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Miami-Florida European Union Center of Excellence

Towards a New Design of South American Integration?

Félix Peña



**Special
January 2013**

Published with the support of the European Commission

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Miami - Florida European Union Center

University of Miami
1000 Memorial Drive
101 Ferré Building
Coral Gables, FL 33124-2231
Phone: 305-284-3266
Fax: (305) 284 4406
Web: www.miami.edu/eucenter

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***Towards a new design of South American integration?:
Factors that affect its layout and criteria to judge its sustainability***

By Félix Peña*

Abstract:

The design of South American integration is becoming different. This has been quite common in the trajectory of over six decades of initiatives aimed at generating institutional frameworks to facilitate regional integration. However, even when it has become apparent that the previous design is undergoing a new process of change, it would be difficult to predict for how long the one that is beginning to take shape will remain in effect. The experience of recent decades suggests great caution in forecasts that are optimistic about any eventual longevity.

Several factors are contributing to this redesign. Some are external to the region while others are endogenous. The combination of these factors will influence the future design of South American integration. If past lessons are correctly capitalized and certain advantage is derived from the leeway provided by a decentralized international system with multiple options, we can anticipate that what will predominate in the region will be multidimensional integration agreements (with political and economic objectives at the same time) and with cross-memberships and commitments.

If this were the case, the actual impact on regional governance, social and productive integration and the competitive insertion at a global scale will depend largely on the following factors: the quality and sustainability of the strategy for development and global and regional insertion of each country; the combination of a reasonable degree of flexibility and predictability in the commitments made and their corresponding ground rule, and the density of the network of cross-interests that can be achieved as a result of the respective regional integration agreements, reflected in multiple transnational social and production networks.

(*) Félix Peña is Director of the Institute of International Trade at the Standard Bank Foundation. Director of the Masters Degree in International Trade Relations at Tres de Febrero National University (UNTREF). Member of the Executive Committee of the Argentine Council for International Relations, (CARI). Member of the Evian Group Brains Trust. His website address is: www.felixpena.com.ar

On the occasion of the recent Mercosur summit held in Brasilia on December 7¹, the Protocol for the incorporation of Bolivia to the sub regional integration scheme originated in the Treaty of Asuncion of 1991 was signed². Since 1997 Bolivia has been linked to Mercosur by an Economic Complementation Agreement (ACE n° 36)³. In 2011, the value of its exports to Mercosur countries was 4,120 million dollars. However, if natural gas is excluded, the value was just \$ 232 million⁴.

Also at the Brasilia Summit it was announced that ongoing talks with Ecuador continue to explore the possibility of its incorporation as a full member. It is currently linked with Mercosur by ACE No 59⁵. Upon entry into force of the Protocol signed with Bolivia in Brasilia and if negotiations culminated in the incorporation of Ecuador, Mercosur would then have seven members.

In turn, Colombia (linked to Mercosur by the abovementioned ACE No 59), Chile with significant trade and investment flows, especially to Argentina and Brazil and with preferential trade ties with Mercosur through ACE No 35⁶ and Peru with preferential trade links to Mercosur countries through ACE No 58⁷, have a strong economic relationship with Mercosur countries and share with them both the membership in ALADI and UNASUR.

In any case, the incorporation of Bolivia to Mercosur –as was the case before with Venezuela– shows that the design of South American integration is changing gradually. The fact that Bolivia believes it can maintain both its membership in the Andean Community and Mercosur, although it anticipates complex technical problems given the nature of both agreements, could also be regarded as a preview of future times.

To this we must add the progress –still difficult to appreciate in the density of real commitments– in the development of the Pacific Alliance. The participation of Mexico, Chile, Colombia and Peru, gives it a Latin American scope that maximizes its unquestionable

¹ Ministry of Foreign Relations of Brazil, “*Joint Statement of the Presidents of the Mercosur states - Brasilia, December 7, 2012*” Note 323. 7 Dec 2012. <http://www.itamaraty.gov.br/sala-de-imprensa/notas-a-imprensa/comunicado-conjunto-dos-presidentes-dos-estados-partes-do-mercosul-brasilia-7-de-dezembro-de-2012>

² Ministry of Foreign Relations of Brazil. “Protocol of Accession of the Plurinational State of Bolivia to MERCOSUR” Note 321. 7 Dec. 2012. <http://www.itamaraty.gov.br/sala-de-imprensa/notas-a-imprensa/protocolo-de-adesao-do-estado-plurinacional-da-bolivia-ao-mercosul>

see a review in the Journal of INAI mentioned in the Recommended Reading section of this Newsletter

³ Latin American Association for Integration. “Economic Complementation Agreement” <http://www.aladi.org/nsfaladi/textacdos.nsf/vacweb?OpenView&Start=1&Count=800&Expand=12#12>

⁴ IBCE. “Commercial Relations Bolivia-Mercosur” No 178. 29 Nov 2012

http://www.ibce.org.bo/informacion-mercados/descarga_ibce_cifras.asp?id=106&idsector=5

⁵ Latin American Association of Integration. “Partial - Economic Complementation” *ALADI* <http://www.aladi.org/nsfaladi/textacdos.nsf/vacweb?OpenView&Start=1&Count=800&Expand=27#27>

⁶ Latin American Association of Integration. “Partial - Economic Complementation” *ALADI* <http://www.aladi.org/nsfaladi/textacdos.nsf/vacweb?OpenView&Start=1&Count=800&Expand=11#11>

⁷ Latin American Association of Integration. “Partial - Economic Complementation” *ALADI* <http://www.aladi.org/nsfaladi/textacdos.nsf/vacweb?OpenView&Start=1&Count=800&Expand=26#26>

projection to Asia and the Pacific through the membership of this four countries to the trade agreement being negotiated under American leadership (the TPP).

The aforementioned modifications appear to be deep and will probably continue in the future. However they have not yet acquired a stable profile. This has been common in the history of more than six decades of initiatives aimed at creating institutional frameworks with the objective of facilitating regional integration. Integration understood as something more complex than the increase in reciprocal trade. Integration understood, therefore, as a possible result –at least a desirable one– of a voluntary process developed between sovereign nations with multidimensional objectives. These are objectives related to securing peace and political stability among participating nations –as a necessary condition for the governance of the regional geographic space–, as well as to connecting its markets through different types of preferential measures, compatible first with the rules of GATT and then the WTO and, in particular, with the rules of LAIA (ALADI), the main framework of preferential trade in the Latin American region. They are also designed to stimulate, aside from reciprocal trade, productive investments in each country in relation with the expanded markets generated by the respective agreements and, in particular, to encourage transnational networks of productive integration.

Some of these institutional frameworks have had a Latin American scope, such as the Latin American Free Trade Association (LAFTA-ALALC) and later the Latin American Integration Association, still in force. Others have had a sub-regional scope, such as the Central American Common Market (MCCA) and later the Central American Integration System (SICA) in Central America, the Caribbean Community (CARICOM) in the Caribbean, and the Andean Community of Nations (CAN) and later Mercosur in the South American space.

Precisely the gradual dilution of the CAN –that had previously been the Andean Group– and now the metamorphosis of Mercosur, are helping to delineate what will likely be the new design of regional integration in the South American space. To both schemes we should add, of course, UNASUR, which together with ALADI and the Community of Latin American States (CELAC) will help boost integration agreements as well as contain any eventual fragmentation effects that may arise in the region.

But while it seems certain that the previous design of South American integration is undergoing a process of change, it will be difficult to predict how long the one that is beginning to take shape will remain in effect. The experience of recent decades suggests great caution in any optimistic forecasts regarding its eventual longevity.

Several factors are contributing to the redesign of South American integration. Some are external to the region, while others are endogenous.

As for the external factors, three are worth mentioning, although not the only ones:

- The paralysis suffered for quite some time by the multilateral trade negotiations of the Doha Round within the scope of the World Trade Organization (WTO). Even when in Geneva the fire is being kept alive, there is marked skepticism about the possibility of restoring this multilateral negotiation process of global scope. There is no evidence of a sufficient political will to relaunch such negotiations in relevant countries due to their impact on world trade. Such is the case in particular of the United States.

- The increasing proliferation of negotiations aimed at creating “private clubs” in international trade that are the result of various forms of preferential agreements, all of them with a discriminatory scope for countries that are not members, even when they belong to the WTO. Recent examples include the *Trans-Pacific Partnership (TPP)*, led by the United States and that gathers together eleven countries including Chile, Colombia, Peru and Mexico in Latin America. Japan and Thailand have anticipated their intention to join in as well (negotiations are expected to conclude in October 2013). Another example is the *Regional Comprehensive Economic Partnership (RCEP)*. On November 20, 2012 was announced the start of the negotiations between ASEAN member countries and the six countries which already linked through different types of free trade agreements, which are China, Japan, South Korea, India, Australia and New Zealand and whose aim is to conclude negotiations in 2015. A third example is the free trade agreement between China, Japan and South Korea, whose negotiations would begin at the start of 2013. To this we must add, among others, the free trade agreements being negotiated by the European Union with Canada, India and now Japan, as well as the eventual delayed association agreement with Mercosur. Moreover, in recent months the idea of a possible free trade agreement between the European Union and the United States has been reinstalled on both sides.

- The fact that the growing trend towards the development of transnational value chains generates a greater demand for the facilitation of trade and investments – in all the possible derivations of this concept– and of ground rules that are favorable for the development of transnational business strategies involving productive investments in many countries. The perception that it might be difficult to imagine any rapid progress on the Doha Round negotiations would encourage the development of new forms of agreements between groups of countries, all of them aimed at reaching objectives in terms of trade and investments that go beyond what has been achieved –or could be achieved– in the framework of the WTO. As we have stated on other occasions, the problem is that this could intensify the fragmentation of the multilateral world trade system and that the subsequent erosion may also have systemic geopolitical connotations that would not help in securing global governance, understood as the prevalence of conditions conducive to peace and political stability in international relations⁸.

As for the endogenous factors to the South American region, the following are the most relevant:

- The accumulation of frustrated experiences, richer in their expectations and even in their rhetoric that in the actual fulfillment of the agreed commitments. Perhaps the fact that it is difficult for citizens of a South American country – the same applies for the wider Latin American space– to relate their level of well-being and, in particular, their jobs with the effects derived from an integration process, be it the CAN or Mercosur, may be the more noteworthy fact when seeking an explanation for the low credibility that the idea of economic integration between countries of the region awakens today. The fragility of the ground rules related with the opening of the

⁸ Peña, Félix “A DANGEROUS GAME? Trends towards the fragmentation of the global international trading system” *INTERNATIONAL TRADE RELATIONS NEWSLETTER*. Dec 2011.
<http://www.felixpena.com.ar/index.php?contenido=negotiations&neagno=report/2011-12-trends-towards-fragmentation-global-international-trading-system>

respective markets to reciprocal trade –especially of the countries of largest economic dimension– may be a factor that helps explain the weak impact that the major agreements have had on the productive integration of the region. This results in the differences observed in the development of transnational value chains between the countries of Asia and those of South America.

- The greater freedom to develop joint actions between countries of the region with the aim of ensuring at the same time reasonable governance of the South American space –in terms of peace and political stability– and the strengthening of the linkages of the productive systems through cross-investments aimed at projecting to the world the existing capacity of each country to develop competitive goods and services. It is a freedom which is nurtured by the erosion of rigid models of economic integration and a more informed appreciation of the real scope of one of the only international legal constraints when selecting methods of integration, which is derived from Article XXIV, paragraph 8, of the GATT.
- The fact that all countries in the region, regardless of their economic size, level of development or relative power, have in today’s world many choices as to their economic –and even political– insertion in the international system. This favors a strategy of multiple alliances with commitments and memberships that can even be superimposed, as is the case today with the mentioned agreements that are being negotiated between the Asian and the Pacific countries. At the same time, it becomes difficult to imagine a South American regional construction focused on the hypothetical hegemonic leadership of one single country. This tips the balance towards collective regional leadership patterns, which will probably be of variable geometry, as will be the regional agreements that are devised. Both the European experience and the present Asian experience have much to illustrate on the dynamics of such types of collective regional leaderships.

The combination of exogenous and endogenous factors will influence the future design of South American integration. If past lessons are correctly capitalized and certain advantage is derived from the leeway provided by a decentralized international system with multiple options, we can anticipate that what will predominate in the region will be multidimensional integration agreements (with political and economic objectives at the same time) and with cross-memberships and commitments. In the perspective of the dominant regional integration orthodoxy of the past six decades, with all its variations and “closed” or “open” forms, it is possible to anticipate the predominance of heterodox models in the future.

What criteria would be possible to assess the sustainability of the new map of South American integration that is now emerging? How can citizens and those who must make decisions for productive investment in order to take advantage of the benefits offered by the integration agreements trust that the promises will be fulfilled effectively? How to prevent citizens and investors, when analyzing the announcements made on agreements often described as "historic", from concluding that these are actually "more of the same" (i.e., a "déjà vu")?

In light of the experience gained in the South American region, but also in other regions including the European, it is possible to consider that the real impact of the regional agreements that are being developed on regional governance, productive and social integration and competitive insertion at a global scale –three goals that seem to be among the most important– will depend largely on three factors: the quality and sustainability of the strategy for development and global and regional insertion of each country; the combination of reasonable

degrees of flexibility and predictability in the commitments made and their corresponding ground rules; and the density of the network of cross-interests that can be achieved as a result of the respective regional integration agreements, reflected by transnational social and production networks.

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