionalization* to be used interchangeably. However, they refer to quite different notions (see Table 1). This section briefly describes the main historical discussions on the concept of regional integration so that to put context to the proposal of this paper, that is, consider the South American integration strategy for updating the theory of regional integration.

Regionalism	The term "regionalism," according to its suffix '*ism*' (from the Greek: *ismos*), refers to the theoretical dimension of the development process of a region (Tshiyembe, 2012). In the international relations field, regionalism alludes to any form of institutional cooperation between two or more countries (Deblock, 2005); yet, regionalism is understood as a political construction conducted by states and materialized by agreement in order to organize inter-country relationships and promote multifaceted cooperation between nations (Figuière and Guilhot, 2006).
Regionalization	The term "regionalization," according to its suffix '*tion*' (from the Latin: *tio*), refers to some action or the result of this action. Thus, it denotes the process and dynamic of regional integration or even the development process of a region (Tshiyembe, 2012). However, Figuière and Guilhot (2006), defines the term as a concentration of **economic** flows within a given geographic area.
Regional integration	Because of generalizations made by the World Trade Organization (WTO), since 1980, the term *regionalism* has gradually replaced that of *regional integration* in reference to any form of institutional arrangement that aims to liberalize and/or facilitate trade at any level other than multilateral.[a] [a]Meanwhile, Figuière and Guilhot (2006) defines *economic regional integration* as a combination of regionalism and regionalization. That is, an area is said to be regionally integrated only if it reports both a concentration of trade flows and institutional coordination, which permanently establishes common rules, between the concerned nations.

Table 1: *Regionalism, regionalization, and regional integration definitions*

Originally envisaged as an international expression of the market economy, regional integration represents a *transfer of national economic mechanisms on a broader scale*. The first theoretical approaches equated *regional integration* with the creation of a *free trade area* or a *customs union*. There was some debate about this neoclassical notion of integration by market. Notably, the distinction by Viner (1950) between "trade creation" and "trade deflection" prompted discussion that led to the essence of modern international trade theory.[6] The integration processes initiated in different regions of the world after World War II highlighted the weaknesses of the liberal approach based on the idea of integration by the market (supported by i.a., Aron, 1953; Byé, 1958; Ropke, 1959). Therefore, researchers, especially those in Europe, worked on alternative integration models for dealing with the number of structural problems led by integration and not covered in the neoclassical framework (e.g., Allais, 1972; Balassa, 1961b). In addition, in the early 1960s, other schools, notably, interventionist authors (e.g., B. Balassa, P. Streeten, P. Robson) and structuralist authors (e.g., C. Kindleberger, A. Marchal, G. Myrdal, F. Perroux), were interested in the structural changes induced by regional integration, which ceased to be a static phenomenon symbolized by customs union theory. The new theories focused on the optimization of the socioeconomic effects of regional integration.

Despite thorough analysis of regional integration, its definition remains controversial. Indeed, regional integration is an extremely complex notion because of its multidimensional and dynamic nature. On the one hand, the study of regional integration issues draws together several interrelated branches of knowledge: economics, politics, sociology, governance, and international relations, among others. Thus, it is difficult to achieve a general definition. For instance, the terms "regional integration" and "economic integration" or "regional economic integration" are used commonly as synonyms in spite of the importance accorded to non-economic factors of integration, particularly to political ones (Section 3.3 further describes the political–economic link of regional integration). On the other hand, all regional integration experiences (in Europe, Asia, Africa, and America) are ongoing processes.[7] Because theory evolves hand in hand with these experiences, the conceptualization of regional integration is still under construction. Up to now, although the European regional integration attempt has been studied the most, a rich number of paradigms developed to understand how it works (i.a., *functionalism* and *neo-functionalism*, *intergovernmentalism*, *institutionalism*, *constructivism*, *post-modernism*—see Box 2.1),[8] have not resulted in a satisfactory theory.

Moreover, as revealed by history, countries' motivations for regional integration are distinct, with notable differences between developed and developing nations. For instance, since 1960, regional integration has been adopted by developing countries in Latin America, Africa, and Asia as development strategies. The perception of integration as a tool within a regional development strategy has been applied to developing regions using such approaches as *integration by the market*, *complex integration*, the *functional approach*, and the *structural approach* (see Box 2.2). This kind of integration, which is obviously different to European integration, has prompted the development of alternative approaches to regional integration.

These theoretical approaches of regional integration continued to be debated intensely during the late 1970s. The literature aimed to understand failed strategies—such as the Latin American Import Substitution Industrialization (ISI), proposed by Raul Prebish and based on the *deterioration of the terms of trade* (Singer, 1950) and *trade as a development engine* (Prebish, 1950)[9]—as well as relatively successful ones—such as the Asiatic Newly Industrialized Countries (NPI). Thereafter, the scientific and technical revolution (i.e., transportation, mass production, and communication), which created the conditions for intensive regional integration, did not permit this debate to be diminished and, indeed, even now, it remains alive. Recently, the European sovereign debt crisis has presented new challenges to the European approach to regional integration. The role of political, fiscal, and financial factors have been highlighted strongly (i.a., Issing, 2011; Lane, 2012; Rodrik, 2012; Sapir, 2011). Thus,

[6] Viner (1950) recognizes that the union of two or more markets does not always expand the wealth of nations. According to him, the welfare of the members that form a customs union increases only if the resulting trade augmentation is due to *trade creation* (i.e., when the most expensive supplier is replaced by the most efficient supplier) and not due to *trade deflection* (i.e., when the competitive supplier is displaced by the most expensive supplier).

[7] Balassa (1961a) differentiates between economic integration as a *process* and as a *state*. As no group of countries has proved to be integrated in the sense of "state," it is correct to affirm that regional integration is ongoing.

[8] See Malamud and Schmitter (2007) for further explanation about each theory.

[9] The Argentinian economist, Raul Prebish, was the leader of a research team that worked in the Economic Commission for Latin America and the Caribbean and inspired the *structuralist approach* of the period 1950–1970.

the development of regional integration theory is still a work in progress.

Box 2.1. *Brief review of the theoretical foundations of European regional integration*

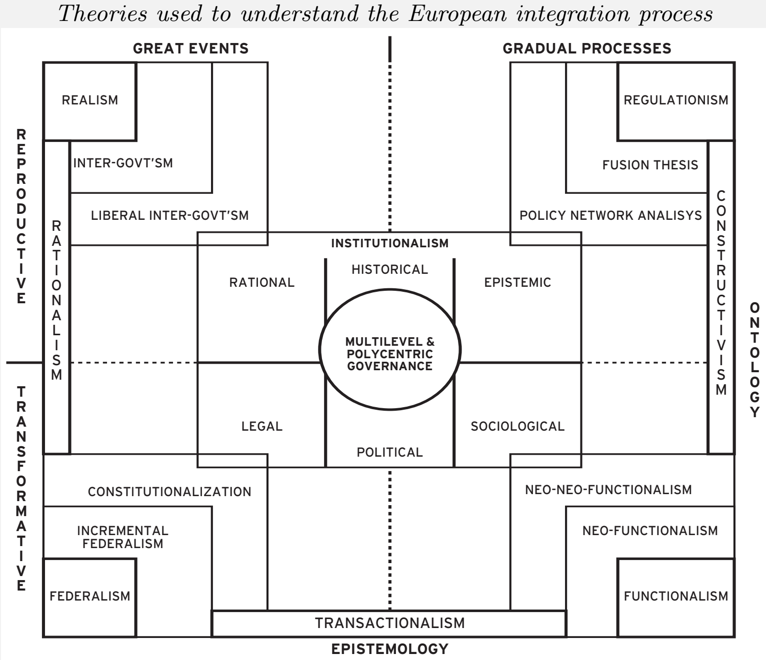
Functionalism
The functionalist approach, also known as liberal institutionalism, considers that nations maximize their interest owing to the assistance of international organizations based on functional rather than territorial principles.[a] According to Mitrany (1946), socioeconomic welfare can guarantee lasting peace because individuals are rational. Mitrany's initial proposal for Europe was the creation of a federation. However, political coordination to achieve this was considered too ambitious and economic integration was adopted as a necessary first step that would build the foundations for a political union (guarantee of peace).

Neo-functionalism
This approach places major emphasis on the necessity of a federal organization. More than relying on functional integration in the economic and social sectors, this form of integration should be based on acts of political will (Vieira-Posada, 2006). Moreover, neo-functionalism emphasizes the role of institutions to achieve further integration. A number of extensions have been proposed to this approach (i.a., Haas, 1968; Nye, 1970; Schmitter, 1970).

Intergovernmentalism
According to this approach, state power must match national interest. The orientation and velocity of regional integration is determined by the interaction of sovereign national states. Whether the process goes forward or backward or stagnates depends on national interests and the relative power that can be brought to bear on any specific issue (Hoffmann, 1966; Moravcsik, 1998).

There are copious numbers of theories used to understand the European integration process, as shown in the figure below. However, up to now, no theory has been satisfactory.

Theories used to understand the European integration process



Source: Malamud and Schmitter (2007)

[a]Functionalism is a framework for building theory that views society as a complex system whose parts work together to promote solidarity and stability (Gerber and Macionis, 2010, p. 14).

This paper contributes to the debate on the theory of regional integration by focusing on the South American case. Thus, the retained definition henceforth is that proposed by the Economic Commission for Latin America and the Caribbean (ECLAC): *"Regional integration is the process by which diverse national economies seek mutual gains by complementing one another more."* (ECLAC, 2009). Such a broad definition involves not only economic aspects but also, among others, political,cultural, social and political fields. Accordingly, regional integration do not exclusively refer to economic integration. Economic integration is an integral part of regional integration, it is not the whole regional integration. On this basis, this paper argues that any regional integration project should be analyzed at least from three complementary angles: economic (see Subsection 3.2), political (see Subsection 3.3), and physical (see Subsection 3.4). The necessity to adopt such a three dimensional approach for studying regional integration is justified next (Section 3).

Box 2.2. *Traditional approaches to integration between developing countries*

Integration by market
In the early 1960s, the economic thought of regional integration was limited to the theory of international trade, even if some links with development theory had been established. Notably, this period is characterized by the benefits that developing countries could obtain from economic integration (e.g., Allen, 1961). However, this approach is contested because the increase of mutual trade is considered to replace merely one form of dependence for another (Langhammer, 1977).

Complex integration
This approach extends that of integration by market through the incorporation of two aspects: i) developed and developing countries are so different that the nature of integration between them is necessarily distinct and ii) the heterogeneity of development levels among developing countries needs to be considered by integration theory. Integration between developed countries is constructed based on their existing interdependence of high technological levels of production while integration between developing countries first needs to assure fundamental structural changes and boost economic growth—that is, the integration process is induced rather than results from the development level (Dragomanovic, 1969). The harmonization of industrial, fiscal, commercial, and monetary rules is considered to guarantee market integration (Balassa and Stoutjesdijk, 1978). The role of government intervention in harmonization has been debated (Brown, 1961).

Functional approach
Functionalist authors aim to develop an interdisciplinary theory of development based on a different international economic order. The main characteristics of the functional approach are:

- awareness of the complex reasons behind the disappointing results of the integration processes (not only the economic processes);
- more realistic definitions of the benefits that developing countries could obtain when integrating each other; and
- meticulous development of alternative strategies and instruments for integration.

Structuralist approach
By considering again the lessons of third world integration processes, the structuralist approach deals with regional integration from a sociological perspective.[a] According to this approach, the factors that determine the success (or failure) of regional integration–cooperation processes among developing countries are both economic and political.

- Economic factors
  1. The region's global development level and the development differences among member countries.
  2. The existing level of economic interdependence between member countries.
  3. The complementarity of resources and production factors.
  4. The chosen integration model and the applicability of integrating policies.
- Political and institutional factors
  1. The level of political willingness and institutional stability.
  2. The degree of political homogeneity within the group; notably, the sociopolitical system in force in member countries.
  3. The efficacy of national and common institutions and their capacity to adapt to ongoing changes.
  4. Member countries' configuration of foreign relations.

[a] In the late 1970s, regional integration in all developing regions was in serious crisis. Three phenomena characterized the crisis, although to varying degrees in each region: integration was forsaken as an instrument of development policy; the results had not met expectations; and consequently, integration among developing countries offered weak expectations. Before the debt crisis (1982), Latin America opted for import substitution as an industrialization strategy in its regional integration policies, leading to numerous detrimental economic effects for its developing countries (see Lizano, Hughes, and Patel, 1976).

3 A three dimensional view of regional integration

3.1 The Union of South American Nations as the inspiration of a new approach

As mentioned in Section 2, countries motivations for regional integration have been different through history. Up to know, globalization appears to sentence countries, especially developing ones, to "Join, or Die". It is not a coincidence that many regional blocs have formed in the last two decades in

Africa (the SADC in 1992, the UEMOA in 1994, the CEMAC in 1999, the EAC in 2000), Asia (the ASEAN+3 in 1997), Europe (the Eurozone in 1999), and America (the Unasur in 2008, the Pacific Alliance in 2011). This contemporaneous "integration trend" has an interesting characteristic: it targets economic objectives for integration. Indeed, almost all the regional blocs that have been created since the early nineties are economic integration initiatives. All but one, the Union of South American Nations (Unasur). The South American case deserves special attention because, unlike the other blocs above, the Unasur emerged as a political alliance. The Unasur Constitutive Treaty, signed in 2008 and ratified in 2011, formalizes the union as a juridical entity that integrates 12 independent nations in cultural, social, economic, and political fields.[10]. The group seeks the multidisciplinary goal of "eliminating socioeconomic inequality [...] and reduce asymmetries" between South American residents.[11] The South American integration strategy is thus breaking the trend.

Table 2: *South American regional integration process: Unasur step by step. Main decisions.*

Date	Event	Decision
September 1, 2000	SA* presidents 1st meeting (Brasilia, Brazil)	Signature of the *"Brasilia Statement"* expressing the willingness to organize regional integration. IIRSA inception.
December 2000	Meeting of SA ministers of transport, energy, and communications (Montevideo, Uruguay)	Approval of the *IIRSA Action Plan 2000–2010*.
December 6, 2002	SA presidents 2nd meeting (Brasilia, Brazil)	Signature of the *The Free Movement and Residence Agreement between Mercosur members, Bolivia and Chile.*
December 8, 2004	SA presidents 3rd meeting (Cusco, Peru)	Signature of the *"Cusco Declaration"* creating the South American Community of Nations (CASA) (see Box **??**). Approval of the first IIRSA projects portfolio.
September 30, 2005	1st summit of CASA members' heads of state (Brasilia, Brazil)	Approval of the first *"Priority Agenda"* and *"Action Plan"* of the CASA.
December 9, 2006	2nd summit of CASA members' heads of state (Cochabamba, Bolivia)	Study of the final document elaborated by "Strategic Commission of Reflection." Approval of the SA regional integration model.
April 16, 2007	2nd extraordinary meeting of CASA (Isla Margarita, Venezuela)	Creation of the SA Energy Council (CES). Renaming of CASA to become the Union of South American Nations (Unasur).
May 23, 2008	Extraordinary summit of Unasur members' heads of state (Brasilia, Brazil)	**Approval and signing** of *"The Constitutive Treaty of the Unasur."*
December 16–17, 2008	Extraordinary summit of Unasur members' heads of state (Salvador de Bahia, Brazil)	Creation of the SA Defense Council (CDS) and the SA Health Council (CSS). First meeting of the CDS.
August 10, 2009	3rd summit of Unasur members' heads of state (Quito, Ecuador)	Assumption of the Pro-Tempore Presidency of Unasur by the Republic of Ecuador. Creation of the SA Council on World Drug Traffic; *SA Council of Infrastructure and Planning (Cosiplan)*; SA Council of Science, Technology and Innovation (Cosucti); SA Council of Social Development (CSDS); and SA Culture Council (CSC).
October 1, 2010	Extraordinary summit of Unasur members' heads of state (Buenos Aires, Argentina)	Signature of the *"Buenos Aires Declaration'* strongly rejecting any coup d'etat attempt in support of Ecuadorian President Rafael Correa. Unanimously approved imposition of sanctions to any future breach of constitutional order and democracy.
November 26, 2010	4th summit of Unasur members' heads of state (Georgetown, Guyana)	Guyana assumes the Pro-Tempore Presidency of Unasur. Approval and signing of the *"Additional Protocol to the Constitutive Treaty of Unasur on Commitment to Democracy."* Creation of the SA Council of Economics and Finance (CSEF).

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[10]See Arts. 1 and 2 of the Unasur Constitutive Treaty
[11]See Art. 2 of the Constitutive Treaty of Unasur.

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March 11, 2011	Meeting of Unasur members' foreign affairs ministers (Quito, Ecuador)	**Formal entry into** force of the Constitutive Treaty of the Unasur. Nine instruments of ratification deposed according to Article 26 of the Treaty.
July 28, 2011	Extraordinary summit of Unasur members' heads of state (Lima, Peru)	Approval of the *"Declaration of July 28: Commitment against inequality"* recognizing the importance of undertaking integration process as a tool for poverty reduction and social inclusion. A *Social Agenda of Priority Actions* for the bloc is discussed.
August 24, 2011	Meeting of Unasur members' foreign affairs ministers (Buenos Aires, Argentina)	Ratification of the *Unasur–Argentina Agreement* establishing the functioning of the Center of Strategic Defense (CEED)'s headquarters in Argentinian territory.
October 29, 2011	4th summit of Unasur members' heads of state (Asuncion, Paraguay)	Creation of the SA Electoral Council (CEU).
June 29, 2012	Extraordinary summit of Unasur members' heads of state (Mendoza, Argentina)	Exclusion of Paraguay from the Unasur and Mercosur because of the coup d'etat in which the Paraguayan congress decided to depose President Fernando Lugo and transfer the Presidency to Federico Franco. Defined as a non-democratic act.
December 1, 2012	6th summit of Unasur members' heads of state (Lima, Peru)	Approval of the Cosiplan proposal of 31 priority infrastructure projects (Integration Priority Agenda, API). Unanimously adopts establishment of a **South American citizenship** (same rights, including work and no passport). Ratification of decision to support the peace process of Colombia–FARC.
August 15, 2013	Extraordinary summit of Unasur members' heads of state	Paraguay is reintegrated as a member after report presented by the Electoral Council members.
March 19, 2014	Extraordinary summit of Unasur members' heads of state	Entry into force of the *"Additional Protocol to the Constitutive Treaty of Unasur on Commitment to Democracy"* after ratification by all signatory members' parliaments.
March 21, 2014	Ministers of foreign affairs meeting	Creation of a *South American Dispute Resolution Center* for investment issues.
December 5–6, 2014	8th summit of Unasur members' heads of state (Quito, Ecuador)	Sanction of the establishment of the *South American Passport* and activation of the *Bank of the South*. The bloc also commits to create a Regional Reserve Fund and to start studies for the adoption of the regional compensation mechanism (SUCRE).
March 15, 2015	Extraordinary summit of Unasur members' heads of state	Request of repeal of US Executive Decree sanctioning Venezuela. Unasur supports Venezuela but demands its government respect human rights.
April 10, 2015	Extraordinary summit of Unasur members' heads of state (Quito, Ecuador)	Heads of state outline creation of the *South American Parliament*.

Source: Author's elaboration using several official Unasur reports and documents

* SA: South American; IIRSA: Initiative for the Integration of Regional Infrastructure in South America.

Despite its Constitutive Treaty declaring it to be a project of political economic and social content, up to know the Unasur functions as a forum for political and strategic discussion to pursue regional cooperation in, among others areas, defense, education and science, democracy, and infrastructure. Unasur is thus a politically driven integration initiative—as described in Table 3, the South America's concrete actions toward regional integration originate from political agreements reached within Unasur. As detailed in Section 3.3, political agreement is crucial for economic integration. In fact, the political-economic interdependence is not new in regional integration debates: already in 1841, Friedrich List affirmed that economic union and political union are inseparable (List, 1841). What is new is that while the traditional theory understand political integration as a subsequent step of economic integration (Balassa, 1961b), the Unasur's initiative suggest that political integration is a necessary prior step of economic integration. This is the first break with the traditional theory: placing political unification at the end of integration process for achieving "total economic integration", as stated by the Balassa's theory of economic integration (reviewed in Section 3.2), is not the only valid regional integration strategy. What is more, the Unasur's strategy of regional integration is potentially superior to (Balassa, 1961b)'s one considering the lessons led by the crisis of the European Monetary Union (EMU) (Issing, 2011).

Table 3: *Timeline of South America's concrete actions toward regional integration.*

Date	Action	Axis
December 9, 2007	Argentina, Brazil, Bolivia, Ecuador, Paraguay, Uruguay, and Venezuela sign the foundation agreement of the Bank of the South, which is conceived as a regional development bank and monetary fund.	Economics/Finance
November 2008	ALBA members and Ecuador adopt a *Unitary System of Regional Payments* (SUCRE).	Economics/Finance
October 17, 2009	SUCRE enters into force.	Economics/Finance
July 6, 2010	Venezuela and Ecuador conduct the first bilateral transaction through the SUCRE.	Economics/Finance
September 2010	Construction of an *SA Fiber Optic Intercontinental Ring* is approved by the SA Energy Council.	Energy
November 2011	All Unasur members agree to disclose their military spending.	Defense
September 15–20, 2012	1st *International Festival Cine-Unasur* takes place in San Juan Argentina.	Culture
May 2012	SA Defense Council approves creation of an anti-transnational crime commission.	Defense
September 3, 2012	Construction of the *SA Fiber Optic Intercontinental Ring* starts.	Energy
March 12, 2012	SA Electoral Council passes a regulation for election observation missions.	Electoral/Democracy
March 23, 2012	Creation of an *SA Observatory on Drugs* is approved.	Drug Fight
April 10, 2012	SA Council of Social Development approves an Action Plan against poverty.	Social Developm.
May 19, 2012	SA Energy Council signs an energy agreement for the defense of regional resources.	Energy
July 12, 2012	All SA nations decide to participate in the development of military aircraft.	Defense
March 2013	SA Education Council agrees to a 5-year regional strategic plan of education.	Education
March 27, 2013	All tourism ministers of the Unasur members agree to a regional plan for a coordination and monitoring mechanism on tourism matters.	Economics/Finance
April 15, 2013	2nd stage of the *Unasur I aircraft* project is announced.	Defense
May 18, 2013	SA Science and Technology Council approves the creation of a regional fund for science and technology projects.	Science/Technology
May 2013	Creation of the *SA Defense College* is approved by the SA Defense Council.	Defense
June 10, 2013	SA Economics and Finance Council commits to promote the entry into force of the *Bank of the South.*	Economics/Finance
June 20, 2013	Official announcement of construction of the Unasur Parliament building in San Benito-Bolivia.	Electoral/Democracy
September 20–28, 2013	2nd *International Festival Cine-Unasur* takes place in San Juan Argentina.	Culture
March 13, 2014	SA Education Council commits to organize the regional recognition of qualifications and standardization of university courses of higher education institutions in South America.	Education
July 23, 2014	SA World Drug Problems Council approves creation of the *South American Anti-drug Observatory.*	Drug Fight
Jun 24, 2014	Argentina, Brazil, Ecuador, and Venezuela agreed to finance the construction of the *Unasur I aircraft.*	Defense
June 24, 2014	Argentina, Brazil, Ecuador, and Venezuela agree to finance construction of the *Unasur I aircraft.*	Public Safety
July 24–25, 2014	SA Economics and Finance Council elects the executive board and president of the *Bank of the South.* In addition, capital contributions for the regional bank are secured.	Economics/Finance
July 25, 2014	SA Council of Science, Technology, and Innovation approves a scholarship program to start in 2015.	Science/Technology

…continued on next page…

August 8, 2014	The statute and regulations of the *South American Defense College* is sanctioned by the SA Defense Council.	Defense
September 12–19, 2014	3rd *International Festival Cine-Unasur* takes place in San Juan Argentina.	Culture
October 15, 2014	SA Health Council commits to create a medicines prices bank and a map of the potential to produce medicines in the region.	Health
November 23, 2014	Deputy foreign ministers of Unasur members complete and sign a proposal for the *"Unasur strategy vision on energy and road integration."* In addition, they reach agreement on the *Regional Passport* to be presented at the summit of heads of state.	Electoral/Democracy
December 5, 2014	Inauguration of Unasur's headquarters in Quito.	
February 10, 2015	Implementation of the *"Drug Observatories Network"* project that seeks to standardize and promote studies on drugs and drug policy in the region.	Drug Fight
April 16, 2015	Ecuador declares April 17 as the *"Day of Unasur"* (Official Gazette No. 40 641).	
April 17, 2015	Inauguration of the *SA Defense College*, located in Quito-Ecuador.	Defense
April 22, 2015	*SA Regional Plan for Prevention and Cancer Control* is announced and approved by the Unasur health ministers.	Health

ADDITIONALLY,
- All the Unasur councils have approved theirs statutes and strategic action plans.
- The Unasur is the undisputed official observer of all electoral processes in the region.
- The Unasur is the mediator of conflicts in the region, such as the Chevron–Ecuador dispute (March 2013), the recent US–Venezuela diplomatic dispute (March–May 2015), and the Colombia–Fuerzas Armadas Revolucionarias de Colombia peace negotiation.
- A considerable number of meetings, seminars, trainings workshops, planning workshops, and forums have been organized by each Unasur commission in order to analyze and organize their integration actions.

Author's elaboration using several press notes and official communications.

Notes: The table summarizes the main SA regional integration projects. Regional infrastructure projects are not included because of their significant number. Some information about the 2015-IIRSA portfolio is however provided in this section. SA: South American; ALBA: Bolivarian Alliance for the Peoples of our America.

Two dimensions of regional integration are evident so far, the political one and the economic one. The second break with the traditional view argued here is that a third dimension must be considered: the physical one. Regional integration can simply not exist if the involved countries are not physically interconnected. The physical (or infrastructure) integration is thus crucial. Once again, the South American integration project stands out: since 2000, even before the official inception of the Unasur (see Table 2), the 12 South American nations have engaged in a process of regional integration, for which physical integration is a major pillar. The so-called "*Initiative for the Integration of Regional Infrastructure in South America (IIRSA)*" proposes the creation of interconnected networks of transport, energy, and communication infrastructure at regional level.[12] The IIRSA is an unprecedented and ambitious initiative: according to the 2015 IIRSA Portfolio, this initiative is composed of 593 structural infrastructure projects—with an estimated investment of US $182,436 millions—of which 19.4% (115) have already been completed, 32.2% (191) are in the execution stage, 29.2% (176) are in the pre-execution phase, and 19.2% (114) are being profiled.[13] In addition to the implied investment and consequent economic impacts, perhaps, the most attractive characteristic of this initiative is its proposal of a new division of territorial spaces. National borders are no longer the reference. As detailed in Box 3.1, the South American continent is divided by Integration and Development Hubs (EIDs), an unprecedented territorial conception that distinguishes 10 strategic South American sub-regions. Certainly, numerous economic dynamics emerge from such a design. In fact, the physical-economic interdependence of regional integration, detailed in Section 3.4, is very intuitive. Even though two countries decide to eliminate commercial barrier between them (become

[12] In 2008, the formation of the Union of South American Nations (UNASUR) provided IIRSA with a new institutional framework and asserted its continuity. Later in 2011, the South American Infrastructure and Planning Council (Cosiplan) assumed this coordination role and defined the Strategic Action Plan, 2012–2022.

[13] It is worth mentioning that IIRSA is Unasur's most advanced project. The initiative has been cataloged as a process of "silent" integration because, despite the difficulties in political and economic integration (e.g., political frictions from Paraguay's expulsion from the bloc owing to the 2012 coup d'etat), physical integration continues to work (ECLAC, 2009)

a free trade area), their bilateral trade volumes will not increase if there are not roads or bridges physically interconnecting their territories.

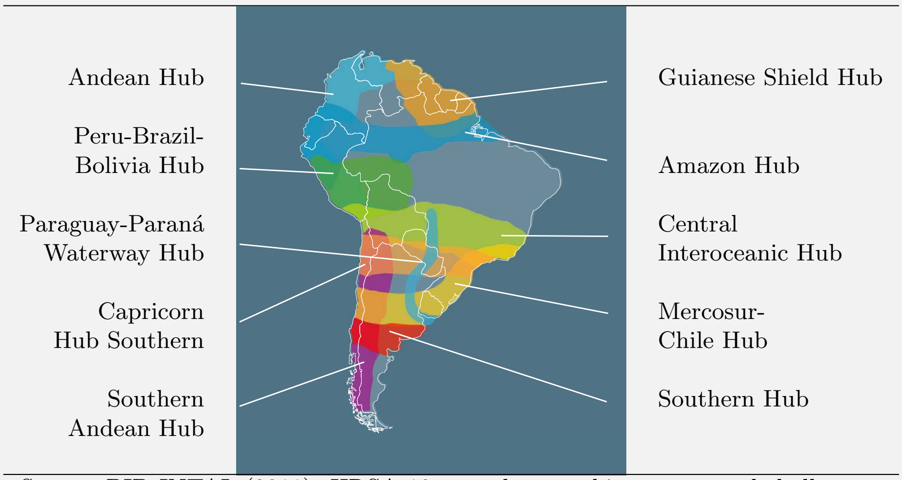
Box 3.1. *IIRSA organizational pillars*

In addition to the "the IIRSA Action Plan 2000–2010," during the Montevideo meeting (December 2000), the ministers of transport, energy, and communications of the 12 South American nations defined the two basic pillars of the IIRSA, the *Integration and Development Hubs EIDs* and the *Sectoral Processes PSIs*, which complement each other.

An *EID* is defined as a multinational territorial space involving specific natural resources, human settlements, production areas, and logistics services. Transportation, energy, and communications infrastructure serve as its links as they facilitate the flow of people, goods and services, and information within this territorial space and from/to the rest of the world. Accordingly, infrastructure requirements have been identified for each EID. The 10 hubs of the IIRSA, adopted at the Fifth Meeting of the executive steering committee (Santiago de Chile, December 2003), are as follows,

1. Amazon Hub
2. Andean Hub
3. Southern Andean Hub
4. Capricorn Hub
5. Guianese Shield Hub
6. Paraguay–Paraná Waterway Hub
7. Central Interoceanic Hub
8. MERCOSUR–Chile Hub
9. Peru-Brazil–Bolivia Hub
10. Southern Hub

The EID concept is based on subregions rather than countries, and thus, in some way, it "erases borders" when establishing projects (as illustrated below). Each hub includes a number of specific infrastructure projects detailed in the IIRSA project portfolio.



Source: BID-INTAL (2011). IIRSA 10 years later: achievements and challenges

In turn, the *Sectoral Integration Processes (PSI)* concept was introduced aimed at identifying the regulatory and institutional obstacles hindering the development and operation of basic infrastructure in the region. In addition, it was aimed at proposing actions to overcome such obstacles. Seven PSIs have been identified in the IIRSA, as follows:

- Instruments for funding regional physical integration processes
- Energy integration
- Facilitation at border crossings
- Information and communication technologies
- Air transport operating systems
- Maritime transport operating systems
- Multimodal transport operating systems

On this basis, and inspired by the South American integration strategy, this paper argues that any regional integration project can be analyzed from at least three complementary angles: *economic integration*, which includes different degrees or stages of integration—preferential trade agreements, free trade areas (FTAs), customs unions (CUs), common markets (CMs), and economic and monetary unions (Subsection 3.2); *political integration*, which implies greater depth, coordination, and harmonization of actions among members in the governmental and institutional spheres, i.e., new regional governance (Subsection 3.3); and *physical integration*, featuring regional infrastructure projects as the key drivers (Subsection 3.4) (ECLAC, 2009). All three dimensions are related intimately to each other as justified in what follows.

3.2 Economic integration

According to the *theory of economic integration* by Balassa (1961a), the term "economic integration" refers to both a process and a state of affairs. As a state of affairs, it is the "absence of various forms of discrimination between national economies." As a process, it includes "measures designed to abolish discrimination between economic units belonging to different national states."

Accordingly, Balassa's theory distinguishes five degrees or stages of integration that are increasingly demanding in terms of the removal of discriminatory measures: an *FTA*, where tariffs and quotas are abolished against member countries but individual tariffs and quotas are retained against third countries; a *CU*, which is an FTA that sets up common tariffs and quotas, if any, for trade with non-members; a *CM*, which is a CU that abolishes non-tariff barriers to trade (product and services markets integration) as well as restrictions on factor movement (factor market integration); an *economic union*, where, besides the free circulation of products and factors of production, member states undertake "some degree of harmonization of national economic policies, in order to remove discrimination that was due to disparities in these policies" (Balassa, 1961a, p. 2); and *total economic integration* (TEI), which entails "the unification of monetary, fiscal, social, and countercyclical policies" and "the setting-up of a supra-national authority whose decisions are binding for the member states" (Balassa, 1961a, p. 2). Table 4 illustrates these stages and provides some examples.

Each one of these stages has been the subject of numerous studies. Viner (1950)'s seminal work "The Customs Union Issue" is the basis for CU theory. The literature has tended to tackle FTAs and CUs almost as synonyms.[14] Viner's approach, which is mostly commercial, treats CUs (and sometimes CMs) as FTAs focusing on the removal of trade barriers.[15] This trade viewpoint is related to the literature on "regional trade agreements" (RTAs)—see Baldwin and Venables (1995); Panagariya (2000) for surveys about the literature on trade integration.[16] In contrast to the RTA literature, Balassa (1961a,b) covers not only economic but also political matters focusing on: i) the welfare implication of integration for the involved countries and ii) whether CUs and CMs lead to higher levels of integration with increasingly demanding coordination of supra-national institutions and policies.

In addition, monetary union issues (corresponding to the fourth stage) have interested authors widely since the famous article of Mundell (1961), "A Theory of Optimum Currency Area," and the seminal contributions of McKinnon (1963) and Kenen (1969). The main notion is that a country benefits by joining a monetary union if the savings it would obtain in transaction costs are greater than the costs induced by forgoing the national exchange rate and monetary policy. Adjustment costs depend directly on the asymmetry of the disturbances an economy is facing, that is, when faced with asymmetric shocks, countries would suffer higher adjustment costs induced by a common policy that may not be the most appropriate. The optimum currency area (OCA) theory establishes the criteria counterbalancing these costs (see Box 3.2). These criteria are interpreted as *prerequisites* for the formation of a monetary union. There are numerous empirical and theoretical contributions to OCA theory.[17]

[14] According to Viner (1950), FTAs are simply incomplete CUs. Balassa (1961a) notes that the only significant difference between FTAs and CUs is the possibility of "trade reflection" originating from disparities in external tariffs among FTA members (see footnote 6).

[15] Despite his commercial approach, Viner (1950) is conscious of the relationship between CUs and political unions. Indeed, he asserts that political unions typically precede CUs and notes that the German Zollverein, in which the CU came first, was a special case.

[16] The RTA literature focuses on both the welfare implications of RTAs for their members and on whether trade blocs act as "building blocks" for or "stumbling blocks" to global free trade.

[17] See, among others, Dellas and Tavlas (2009); Mongelli (2002); Tavlas (1993) for a complete survey of the OCA theory.

Box 3.2. *The optimum currency area (OCA) theory*

An OCA is defined as "the optimal currency geographic domain of a single currency, or of several currencies, whose exchange rates are irrevocably pegged and might be unified" (Mongelli, 2002).[a] This common, or pegged, currency can fluctuate only with those of the rest of the world. An OCA's *optimal* character is determined based on a number of *OCA properties or "criteria"*: the mobility of production factors, price and wage flexibility, economic openness, diversification in production and consumption, similarity in inflation rates, fiscal integration, and political integration, among others. These properties reduce the usefulness of nominal exchange rate adjustments within the currency area by promoting internal and external balance, diminishing the impact of certain kinds of shocks.

The *traditional OCA criteria*, developed during the "pioneer phase" of OCA theory (Mongelli, 2002), are as follows:[b]

- The existence of **nominal prices and wage flexibility** within countries sharing a common currency reduces the need for exchanges rate adjustments after a disturbance because it is unlikely to be associated with sustained unemployment in one country and inflation in another (Friedman, 1953; Kawai, 1987).
- High **mobility of factors of production** can lessen the necessity to alter real factor prices and nominal exchange rates between countries in response to disturbances owing to the reallocation created by factor market integration (Mundell, 1961). Although labor mobility is usually low in the short run, because of migration and retraining costs, it could be higher in the medium and long run, facilitating the adjustment after permanent disturbances (Corden, 1972).
- **Financial market integration** allows temporary adverse disturbances to be softened by capital inflows, thereby reducing the need for exchange rate adjustments (Ingram, 1962).
- The higher the **degree of economic openness**, the less useful the nominal exchange rate would be as an adjustment instrument because the higher openness is, i) the more changes in international prices would impact on domestic prices directly and indirectly, and ii) a devaluation would be transmitted more rapidly to the price of tradable goods and the cost of living, negating its intended effects (McKinnon, 1963).
- A higher **diversification in production and consumption** (i.e., in the jobs portfolio, and in imports and exports) decreases the possible impacts of shocks specific to an individual sector, thus, reducing the need for changes in the terms of trade (Kenen, 1969).
- When countries have **similar** (and low) **inflation rates**, the terms of trade would remain relatively stable, in turn, fostering more balanced current account transactions and trade, and thus, reducing the need for nominal exchange rate adjustments (Fleming, 1971).
- **Fiscal integration**. Nations sharing a supra-national fiscal transfer system, which allows them to redistribute funds to member nations affected by adverse asymmetric disturbances, would facilitate the adjustment to such shocks and might require less nominal exchange rate adjustments (Kenen, 1969).
- **Political integration**. Willingness within a group of countries contemplating the adoption of a single currency, among other effects, fosters compliance with joint commitments, sustains cooperation on various economic policies, and encourages more institutional linkages (Mintz, 1970). A successful currency area needs a reasonable degree of policy and preference compatibility (Haberler, 1970; Tower and Willet, 1976).
- The **similarity of supply and demand shocks and business cycles** is the so-called meta-property because it captures the interaction between several properties. In fact, membership of a monetary union implies forgoing national exchange rate and monetary policy. In this case, adjustment costs depend directly on the asymmetry of the shocks an economy faces: if all member countries of a monetary union face the same shocks, there are no costs of having a common policy. Thus, the above conditions (e.g., fiscal integration, wage and price flexibility) are not necessary (Cohen and Wyplosz, 1989; Corden, 1972; Ishiyama, 1975; Mundell, 1973; Tower and Willet, 1976) .

[a] The domain of an OCA is given by the sovereign countries choosing to adopt a single currency or to peg their exchange rates irrevocably.

[b] The "new" OCA theory deals with, among others, the effectiveness of monetary policy (Alesina, Barro and Tenreyero, 2002; Calvo and Reinhart, 2002), credibility of monetary policy (Kydland and Prescott, 1977; Barro and Gordon, 1983), endogeneity versus specialization hypothesis of OCAs (Frankel and Rose, 1997; Frankel, 1999; De Grauwe and Mongelli, 2004), character of shocks (Buiter, 1995), synchronization of business cycles and political factors (Collins, 1996, Edwards,1996).

Two aspects of monetary union issues are worth mentioning because both are mainly used in order to evaluate regional integration initiatives. The first is the importance of the criterion of business cycle synchronization (or the similarity of shocks) for the sustainable operation of a common currency area. In addition to the fact that this property captures the interaction between several OCA criteria, as noted in Box 3.2, the synchronization of business cycles is important to the extent that the currency union's common monetary policy is influenced by the union-wide business cycle. Therefore, in order for individual monetary policies to be substituted by a common monetary policy efficiently (i.e., to have a "one size fits all" efficient monetary policy) member countries' business cycles need to be related closely to the union-wide business cycle. In the contrary case, if a "one size fits none" common monetary policy exists, the cost of joining the monetary union would be negative (Fidrmuc and Korhonen, 2006; Furceri and Karras, 2008; Savva, Neanidis, and Osborn, 2010; Sébastien, 2009). Consequently, the existence of business cycle synchronization among the currency area members facilitates the stabilizing intervention of the common central bank (Clarida, Gali, and Gertler, 1999; Crowley and Schultz, 2010; Furceri and Karras, 2008; Rogoff, 1985). Moreover, the synchronization of business cycles not only is a prerequisite for the adoption of a common currency area but the very survival of the monetary union depends on the commonality of business cycle fluctuations (Bergman, 2006).[18]

Second, the endogeneity issue arises when studying the link between economic integration and shock asymmetry, in the sense of the OCA criteria.[19] The "endogeneity of the OCA criteria," a term introduced by Frankel and Rose (1997, 1998), is formulated reflecting on the Lucas (1976)-critique: currency union must be understood as a fundamental change of the policy regime; hence, it affects the underlying OCA criteria in such a way that they are more likely to be satisfied *ex-post* as both monetary and trade integration deepen.[20] Using a number of approaches, the literature has supported this endogenous character of the OCA criteria robustly (i.a., Frankel, 2004; Lee and Azali, 2010; Levy-Yeyati, Sturzenegger, and Reggio, 2010; Mendonça, Silvestre, and Passos, 2011).

An enormous body of empirical literature studies the business cycle synchronization degree between countries in a region, and/or the similarity of responses to shocks within a zone in order to evaluate regional integration initiatives.

In addition, the process of economic integration, in the sense of Balassa's stages, must be accompanied by the tightening of financial links between countries. Indeed, the main CM feature is the free movement of factors (e.g., physical and financial capital, labor) within a region (see Table 4), and thus, the establishment of a CM requires the countries of a region to reduce their restrictions on capital movement, that is, to engage in a process of financial integration.

Balassa (1961a)'s theory relates *stages of integration* to *discrimination measures* so that an advancement through the former implies a reduction of the latter (see Table 5). Such a description according to stages would seem to imply a rigid consecutive process. Nevertheless, there is no reason to believe that an economic integration process must start with an FTA, nor that an FTA would necessarily evolve toward higher stages (Sapir, 2011). Indeed, each movement from an FTA to a CU, or from a CU to a CM, and so on, constitutes a huge political step. Hence, a high number of FTAs remains FTAs for years (e.g., the Latin American Integration Association, LAIA) whereas new associations directly emerge as CUs (e.g., Mercosur). Certainly, many countries enter into FTAs but very few are willing to relinquish sovereignty over their trade policies. Indeed, less than 5% of all the preferential trade agreements that have been notified to the World Trade Organization (WTO) are CUs rather than FTAs. According to the WTO, from about 264 RTAs notified to the WTO under GATT Article XXIV that were in force as of October 8, 2014, only 15 are CUs.[21]

As a matter of fact, although Balassa's stages are recognized widely as the standard framework,

[18] Business cycle synchronization may exist; however, the cycles could have different amplitudes due to non-convergence (i.e., synchronization does not necessarily imply that economic convergence occurs). Indeed, while synchronization means similar co-movements of countries' growth rates, the term "convergence" is related to the convergence hypothesis of countries' economic growth: the catch-up effect between countries' growth rates (Crowley and Schultz, 2010).

[19] As highlighted by the survey in Baldwin (2006), there is substantial evidence that monetary unification induces countries to trade more with each other (i.a., Frankel and Rose, 1998). Indeed, as countries with closer trade links tend to have more correlated business cycles, the adoption of a common currency increases business cycle correlations and it becomes easier to meet the OCA criteria.

[20] See also Bayoumi and Eichengreen (1997) and Rose (2000) for a discussion.

[21] Among the RTAs that are not CUs are the Mercosur, Caribbean Community and Common Market (Caricom), East African Community (EAC), Russian Federation–Belarus–Kazakhstan, EU–San Marino, Southern African Customs Union, Economic Community of West African States, CEMAC, Central American Common Market (CACM), Common Market for Eastern and Southern Africa, EU–Turkey, EU–Andorra, ACN, West African Economic and Monetary Union, and Eurasian Economic Community (see `http://rtais.wto.org/UI/PublicAllRTAList.aspx`).

Integration stage	Features	Examples*
1. Free trade area (FTA)	• No tariffs or quotas against member countries. • Individual quotas against third countries.	• On January 1, 2008, the US, Canada, and Mexico removed the last remaining tariffs between them, completing the North-American FTA (NAFTA). The NAFTA came into force in 1994. • The ASEAN Free Trade Area (AFTA) was launched in 1992. The whole ASEAN area is scheduled to become a fully-fledged FTA in the coming years.
2. Customs Union (CU)	• No tariffs or quotas against member countries. • Common external tariff.	• The European Economic Community (EEC) was created in 1957. The EEC disappeared in 2009 via the Treaty of Lisbon and merged as the European Union (EU). • The Southern Common Market (Mercosur, 1991) and the Andean Community of Nations (ACN, 1969) are incomplete CUs.
3. Common Market (CM)	• No tariffs or quotas against member countries. • Common external tariff. • Free factor movement, including labor.	• The EU was created in 1993 by the Maastricht Treaty.
4. Economic and Monetary Union (EUN)	• No tariffs or quotas against member countries. • Common external tariff. • Free factor movement, including labor. • Harmonization of economic policies and single currency.	• The European Monetary Union (EMU) and the euro were established in January 1999.
5. Total Economic Integration (TEI)	• No tariffs or quotas against member countries. • Common external tariff. • Free factor movement, including labor. • Harmonization of economic policies and single currency. • Unification of monetary, fiscal, social, and counter-cyclical policies. • Requires a binding supranational organization.	• The US, which has had a federal governance system since 1789.

*Note: The provisional enforcement dates correspond to *de jure* economic regional integration, or the official signatory dates of the creation treaties. In some cases, the effective implementation of the measures specified by the integration agreements (*de facto* integration) is not finished. For instance, the AFTA, Mercosur, and ACN are *de jure* agreements because *de facto* integration has not been achieved yet, and thus, they are incomplete FTAs and CMs.
Source: Adapted from Balassa (1961a); Dorrucci, Firpo, Fratzscher, and Mongelli (2004); Essien (2014)

Table 4: *Balassa's stages of economic integration.*

	FTA	CU	CM	CUN	TEI
No tariffs or quotas	X				
Common external tariff	X	X			
Free flow of factors	X	X	X		
Harmonization of economic policies	X	X	X	X	
Unification of politics and political institutions	X	X	X	X	X

Sources: Balassa (1961a); Suarez (2009).

Table 5: *Stages of economic integration and removal of discrimination.*

it cannot be used to study the South American integration project properly. Indeed, the Unasur does not fit in any of the defined stages of economic integration: it is neither an FTA nor a CM, even if it encompasses an FTA (ACN) and a CM (Mercosur).[22] Balassa's theory is adapted correctly to the European case because it was conceived by studying it. Notwithstanding, while the European case is an economically driven regional integration process, the South American one is politically driven. More than an economic grouping, the Unasur is a space for political discussion among congregating countries that historically have formed a number of FTAs and an incomplete CM. As far as regional economic integration is concerned, it is notable that further evolution toward superior stages (in the sense of Balassa) would require a significant level of political agreement. Therefore, the Unasur acts as a powerful ally of economic integration, that is, political measures, detailed in Section 3, spill over to the economic sphere.[23] In summary, Balassa's traditional framework is not applicable to all regional integration projects owing to the driving forces of specific cases.

3.3 Political integration

International political integration can be understood as a characteristic aspect of an international integration process through which groupings are created between nations without the use of violence (Lindberg, 1970). According to Lindberg (1970), nations group together because of i) feelings of mutual amity, confidence, and identification (social community); ii) expectations that common problems will be resolved without recourse to large-scale violence (secure community); or, iii) the existence of intense concentrations of economic exchange or free circulation of productive factors (economic integration). It is said that political integration occurs if these linkages trigger or are the result of joint participation in ongoing decision making. Following this reasoning, political integration, as part of a more inclusive process—in this case, regional integration can be defined as *"the evolution over time of a collective decision-making system among nations"* (Lindberg, 1970). Such a definition implies that the governments of the member countries forego part of their sovereignty and decision-making autonomy in order to create and use common resources to be committed in the pursuit of common objectives.

As the actual world is divided politically into autonomous but interdependent nation states, a number of principles, practices, and common institutions are needed for organizing such international political integration into a regional order (e.g., defining collective norms that are binding on the states, and setting rules directly applicable to private players). In other words, a key role is played by regional governance (or governance without government (Rosenau and Czempiel, 1992))—defined as the "sum of the many ways that individuals and institutions, public and private, manage their common affairs" (O'Brien, Goetz, Scholte, and Williams, 2000).[24][25]

[22]The ACN includes Bolivia, Colombia, Ecuador, and Peru. The Mercosur includes Argentina, Bolivia, Brazil, Paraguay, Uruguay, and Venezuela. The Unasur includes all Mercosur and ACN members, in addition to Chile, Suriname, and Guyana.

[23]Note that the political component is also the driver of business cycle co-movements (Alesina, Mirrlees, and Neumann, 1989; Chang, Kim, Tomljanovich, and Ying, 2013; Jackman and Moore, 2008).

[24]An alternative definition of governance is that of Pascal Lamy, former director-general of the WTO, who understands governance as the "set of transactions allowing the formulation, determination, legitimization, implementation of collective norms and rules, as well as controlling their compliance" (Jacquet, Pisani-Ferry, and Tubiana, 2002, CAE's Report).

[25]The term regional governance is used to describe a multiplicity of public and private actors involved before (agenda setting) and after (implementation) of decision making. These actors are more or less integrated into networks, and thus, maintain non-hierarchical relationships.

The foregoing of national sovereignty and decision-making autonomy in order to evolve further toward regional integration is at the core of the current debate on economic integration because the European sovereign debt crisis has revealed that a monetary union cannot work without a political union (Fligstein, Polyakova, and Sandholtz, 2012; Issing, 2011; Sapir, 2011). Consequently, the *economic integration–political integration* relationship is key for regional integration. Such is its importance that the interdependence of economic and political aspects has been stressed since very early in the regional integration debates. Already in 1841, Frederick List affirmed that economic union and political union are inseparable. In 1889, Vilfrido Pareto, at the Peace Congress at Rome, asserted that economic integration must lead to political integration. His argument is that CUs and other international economic organizations constitute powerful instruments for improving political relationships. Moreover, according to Paul P. Streeten (1961), political and strategic motivations are more important than strictly economic ones. Even Balassa, whose contributions focus mostly on the economic factors of integration, states categorically that political interests can determine the first step towards integration, but the economic objectives also influence politic matters: if the initial motivations are economic, the need for political unity can appear in a subsequent stage—for example, when establishing a common external tariff (CU stage), when adopting a common economic policy and single currency (economic union stage), and when instituting a federalist system (total economic integration stage) (Balassa, 1961a).[26]

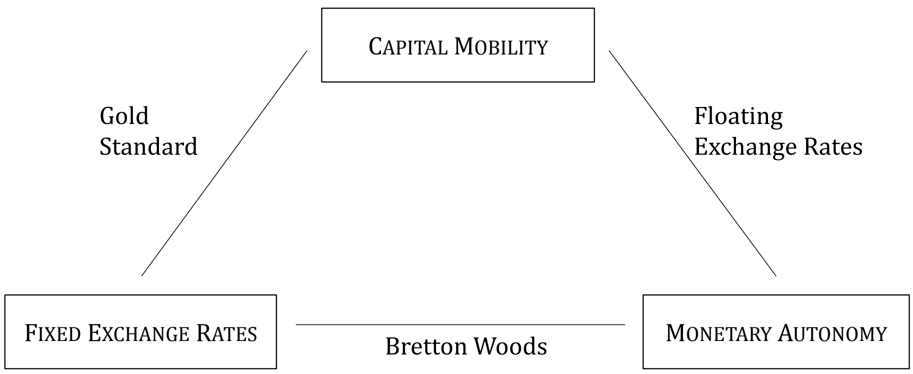


Figure 1: Standard trilemma: the open economy trilemma.

Experience has taught us, as discussed in Rodrik (2000), that there is not full compatibility between markets becoming international (economic integration) and politics remaining local. According to Rodrik (2000), in order to be integrated perfectly, markets for goods, services, and production factors need not be restricted by political and legal jurisdictions demarcated by national borders. Indeed, a wide range of studies confirms a strikingly large effect of national borders on trade (e.g., Bayoumi and Klein, 1997; Chen, 2004; Helliwell, 1998; McAusland and Millimet, 2013). For instance, although there is an absence of significant formal tariff and non-tariff barriers, cultural or linguistic differentiation, and other economic obstacles between the United States (US) and Canada, trade between the two neighbors appears to have a depressing effect on commerce because of transaction costs generated by discontinuities in their political and legal systems.[27]

Such an incompatibility is illustrated by Rodrick 2000 using an extension to the well-known "open economy trilemma" (see Obstfeld and Taylor, 1998) or "impossible trinity"—that is, the impossibility of reconciling free trade and capital mobility, fixed exchange rates, and monetary autonomy (see Figure 1)—[28]which he calls *"the political trilemma of the world economy"* or *"the augmented trilemma."*

Figure 2 displays Rodrik's political trilemma. It is possible to have at most two of the following

[26]Viner (1950) is among the few who disagree; he considers that CUs are primarily "non-political institutions."

[27]The difference of political and legal jurisdictions across the national borders of trade partners could generate inadequate contract enforcement and thereby impose drastic costs on trade (see Anderson and Marcouiller, 1999, for empirical evidence).

[28]The term "impossible trinity" is used commonly to state the possibility of having at most two of the three following features: total capital mobility and free trade, fixed exchange rates, and monetary autonomy.

three situations: international economic integration, the nation state, and mass politics (see Figure 2 for the definitions of these three options).

According to this dilemma, total international integration is compatible either with nation states or with mass politics. In the first case, the choice is between total economic integration and the nation state, or the *"Golden straitjacket."*[29] In order to achieve total economic integration, the domain of national politics would be significantly restricted so that national jurisdictions would not distort economic transactions (i.e., national politics would restrain the working of democratic mechanisms significantly). In the second case, the choice is between total economic integration and mass politics, or *"Global federation,"* and the attainment of full international integration would be feasible owing to the institution of global federalism that eliminates a "border effect" and accords jurisdictions with the market. The former situation illustrates the necessity for political integration in order to move forward to economic integration.[30] Because the third option of this political trilemma, that is, the choice between the nation state and mass politics, or the *"Bretton Woods compromise,"* leaves out economic integration entirely, it is out of the scope of this study. Moreover, the technological improvements in communications and transportation required for the current globalized era make it very unlikely that a region would be faced with this choice, shown in Figure 2.

The US and EU systems offer closer illustrations of the "Global federation" and "Golden straightjacket" situations, respectively (see Rodrik, 2012). Of course, they are regional situations rather than global ones.[31]

Rodrik's abovementioned reflection supports the argument that regional integration needs to reflect both economic and political aspects. Furthermore, regional governance is needed for organizing purposes. Thus, Balassa's stages of economic integration offer a restricted method of analysis. Indeed, as asserted by the Jacquet, Pisani-Ferry, and Tubiana (2002, CAE's report) at a global level, the analysis of a regional economic order should be based on two dimensions, namely, *integration* (horizontal axis in Figure 3) and *solidarity* (vertical axis in Figure 3). As far as governance is concerned, the former dimensions may be associated with two views of the economic order. The first emphasizes the establishment of stable game rules so that the free-market ideal can be fulfilled. To do so, regional governance removes political considerations. On the contrary, the second view assumes the existence of common economic and non-economic objectives. Thus, regional governance is an extension of the policy of national governments (as detailed in section 3, this appears to be the case of the South American integration initiative).

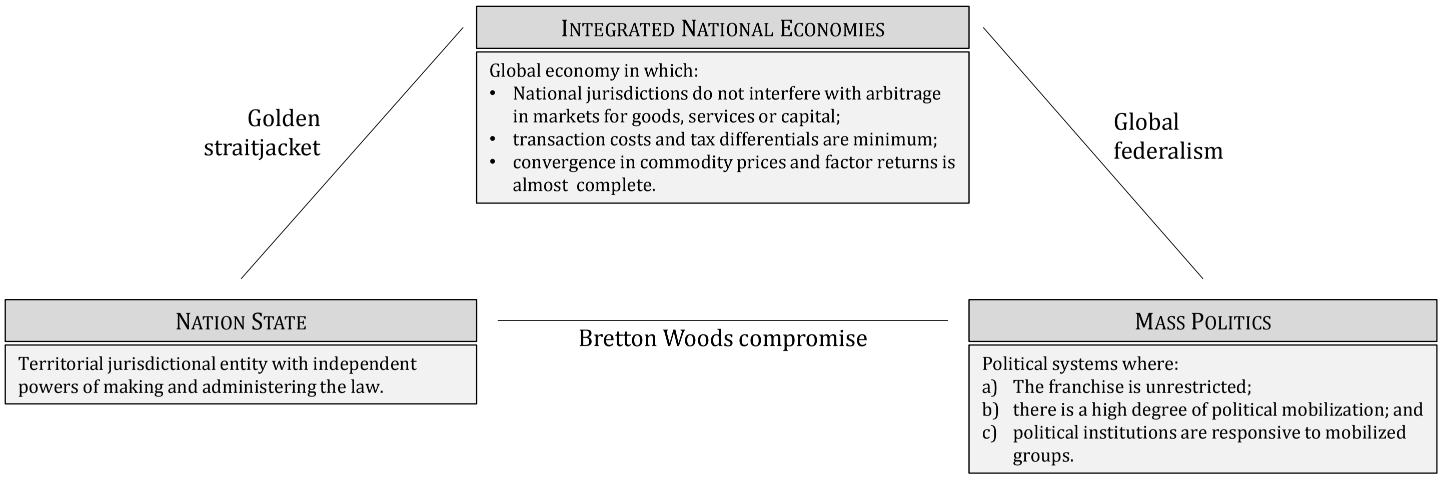
On this basis, two traditional models and three emerging modalities of governance have been developed in the literature. As summarized in Figure 4, the traditional models, *institutionalized cooperation*, in which nation states organize themselves in order to achieve their objectives cooperatively, and *federal regional government*, which corresponds to Rodrik's federalism, are characterized by a large political component and represents progressive forms of cooperation. The emerging modalities, *the network of independent authorities*, or cooperation at an institutional level (e.g., the Governing Council of the European Central Bank), *law outside the framework of a state*, which emphasizes the capacity of jurisprudence to produce a set of norms using a narrow legal base (e.g., the WTO's Dispute Settlement Body and the Unasur Constitutive Treaty), and *private self-regulation*, which is applied by default to sectors that are not publicly regulated, are being debated as alternative options because the traditional models are no longer adapted to the global reality (Jacquet, Pisani-Ferry, and Tubiana, 2002, CAE's Report). However, the regional reality is somewhat different. For instance, federalism does work in the US and institutionalized cooperation appears to be the chosen alternative in emerging and developing regions, such as South America. It is noteworthy, however, that the regional reality is not independent of the global one. Therefore, like in all regions in the world, some sectors of the South American continent actually apply more than one of the emerging models of governance.

Certainly, the real world exists somewhere in between the three parts of the political trilemma (Figure 2) and combines several governance modalities, notably, emerging countries (Figure 4). To

[29]The choice between total economic integration and the nation state was named the *"Golden straitjacket"* by Friedman (1999). In this case, while markets become international, the maintenance of national jurisdiction sovereignty causes politics to be exerted over a much smaller domain.

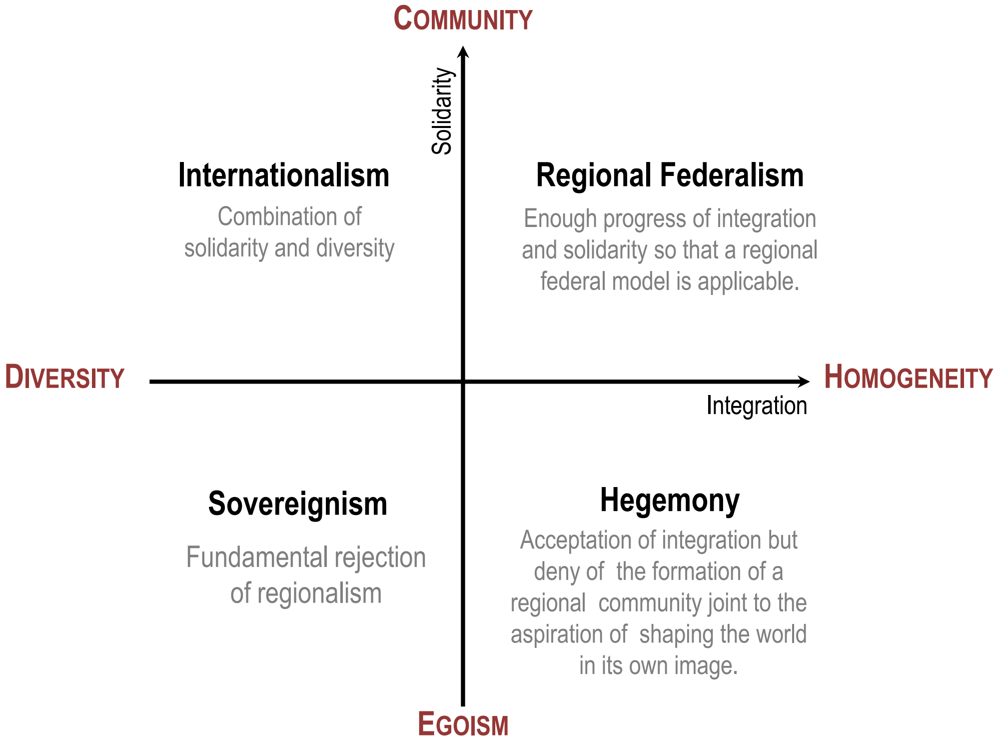
[30]See Rodrik (2000) and Rodrik (2012) for further details on the "political trilemma of the world economy."

[31]In addition, this topic is debated at a governance level, as in Rodrik (2012). Such a debate is out of the scope of this thesis.



Source: Author's elaboration based on Rodrik (2000)

Figure 2: Augmented trilemma: the political trilemma of the world economy.



Source: Author's elaboration based on Jacquet, Pisani-Ferry, and Tubiana (2002, CAE's Report)

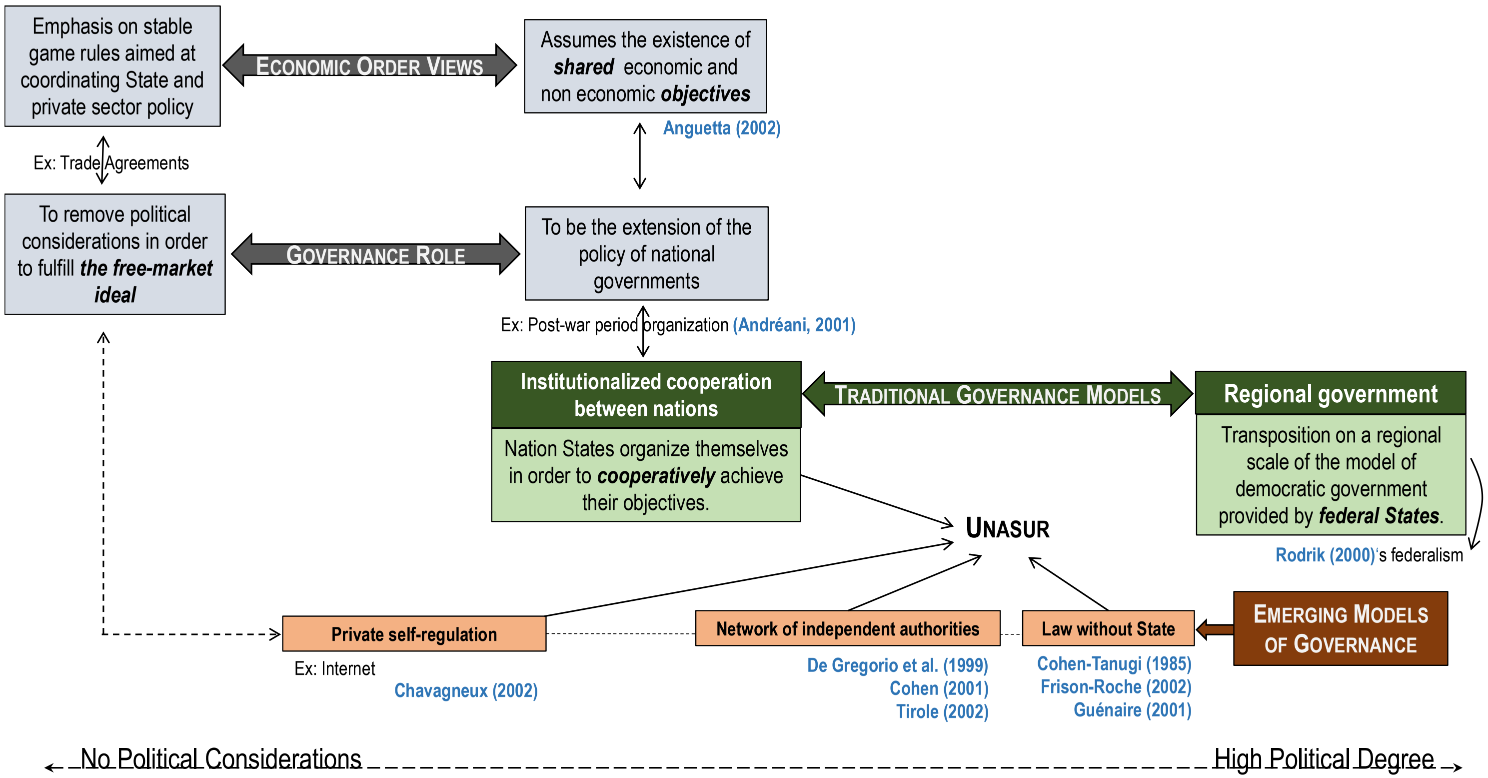
Figure 3: Two dimensions of the economic world order: "integration" and "solidarity"

which side the worldwide trend will lean is an open question and will probably remain so for a long time. Notwithstanding, at a regional level, the debate is alive and well, and aims to establish strategies to overcome the economic and financial difficulties triggered by the "Great Recession"—that is, the US financial meltdown, the Eurozone debt disaster, and subsequent global financial stress.[32] Indeed, not only European countries, which were strongly affected by the European sovereign debt crisis (Lane, 2012), but also African, American, and Asian regional groupings are discussing the need to make both political and economic decisions to face the crisis together.[33] For instance, the French political scientist Alain Rouquié, in his speech on "Latin America after the Crisis," emphasizes the importance of regional integration during periods of crisis and asserts that *"the time has come to realize that global is inefficient, the nation-State is insufficient and (...) regional is indispensable."*[34] Manifestly, the role of political integration in regional integration is key and the relationship between between political integration and economic integration is narrow.

[32]The term "Great Recession" is used to refer to the general economic downfall observed in world markets since the US subprime mortgage crisis and financial crisis of 2007–08 spread all over the world. The term "Great Recession" was adopted because this crisis is the most intense economic-financial turmoil since the 1930s "Great Depression" (see Almunia, Bénétrix, Eichengreen, O'Rourke, and Rua, 2010; Eichengreen and O'Rourke, 2010; Krugman, 2009; Reinhart and Rogoff, 2014, for parallels between the Great Depression and Great Recession).

[33]The European crisis began as a liquidity crisis (2007–2009), and subsequently, transformed into a solvency crisis. The European sovereign debt crisis revealed the necessity to implement common financial regulation measures by adopting a new kind of governance when a high degree of regional economic integration is achieved. Indeed, as asserted by De Grauwe (2012), when entering a monetary union, countries become fragile and vulnerable to changing market sentiments. According to him, the new European governance structure, the European Stability Mechanism, does not fully acknowledge such fragility. Thus, it is necessary for the region to take collective action, for instance, budgetary unification (De Grauwe, 2012) and political integration (Lane, 2012), suggesting a further evolution towards federalism.

[34]On June 9, 2009, Alain Rouquié gave an address at ECLAC headquarters in Santiago, Chile during the conference "Latin America's Regional Option after the Crisis."



Source: Author's elaboration based on the Jacquet, Pisani-Ferry, and Tubiana (2002, CAE's Report)

Figure 4: Regional governance: from cooperation towards federalism.

3.4 Physical integration

Physical (or infrastructure) integration is the *coordinated provision of infrastructure and its services—e.g., construction of communication channels by connecting transport, energy, and telecommunications networks at a regional level, among two or more neighboring nations' governments, resulting in further regional economic interdependence.*[35] Physical integration is the third, and less talked-about, aspect of regional integration, and yet, it generates a number of economic dynamics. For instance, as most of the studies reveal, public investment in national infrastructure not only impacts productivity (e.g., Canning, 1999; Cohen and Morrison Paul, 2004; Rioja, 1999)[36] and economic growth (Canning and Pedroni, 2008; Pradhan, Arvin, Norman, and Bele, 2014; Sahoo and Dash, 2012),[37] but also indirectly benefits economic integration in a number of ways. As argued by Bougheas, Demetriades, and Morgenrot (1999, 2003), a large part of government investment allocated to improving and expanding communication and transportation networks is aimed to reduce trade costs and facilitate trade of goods. Consequently, *"infrastructure spillovers"* originate, meaning that such a transportation cost reduction favors trade of goods both within and across national borders. Therefore, both home and foreign producers and consumers are likely to profit from any infrastructure investment by the domestic country. Thus, such "infrastructure spillovers" influence economic integration. There are good reasons to accept the validity of the former reasoning beyond the simple observation of the real world, as follows.

Box 3.3. *What is Infrastructure?*

Numerous possible definitions have been conferred on the term infrastructure or "social overhead capital." From an economic standpoint, the most sensible definition is *large capital-intensive natural monopolies, such as highways and additional transportation amenities, communications systems, and water and sewer lines.* Because these systems can be owned publicly or privately, an alternative definition is *the publicly owned tangible capital stock only.* Broader definitions include progressively *human capital investment and research and development capital* (Gramlich, 1994).

Papers dealing with infrastructure issues cite the World Development Report 1994 extensively. It focuses on economic infrastructure, including: *public utilities* (power, telecommunications, piped water supply, sanitation and sewerage, solid waste collection and disposal, and piped gas); *public works* (roads and major dam and canal works for irrigation and drainage); and *other transportation sectors* (urban and inter-urban railways, urban transport, ports, waterways, and airports).

As there is no widely consensual definition, unless otherwise stated, this thesis focuses on *economic infrastructure*, including transport, energy, and telecommunications.

On the one hand, the role of infrastructure in determining transportation costs, and thereby trade volumes, is well reported by the empirical literature (e.g., Francois and Manchin, 2013; Limao and Venables, 2001; Shepherd and Wilson, 2006). Indeed, particularly in the case of developing countries, a trade enhancement does not depend exclusively on tariff reductions (WTO, 2011). In addition, tradesmen face other beyond-border and at-border trade costs, such as transit bottlenecks, onerous procedures, and inefficient communication networks. Such trade amenity constraints significantly affect trade volumes (Limao and Venables, 2001; Portugal-Perez and Wilson, 2012; Wilson, Mann, and Otsuki, 2003, 2005). Then, there is evidence that overcoming these trade limitations procures higher trade gains than a lessening of trade policy barriers (e.g., Anderson and van Wincoop, 2003; Hoekman and Nicita, 2010, 2011).

On the other hand, evidence for the existence of infrastructure spillovers has been provided using US and EU country data. Concerning studies focusing on the US, Cohen and Morrison Paul (2004) and Pereira and Andraz (2010) provide evidence that public *highway infrastructure* investments cause significant inter-state spillovers, notably for regions that are highly integrated economically (Pereira and Andraz, 2010). However, Cohen and Morrison Paul (2003)'s findings suggest that the expansion of *airport infrastructure* in one state positively affects both own-state manufacturing output and the production of the other states connected to it by the air transport network. With regard to EU nations,

[35] See Table 3.3 for a detailed definition of the term "Infrastructure".

[36] Literature surveys by Gramlich (1994), Sturm and De-Haan (1995) and Sturm, Kuper, and De-Haan (1998) identify a number of studies that provide evidence for the existence of a strong productive effect of public infrastructure investments.

[37] See Romp and de Haan (2007) for a complete survey including early works.

Del Bo and Florio (2008) support the view that investing in the overall infrastructure network of road and railways, including 262 European regions, yields a positive and significant return.[38]

Although the investment in transportation infrastructure is most likely to influence regional integration positively, investments in all kinds of infrastructure facilities, notably, energy, and telephone and internet networks, may indirectly benefit integration, primarily between neighboring regions, even if separated by national borders. Such an indirect benefit arises in the form of an externality. Indeed, as noted by Canning (1999), not only transportation but also communication (e.g., telephone and internet) infrastructure may interconnect markets and expand competition levels. For instance, as a pure externality, better communication networks may improve the degree of diffusion of technology, increasing output without necessarily increasing the demand for infrastructure use. Alternatively, two monopolists in different markets may reduce their prices once the connectivity between markets improves, even if no movement of a good between markets actually takes place.

The last piece of evidence suggests that a pure unilateral investment in infrastructure generates a number of dynamics for pro-integration. If this is the case, coordinated provision of infrastructure is likely to result in stronger benefits in terms of integration. Indeed, Figuières, Prieur, and Tidball (2013), by dynamically analyzing a two-country general equilibrium endogenous growth model, concludes that when two governments strategically supply productive infrastructure, the countries tend to converge to the same balanced growth path (i.e., their growth rates are identical on the balanced growth path), despite the fact that they exhibit heterogeneous preferences and technologies.[39] Furthermore, the authors compare the case of cooperative financing of public investment in infrastructure in one country with centralized financing in another country, and conclude that when the two countries have different balanced growth rates and do not display consumption home bias, cooperation reduces the gap between their growth rates, meaning that they converge.[40]

Apart from evidence on the impacts of infrastructure investment on integration, a rich body of literature suggests that adequate provision of infrastructural services is a key component of the economic development of nations (e.g., Calderón and Servén, 2010; Duffy-Deno and Eberts, 1991; Kandilov and Renkow, 2010; Kim, 2014). This is crucial for regional integration among developing countries because, as noted in Section 2, developing countries have perceived regional integration traditionally as a development strategy. Therefore, physical integration has the potential to not only increase economic integration, and thereby regional integration, but also to drive developing countries towards their development aims.

After the *World Development Report 1994* (WDR-94) identified that the citizens of developing countries continued to lack proper infrastructure services, despite increases in investment in new infrastructure, it became evident that not only the quantity of infrastructure stock needed to increase but also the quality of infrastructure services needed to improve. Indeed, the WDR-94 asserts that inefficient and wasteful provision of infrastructure services, inadequate maintenance of the infrastructure stock, and misallocation of new infrastructure project investment are key hindrances for development. Moreover, it is widely recognized that a serious obstacle for regional integration between developing countries, notably those in Africa and Latin America, is deficient and sparse regional infrastructure networks, such as sparse road and rail networks with significant missing links and important operational capacity problems; congested and inefficient regional ports; deficient electricity supply; and sparse access to information and telecommunications technology (Kessides, 2012). Such constraints and bottlenecks increase cross-border transaction costs, and thus, restrict competitiveness and economic growth (Baldwin, 2006; De Melo, Montenegro, and Panagariya, 1992; Kessides, 2012).

[38] This is probably why the financing of infrastructure projects and the coordination of public investment by EU members appears to have been one of the four priorities of the Lisbon strategy 2000–2010 (Lisbon European Council, 2000). As part of the Lisbon strategy 2000–2010, the Trans-European Transport Network (TEN-T) was created by European policymakers. The TENT-T include the railway axis connecting Berlin, Verona, Milano, Bologna, Napoli, Messina, and Palermo and the high-speed railway axis linking Paris, Brussels, Koln, Amsterdam, and London.

[39] This result holds only under the assumption of constant returns to scale.

[40] Button (1998) surveys earlier studies contributing to the debate on how endogenous growth and infrastructure availability interact and how such interaction influences the natural potential for regional economic convergence of endogenous growth processes.

Box 3.4. *Why is physical integration important?*

The ECLAC identifies a number of reasons why it is important to address physical integration at a regional level. Among others, physical integration

1. permits effective economic and political integration (without infrastructure, neither of these aspects of integration would be possible);
2. is crucial if greater social equity is to be achieved and asymmetries among countries are to be reduced;
3. has ample potential to foster unity, peace, and development;
4. allows countries to solve shared problems jointly, such as physical bottlenecks, missing communication segments, and trade obstacles, while at the same time stimulating the creation or reorganization of productive chains, facilitating more competitive participation in the world's major markets, favoring the harmonization of public policy and regulatory frameworks among countries and sectors, fostering the development of geographically isolated areas, bringing about decentralized development, and reducing trade and distribution costs, and so on;
5. promotes decision making based on mutual gain for participating countries, allowing them to move beyond possible political or diplomatic differences in order to make progress in concrete matters;
6. more actively incorporates the participation and input of local governments and the private sector, through the process of developing, financing, building or operating physical integration projects.

In summary, infrastructure not only increases productivity and lowers production costs, thereby extending trade of goods and services, it also facilitate development and regional integration, particularly when combined with coordinated behavior in its provision. Therefore, the role of physical integration is key for regional integration. Indeed, according to the ECLAC, *"developing infrastructure projects within a framework of regional integration policies permits the internationalization of the infrastructure services provided, contributes to the countries' economic, political and social integration, and helps make up for some of the shortfalls in certain natural resources that may affect some countries"* (ECLAC, 2009, ; p. 2).

Box 3.4 summarizes the reasons why physical integration is important for regional integration identified by the ECLAC.

4 Conclusion

The sustainability of economically integrated zones is at the core of a debate since the recent euro debt crisis revealed flaws with the European Monetary Union (Lane, 2012), and yet, a number of new economic associations have been formed since the early 1990s. The debate has highlighted the major role of political integration (Fligstein, Polyakova, and Sandholtz, 2012; Issing, 2011; Sapir, 2011), notably the necessity for political unification in order to complete the process of economic integration.

Based on the South American integration project, this paper proposed a novel approach for dealing with regional integration issues that include not only political matters but also physical aspects. More specifically, this article proposed to analyze any regional integration project from three complementary angles, namely: economic integration, political integration, and physical integration. Moreover, it argues that political and physical integration constitute a preliminary, or contemporaneous, step toward economic integration, and not a final stage, as the current debate proposes. In other words, a zero-stage in (Balassa, 1961b)'s theory of economic integration is needed to enable the long-term sustainability of a regional bloc.

As detailed in Section 3.2, there is very rich literature on economic integration. Each one of (Balassa, 1961b)'s stages has been the object of numerous studies and the European region is by far the most studied. In fact, the theory of economic integration was conceived from the construction of the European integration project. Thus, the natural belief is that political integration follows economic integration and completes it. Contrary to this view, by considering the South American experience, this paper suggests that literature on regional integration should analyze the potential pro-economic integration outcomes of organizing political and physical integration instead of focus exclusively on economic integration. As surveyed in Subsection 3.3, the economic integration–political integration relationship is well documented in the literature. Political integration is key in regional governance debates. Completing economic integration with political unification creates a regional governance dilemma (Rodrik (2000)'s political trilemma). The Unasur have dealt with such a dilemma since the beginning of its integration project by creating institutionalized cooperation (as exposed by Figure 4–Subsection 3.3). The physical integration–economic integration relationship is the proposed novel dimension of regional integration. As shown in Subsection 3.4, the coordinated provision of public infrastructure is very likely to cause "infrastructure spillovers" for economic integration.

The argument defended here about the pro-economic integration potential of taking political and physical integration measures must not be interpreted as a claim against the importance of taking economic measures. While the actual political- and physical- integration efforts are certainly laying the groundwork for the creation of a sustainable economically integrated bloc, economic integration efforts are also needed in order to attain complete regional integration. Political and physical aspects are proposed as first, or complementary, stages and do not replace any economic integration measures. The discussion about which of the three dimensions, economic, political, or physical, should be privileged is out of the scope of this paper. However, its is clear that, for the Unasur to continue progressing toward elimination of regional discrimination and asymmetries, economic integration policies must also be adopted.

In general, this paper states that a new outlook is need for integrally evaluating regional integration. The three dimensional proposal is justified to be a good option. Thus, researchers' efforts should concentrate on this.

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