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Foreword

Latin American integration is a long historical process characterized by multiple projects and goals. Thus, at the time of publishing issue number 33 of *Integration & Trade Journal*, various regional integration initiatives are celebrating, or about to celebrate, important anniversaries of their creation. The 2010-2011 biennial marked the 50th anniversary of the General Treaty on Central American Economic Integration, and the 30th anniversary of the Latin American Integration Association (LAIA); also, twenty years have elapsed since the signing of the Treaty of Asunción, which launched the Southern Common Market (MERCOSUR). Also, in 2012 forty years will have passed since the Seventh Heads of Government Conference held in 1972, which decided to transform the then Caribbean Free Trade Agreement into the Caribbean Community (CARICOM). Together with these, we see some more recent developments, such as the North American Free Trade Agreement (NAFTA), the Latin American Pacific Arch (ARCO), and the Union of South American Nations (UNASUR). All these efforts aimed not only at achieving a higher regional integration but also a greater international position for the region by strengthening its ties with extra-regional partners and participating in North-South Agreements. There is no doubt that integration processes in Latin America and the Caribbean (ALC) are currently facing challenges and choices in the ever changing global and domestic environments. The need for favoring flexibility to take a pragmatic approach to these mobile targets is in open contradiction with long-term vision and strategic commitments, always implicit in integration decisions. The tension between both targets becomes noticeable when evaluating the distance covered by several regional integration schemes, and examining the challenges of regional integration with an eye to the future.

In view of the above, the *Journal* issued a call for the submission of papers that reviewed regional integration processes in Latin America and the Caribbean from two complementary perspectives. *One*, in retrospect, with the purpose of drawing up a balance of achievements *vis-à-vis* initial expectations. *The other*, of strategic importance and looking towards the future, intended to question itself about the current regional integration challenges in a world of globalization where regional relationships are also becoming more intense, and both continue to spiral upwards. In either case, the basic ideas converge, as we identify in each of them the dilemmas faced by regional integration processes and, hence, the most promising decisions and choices at the present time.

The reading public reacted with interest and generosity. This issue includes a collection of the many papers submitted, selected for their quality and because they were the most representative in terms of topics and geography. In order of appearance, the selected articles are the following:

First, *Luz María de la Mora* and *Dora Rodríguez* present an overview of regional integration and conclude that progress has been little and not consistent. However, they think that the present crisis could stimulate a renewed regional integration process as a means of reinforcing economic and social well-being. On this point, they believe that the critical items are liberalization of the regional trade in goods, services, and

investment flows; the strengthening of regional institutions; and the development of physical infrastructure to underpin integration through enhanced connectivity. Although the challenges are significant, it is also true that businessmen and investors are carrying out a quiet integration that needs an agenda and a project to supplement and consolidate it.

Second, the article of *André Biancareli* focuses on the financial aspect of South America's regional integration. The author states that, in contrast with the past, national authorities have relied on joint defense mechanisms to respond to the current international economic crisis. Therefore, he proposes to take another step towards greater regional financial cooperation in three areas: macroeconomic coordination, short-term external funding, and development funding. In the first case, he suggests to coordinate mechanisms in specific fields; in the second, to build on already existing mechanisms and supplement them; and, as regards development funding, to agree on more precise definitions of the institutions' working functions and conditions to mobilize a higher number of resources.

The third article by *Vicente Garnelo* shows the relevance of LAIA's integration model, stressing the fact that its flexible design allowed it to adapt to the different stages the member countries went through, and the difficulties they had to overcome, both individually as within the sub-regional associations. The author suggests that LAIA should continue to be relevant as a kind of public registry of preferential agreements, in view of the lack of institutional frameworks and instruments of the new integration initiatives that are required to attain their trade goals. He adds that, looking ahead, LAIA has the essential qualities for remaining operational in different scenarios, due to the variety and pragmatic nature of the instruments it contains in its stock.

A fourth article written by *Giovanni Molano Cruz* analyzes the context within which Andean integration takes place, as a first step to examine the changes sustained by economic strategies and the peculiarities which are characteristic of political reasoning. The author's historical perspective enables him to investigate the characteristics of Andean regionalism, and to educate the reader on various impediments to economic integration, and the ultimate consolidation of its institutions. According to Molano Cruz, such background data, together with the political developments of the new century, are key to understanding the difficulties the system is experiencing, despite the acknowledged value of the institutional process for political agreement, integration management, and conflict resolution.

The fifth paper, submitted by *Gabriel Molteni*, *Gonzalo de León* and *Lucía Giudice*, draws up a balance of the progress and setbacks of MERCOSUR. It reviews the bloc's foreign trade performance, underlining its main features: participation in the world trade, relevance of intra-zone trade, main asymmetries, regional trade composition and intensity. The authors state that, although regional integration can show significant progress in liberalizing trade, there are still major obstacles that have prevented making greater inroads in this area. For that reason, they state that the outstanding challenge is an imperfect customs union still containing asymmetries, significant transaction costs, and a low degree of institutional development.

The sixth paper, authored by *Amalia Stuhldreher*, complements the previous paper by analyzing MERCOSUR's joint trade policy from its inception. The paper asserts that the significant progress made in the first few years laid the foundations for MERCOSUR's

international presence, recognition by the other players, and the bloc's gradual positioning in trade diplomacy. However, with the passing of time it was clear that resorting to a symbolical policy, in which joint trade negotiations seemed to have stagnated, was no longer the answer. Looking forward, it is necessary to reconfirm the agreement and reformulate its institutional character, a process that will touch upon the complex dialectics of the relationship between sovereign states and some form of supranationality.

In the seventh article, *Debbie Mohammed* and *Chukwudi Anyanwu* explain that CARICOM should change direction towards the future. They say that it is necessary to identify new products and markets to increase the bloc's exports and, to that effect, national and regional companies should increase their competitiveness. Since technical trade barriers have a significant adverse impact on several CARICOM products, it is necessary to adopt a capacity building approach to trade with the cooperation of private enterprises and governments. A common set of standards and regulations, together with market intelligence actions, following-up and evaluating products and processes, and exchanging information and good practices, would be the ingredients of that cooperation.

Finally, the article by *Ava Marius* reviews the different stages CARICOM went through until reaching the present CARICOM Single Market and Economy (CSME). After analyzing the few changes in the bloc's foreign and intra-zone trade, she points out that the current arrangements are not yet fully effective and show a number of weaknesses. The paper stresses the impact of the rules of origin and comes to the conclusion that their suspension and the safeguards mechanism, together with the ageing structural basis used to define them, have adversely affected the integration process. For that reason, a revision of the system is essential, in her opinion, to introduce a higher degree of equality among the members, and attain the development goals of the Revised Treaty.

After the articles, this issue includes a Special Section on the meeting and results of the "*Latin American Trading Blocs: Between Reality and Utopia*" which took place at the Institute for the Study of the Americas (London, United Kingdom, May 2011). This Section reports the opinion of various experts regarding the peculiarities and future prospects of the LAC regional blocs, and is divided into three sections. In the first section, *Gian Luca Gardini* (who coordinated the meeting), describes the reasons for issuing this call, and formulates the main questions for organizing the discussion of the subject. The second section includes the analysis and evaluation of the various integration schemes. *Mahrukh Doctor* discusses the MERCOSUR case; *John Crabtree* explains the CAN experience; *José Perales*, the CACM and CAFTA-DR processes; *Thomas Muhr*, the ALBA-TCP initiative; and *Kenneth Shadlen*, the Free Trade treaties entered into by the United States and several Latin American and Caribbean countries. Finally, in the third section, *Mauricio Rodríguez Múnera* arranges and summarizes the main conclusions of the meeting

In the Interviews Section, many players who are involved in regional integration processes, from both the private and public sectors, express an opinion about the future of regional trade agreements; the prospects of Latin America and Caribbean integration; the challenges of internationalizing firms, and developing businesses and investments; and the relationship between Asia, Latin America and the Caribbean. This section contains the opinions of *Patrick Low*, Chief Economist of the World Trade Organization (WTO); *Anabel González*, the Costa Rica Minister of Trade; *Ganeshan*

Wignaraja, Principal Economist at the Asian Development Bank's (ADB) Office of Regional Economic Integration, and *Alejandro Krell*, McKinsey Partner and Office Manager in Chile.

The Statistics Section contains regular trade data and relevant information on regional integration processes in LAC.

Finally, there is a selection of book reviews dealing with subjects that had been addressed in previous issues of the magazine. *Rosario Campos* reviews "*Puentes y vacíos en la asociación MERCOSUR-México*" [Bridges and Voids in the MERCOSUR-México association] written by María Esther Morales Fajardo, a book that analyzes the historical relationship between Mexico and MERCOSUR by examining the fluctuations in trade and investment flows. *Kathia Michalczewsky* reviews United Nations Conference on Trade and Development (UNCTAD's) "*Integración regional en América Latina: desafíos y oportunidades*", [Regional Integration in Latin America. Challenges and Opportunities"] a set of six articles discussing the impact that recent worldwide developments, such as the new role of China, the international crisis, and global imbalances, have had on Latin America integration in the last few years. Lastly, *Gala Gómez Minujín* reviews Victor Prochnik's "*La inserción de América Latina en las cadenas de valor globales*" [Latin America´s entry into global value chains], examining the integration of Latin American firms into global value chains, and its consequences on trade, investment and industrial structure.

In short, issue number 33 of *Integration & Trade* shows the viewpoints of several experts on several regional integration initiatives, their features, and the important efforts and energy devoted to creating a region with a strong presence in the global scenario, where individual member countries draw closer together. ◆

Steering Committee

Articles

Why is it Worth Rethinking Latin American Integration?

Luz María de la Mora *
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Dora Rodríguez *
She is graduated in Economics and has been involved in the regional integration process for over 25 years. She is currently Mexico's Acting Representative to the Latin American Integration Association (LAIA).

By reviewing the mechanisms that go to make up the Latin American integration process, this work draws together the elements that allow us to take stock of its 50-year lifespan. The paper sets out the development of four fundamental aspects of the process: trade integration, the institutional framework of economic and trade integration mechanisms, physical infrastructure, and the actors involved in the process. Each of these aspects is analyzed in terms of its background, scope, and contributions. Particular attention is paid to the fragmentation of the process, the low proportion of trade within each scheme, the inadequate development of trade disciplines for the purposes of trade liberalization, and the challenge of treating asymmetries between member countries, as well as institutional and factual weaknesses. This stands in sharp contrast to the invisible integration driven by actors in the region's productive sector in the face of evidence the region is perceived as an attractive place to do business. The authors suggest several lines of action for rethinking the Latin American integration project through decisive political support at the highest level to cope with the difficult and uncertain global scenario. This way, the region as a whole can become a single large market, over 500 million strong, with positive prospects for growth and employment.

Introduction

The results of Latin American and Caribbean integration at the regional level, have hardly been encouraging so far. After five decades, integration is still merely skin-deep. Measured in terms of interregional trade, it has some of the lowest levels in the world: in 2010, it stood at 17% compared with 73% for Europe, and 50% for Asia and North America. Indeed, Latin America does little trade with itself. In 2010, 18% of its sales and 20% of its purchases were within the region.

* We are grateful to Fernando Posadas Paz for his support in researching this paper.

50 years on from the launch of the process, why does Latin America have such a poor record on integration? Indeed, is there any future in even considering the idea of Latin American integration? The global economic crisis and the realignment of the hubs of growth towards emerging economies force us to rethink whether the process of Latin American and the Caribbean integration might be a viable alternative for strengthening the region's levels of economic and social wellbeing.

This paper finds that little progress has been made in Latin American integration, and even that has been uneven, given the lack of either the political will or leadership to drive the process or any substantive, long-term integrationist project that might help strengthen the region's integration institutions and facilitate the coordination of national policies. The current scenario includes subregional projects that have even taken backwards steps, resulting in Latin America obtaining low ratings in comparison to other integration processes, while at the same time leaving a series of issues unresolved. This is why integration requires the rethinking of a genuine Latin American project, which, on the basis of firm political support at the highest level, should consider at least three elements: *(1)* regional liberalization of both trade in goods and services, as well as investment flows; *(2)* strengthening of integration institutions at the regional level; and *(3)* development of a physical infrastructure to underpin this integration through greater connectivity. Although Latin American integration presents significant challenges, it is also the case that businesspeople and investors are carrying out silent integration that demands a Latin American agenda and integration project, which in the short term would help to mitigate the vicissitudes and uncertainty of the world economy.

Despite decades of diplomatic maneuverings, the process of Latin American integration has failed to take off. This process began in 1960, when Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay signed up to the Treaty of Montevideo, which established the Latin American Free Trade Association (LAFTA). Between 1961 and 1967 Colombia, Ecuador, Venezuela, and Bolivia also joined. The idea of LAFTA was to create a free trade zone over a 12-year period (extended for a further 8 years) among the countries of Latin America in order to accelerate economic development. The linking of the region's economies would be brought about by eliminating restrictions, quotas, and tariffs on trade, as well as through reciprocity and the application of the most favored nation treaty.[1] LAFTA faced major obstacles arising from various factors, including the countries' lack of experience in this type of negotiations; the disparities between the different economies; the creation of the Andean Group, which formed a subgroup with its own rules that diverged from the objective of regional integration, as well as the protectionist policies of the countries themselves, which effectively led to an impasse. The integration process, that LAFTA sought to promote, failed in view of the impossibility of coordinating the member countries' economic policies, and the rigidity of the negotiation deadlines and mechanisms.

In 1980, given the impossibility of creating a free trade zone, the same countries reconsidered the idea of integration. LAFTA went on to become the Latin American Integration Association (LAIA) and set out to create a Latin American common market that would be achieved gradually and progressively. But the very objective of regional integration was undermined by the emergence of subregional agreements either within or without LAIA (the 1980 Treaty of Montevideo - TM80) itself favors this, one of its characteristics being the abandonment of the most favored nation clause). In parallel to the process, there appeared other subregional initiatives such as the Caribbean Community and Common Market - CARICOM (1973), the Central American Integration System - SICA (1991), which succeeded the Central American Common Market - CACM (1960), the Southern Common Market - MERCOSUR (1991), the Union of South American Nations - UNASUR (2008), which succeeded the South American Community of Nations (2004), the Andean Community of Nations - CAN (1997), which succeeded the Andean Pact (1969), the Bolivarian Alternative for Latin America and the Caribbean - ALBA (2004), and, more recently, the Latin American Pacific-Rim-Forum - ARCO (2006), and the Deep Integration Area (2011).

Unfortunately for the region, the objective of integration has remained merely on paper. The

[1] This refers to the automatic extension of preferential treatment, which one party grants to all other parties in an international trade agreement.

evolution of Latin American integration has no doubt reflected the region's political and economic realities, as well as the absence of any concrete and viable project. In fact, both LAFTA and LAIA came into being during times of recurrent political crises, with *coups d'état* in certain countries and continual economic crises (oil in the 1970s, foreign debt in the 1980s, financial crisis in the 1990s). For decades Latin America offered a highly unfavorable environment for integration or business development among the region's countries, which is why trade was geared to extraregional markets and any integrationist ambitions were curtailed, resulting in a *de facto* fragmentation of the region.

The global crisis unleashed in 2008 makes it necessary to rethink integration. Latin America is now in a good position to deal with its effects given the macroeconomic situation and the fiscal and monetary soundness of most of the region's countries. In view of the contraction of developed markets and their poor prospects for recovery, we should ask ourselves whether integration in Latin America could be a viable alternative to redefine the region's standing as an equally attractive or more attractive partner than the traditional markets of developed countries. However, a good macroeconomic context alone is not enough for integration; it also requires political leadership and a project that can support further integration.

Towards Latin American Integration

One of the main reasons why Latin American integration has not had the success that was hoped for has been none other than the lack of political will, and the polarization surrounding the issue. Integration requires giving way and making concessions in order for national public policies to converge towards a supranational objective, which in the end will produce national benefits. Aligning national projects with the supranational objective of integration has been a tortuous process. The frustration and impossibility of making progress on a large-scale regional integration project has also led to the region's fragmentation into subregional mechanisms, through which progress towards a more limited kind of integration has been sought, given the difficulties faced at regional level. Heraldo Muñoz (2008, pp. 1-2) reminds us that in spite of *"political and economic fragmentation […] there still remains a single region with similar problems and interests but with a diversity of policies or responses to those common problems"*.

On a regional scale, the most significant event of recent years has perhaps been the Summit of Latin American and Caribbean on Integration and Development (CALC) in Brazil, in December 2008. The *Declaration of Salvador de Bahía* (CELAC, 2008) contained the conviction that the political, economic, social, and cultural integration of Latin America and the Caribbean is a long-standing aspiration of its people and constitutes a necessary factor in moving towards sustainable development and social wellbeing throughout the region. This affirmation was also an implicit recognition of how little progress has been achieved so far. Although the declaration expressed the desire to *"[…] deepen integration and accelerate development through the formulation of common and complementary projects"* a question mark remains, since a real project for Latin American and Caribbean integration has yet to be defined, while the coexistence of various subregional mechanisms operating according to their own objectives is recognized, pragmatically perhaps.

Trade Integration

The starting point for Latin American and Caribbean integration was the liberalization of trade in goods on the basis of trade policy instruments (e.g. tariffs, non-tariff barriers, rules of origin, rules on subsidies, etc.), the objective of which has been regional productive and economic linkage.

Since its creation, through TM80, LAIA, which currently comprises 12 countries, has had the long-term goal of creating a Latin American common market, still a long way from being achieved.[2] In fact, in 2004, the member countries considered for the first time embarking on the regional projection of the process with the aim of forming a Free Trade Zone (FTZ) whose construction is based on the liberalizations undertaken in the agreements signed by the member countries. The

[2] Nicaragua and Panama are in the process of joining LAIA, which will extend the geographical reach of the association into Central America to include 14 of that region's 33 countries.

proposal, the details of which are still being negotiated, is based on the convergence of these agreements, most of which provide for the virtual elimination of tariffs. However, LAIA has lacked a clear political impetus on the part of its members. In addition, the agreements negotiated under the protection of LAIA have not always been complied with and some have not even been brought into force.

TM80 includes provisions that have allowed the emergence of a series of bilateral agreements such as the Economic Complementation Agreements (ECA), as well as subregional mechanisms like the Andean Community of Nations (CAN), which has achieved free trade in its extended market, although it suffered a blow when Venezuela withdrew from the mechanism in 2011.[3] MERCOSUR, also under the protection of LAIA, was founded as a process of deep integration and with the idea of creating a common market that would include free movement of goods, services, and factors among the four founding members. However, to date, exceptions to the common external tariff have hindered the creation of a true customs union, with free circulation of goods. The Bolivarian Alternative for Latin America and the Caribbean, and the People's Trade Agreement (ALBA-TCP) have proposed the creation of an Economic Complementation Zone based on its principles of solidarity to coordinate efforts in the economic arena. The Pacific Rim Forum and the more recent Deep Integration Area made up of Colombia, Chile, Mexico, and Peru have also emerged. In the Caribbean, CARICOM operates a free trade zone in goods but not the Single Market that was aspired to.

The pulverization of integration has not translated into more intense trade flows. As *Table 1* shows, each subregion's trade with Latin America and the Caribbean accounts for a very small proportion of its total trade with the world, and is smaller still when we look at the proportion of trade engaged in by each subregion internally.

TM80 has not evolved to include disciplines for the liberalization of trade in services. This stands in contrast to the agenda of the subregional integration processes. In CARICOM, SICA, LAIA, CAN, and MERCOSUR a number of disciplines have been agreed on to liberalize trade in services in areas, such as information technologies, professional services, teaching services, health services, engineering and construction, advertising,

[3] Venezuela announced its withdrawal from CAN in 2006. In April 2011, it was excluded from the organization at the end of the five year term it was granted to give up its rights and obligations in the group.

Table 1

Latin America and the Caribbean: Interregional Trade by Blocs, 2010

Subregion	Imports from the world (US$ millions)	Imports from LAC*		Imports from subregion itself	
		Value (US$ millions)	% of its imports from the world	Value (US$ millions)	% of its imports from the world
LAIA	721,795	130,582	18.09	122,556	16.98
CARICOM	31,548	7,617	24.14	917	2.91
CAN	115,596	37,069	32.07	11,395	9.86
CACM	48,108	16,085	33.44	6,338	13.17
MERCOSUR	252,157	63,921	25.35	44,297	17.57

Note: (*) LAC includes 33 countries.

Source: Authors' calculation based on information from ITC (2011).

e-commerce, transport, tourism, telecommunications, maintenance and repairs, and marketing for the likes of cargo transport or tourism. In particular, CARICOM, CAN, and MERCOSUR have adopted certain disciplines for the liberalization of trade in services, which have complemented the process of sectoral regulation being developed. To date, according to the OAS's Foreign Trade Information System (SICE) database, Latin America and the Caribbean have negotiated 49 agreements for the liberalization of services.

One way forward is to create rules for the liberalization of investment that encourage the commercial presence of service suppliers in the region's markets. Greater liberalization of the service sector would have to allow the facilitation of the temporary entry of businesspeople, whose presence tends to be linked to foreign direct investment flows and transboundary service provision (Mode 4).[4] It would be worthwhile to explore the possibilities for implementing commitments regarding the recognition of qualifications and licenses for professional practice (agreements on mutual recognition processes), as well as certification and studies of work-related competencies for technicians.

The regional liberalization of the service sector is fundamental to making integration viable with a view to the economies' increased competitiveness and efficiency, both individually and at the regional level. Within the framework of LAIA, it would be worthwhile to define a regional project that would enable greater integration in this sector, involving substantial modifications to TM80 to include sectoral provisions upon it.

One of the main challenges of Latin American and Caribbean integration has been to deal with the asymmetries between member countries, which has sometimes worked against integration. It is clear that the integration of markets alone does not automatically generate convergent development among participating countries. The countries with relatively lower economic development have demanded special and differential treatment by the larger economies, which has led to the creation of asymmetrical rules in the processes of Latin American and Caribbean (LAC) integration. Such treatment has existed for several decades, including notably the provisions on this matter in the 1960 and 1980 Treaties of Montevideo (which established LAFTA and LAIA respectively), the Cartagena Agreement of 1968, and the Treaty of Chaguaramas of 1973 (CARICOM). Sáez (2008, p. 20) suggests that to reduce the asymmetries that characterize the region and each of its subregions, the structural fund schemes aimed at less developed countries should be increased, based on the positive experience of the MERCOSUR Structural Convergence Fund (FOCEM) and similar subregional initiatives. This would necessitate earmarking financial and material resources from the region for this purpose, but it would also require the political commitment of the most advanced countries to allocate resources to the smallest countries, which would in turn be required to undertake the commitments of integration fully and without hesitation.

Institutional Framework of the Mechanisms of Economic and Trade Integration

Integration in Latin America is facing new and varied challenges. Consolidated schemes such as CAN are breaking up and parallel initiatives have emerged that appear not to have any points of convergence due to the way in which they are conceived.

LAIA, which is the most representative scheme in the region on account of the economic weight of its members, has not managed to further its aim of accomplishing the regional projection of the process. The regional agreements conceived in TM80 have not been developed and consequently have not generated the common regulations required. Yet perhaps even if they had been, they would not in any case have managed to generate the conditions for promoting productive chains, given the simplicity of their structure, which only envisages tariff elimination. The Regional Tariff Preference (RTP) was overtaken by partial scope agreements at a very early stage. These agreements show marked differences in their degrees of commitment and depth, resulting in the process of fragmentation and convergence becoming increasingly complex.

The first agreements signed in the framework of LAIA had few regulatory elements, just like the regional agreements. They also included a program of liberalization comprising a list of fixed preference products to which the Association's origin regimes and safeguards were applied. Under these conditions, the

[4] Mode 4 refers to supply services through the presence of natural persons of a Member, in the territory of another Member (WTO General Agreement on Trade in Services).

problems of convergence were limited to coinciding on the lists of negotiated products.

Although, in the 1990s, practically all the countries were involved in large-scale negotiation processes, some favored the negotiation of closed schemes like MERCOSUR and sought to consolidate the bloc rather than undertake commitments of a regional scope. Consequently, partial scope agreements were developed at the expense of the regional dimension, thereby creating a complex and heterogeneous network of agreements.

Reform of the institutional framework of the agreements currently in force should pay particular attention to the following aspects:

i. *Stability:* economic operators require stable, reliable, and applicable rules, so agreements must be binding through their internalization in all the countries in the region.

ii. *Stimulus for productive chains*: this will enable the progressive creation of solid bases in the process of productive integration.

iii. *Trade facilitation:* in an initial stage, convergence between all regional instruments could be geared to trade facilitation regulations, such as customs procedures, certification of origin, and authorized economic operators.

With regard to the convergence of existing trade agreements, the process only appears to be viable between agreements that have similar regulatory structures (e.g. the free trade agreements negotiated by countries like Colombia, Chile, or Mexico) for a gradual rapprochement between all the agreements. More ambitiously, it might be possible to consider the negotiation of a new agreement in which all the countries participate; this should not translate into the overlapping of agreements since, given the levels of heterogeneity, it would, for practical purposes, be inconvenient and would no doubt again lead to paralysis.

With or without convergence, a true integration project necessarily involves granting a mandate and greater formalization to the authorities and bodies responsible, as well as internalizing commitments. But above all, it involves building a truly regional institutional framework on the basis of a clear mandate with political clear-sightedness, established scopes, and technical, financial, material, and human resources.

Physical Infrastructure: Supporting Integration

The development of physical infrastructure is key to integration and has taken place in parallel to the processes of trade integration. This issue does not, however, fall within the jurisdiction of a regional mechanism such as LAIA. The most important projects, relating to physical, transport, and communications infrastructure, are being implemented in the framework of the Meso-American Integration and Development Project (PM), formerly known as the Puebla-Panamá Plan, which has been in force since 2007 and ranges from Mexico to Colombia, while also taking in the Dominican Republic. In South America, the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), under way since 2000, covers all the countries of South America, including Guyana and Suriname.

As shown in *Table 2*, the PM links up the member countries' cooperation, development, and integration initiatives. It has received financial support from the Inter-American Development Bank (IDB) and the Central American Bank for Economic Integration (CABEI) for the development of physical infrastructure. In the area of communications, there is a project for developing electrical interconnection (SIEPAC) and the fiber optic cable network, which will be used to create the Meso-American Information Highway. In the area of transport, efforts are under way to create an efficient multimodal transport system by improving the physical infrastructure and building the International Network of Meso-American Highways (RICAM).

IIRSA comprises physical infrastructure projects with integrationist objectives. It seeks the physical integration of the 12 South American countries via the modernization, expansion, or construction of transport, energy, and telecommunications networks based on a regional vision. IIRSA has concentrated its efforts in three main areas of action: the Development of a Strategic Vision for Physical Integration in South America (VESA), the Development of ten Integration and Development Hubs linking up the South American continent, and territorial planning. To this end, the South American governments have agreed a portfolio of 514 transport, energy, and communications infrastructure projects.

Table 2

Development of Infrastructure for Integration

Mesoamerican Integration Project	Central American Electrical Interconnection System (SIEPAC)	This is a system of networks that includes 1,800 km. of transmission lines and 15 substations; 103 km. of interconnections in the Mexico-Guatemala system and 614 km. in the Panamá-Colombia connection. Investment totals US$451 million.
	International Network of Mesoamerican Highways (RICAM)	This is a program comprising 13,132 km. of highways distributed into 5 corridors. Its advancement opens up new possibilities for the integration of Mesoamerica, by facilitating the flow of goods and persons within the region.
	Short Distance Maritime Transport	Important works have been completed with regard to modernizing border crossings and ports: The *Rio Hondo* International Bridge (Mexico-Belize); the *El Ceibo* border crossing (Mexico-Guatemala) and the *La Amistad* Transborder Bridge (El Salvador and Honduras).
	The Meso-American Information Highway (AMI)	This involves the construction -with the participation of private investment- of broadband (fiber optic) telecommunications infrastructure interconnecting the Mesoamerican countries. The cabling on the SIEPAC line will carry an OPGW cable with 36 optical fibers, which will allow a basic platform for the convergence of different information signals.
Initiative for the Integration of Regional Infrastructure in South America (IIRSA)	Regulatory harmonization: electricity, gas and oil.	This aims to harmonize regulations in Peru, Ecuador, Venezuela, and Colombia, to carry out exchanges, guarantee supply to the countries and develop mechanisms for energy imports. It is being implemented with funding of US$380.4 million.
	Improved use of existing infrastructure and new connections to increase the communications infrastructure.	This aims to identify and work on areas that need to be served by fiber optic networks for the provision of telecommunications services, in addition to linking up the joint development of infrastructure projects and fiber optic cabling under legal, technical, and economic conditions. The project is not yet under way.
	Rehabilitation and improvement of the Asunción-Montevideo rail corridor.	Reconstruction of 380 km. of standard-gauge railway and improvement of stretches in Argentina and Uruguay. The project is not yet under way.

Source: information from the Mesoamerica Project portal and IIRSA project database, both consulted August 10, 2011.

The development of infrastructure that can drive regional integration requires significant investment. Both the PM and IIRSA provide for mechanisms to coordinate and exchange information between governments, and the involvement of multilateral financial institutions from the region (IDB, CAF, and FONPLATA). The Economic Commission for Latin America and the Caribbean (ECLAC) proposes to agree a regional or subregional goal for investment in infrastructure (of approximately 5% of GDP, taking into consideration each subregion or country's specificities) and creating regional or subregional financing funds with the participation of public resources, financial institutions, and regional development banks. This infrastructure is already a solid support that will provide a firm basis for viable regional integration if in the future plans are laid to link the infrastructure of the PM with that of the IIRSA.

The Main Actors in Integration

Even though integration is an unfinished project, one of the forces behind it lies with actors from the productive sector who have focused their attention on the region, regarding it as a good place to do business and somewhere where profitability is guaranteed. The increasing investments made by Latin American companies in the region are a reflection of the confidence it generates among Latin American businesspeople, a far cry from the way things were in the recent past. LAC is now home to global companies -multi-Latins- hat have internationalized their operations from the region. These investments are in such diverse value-added sectors as iron and steel, telecommunications, transport, mining, banking, entertainment, trade of food and beverages to mention but a few.

The ECLAC report on foreign investment indicates that, in 2010, the region's countries invested US$43 billion abroad. Mexico took first place, with US$12.694 billion, followed by Brazil with US$11.500 billion, Chile with US$8.744 billion, and Colombia with US$6.504 billion (ECLAC, 2010, p. 2). In fact, Mexican, Brazilian, Chilean, and Colombian companies have an increasing presence in the region's markets and account for over 90% of the LAC's total foreign investment. These Latin American investment flows certainly constitute a solid basis for setting up companies that can drive true regional integration, which will also make them better positioned to compete in extraregional markets.

These companies are carrying out *de facto* integration, that might be given greater impetus if it could rely on regionally applicable rules for a unified market, which would have to include, for example, free access to goods and services, rules for promoting and protecting investments, and the facilitation of the temporary entry of persons, as well as simple customs operations, and transparent technical and health regulations. These operations are sufficient reason to continue exploring options for promoting schemes that lead to regional integration.

Conclusions

The current state of productive integration is institutionally and factually very poor. Dissatisfaction with the results of the economic policies implemented in the 1990s, and the lack of results and progress achieved by economic and trade integration has led to serious questioning of its soundness as an alternative for improving levels of development among the countries of Latin America and the Caribbean. The region has not allocated the kind of political, financial, and human resources that a project of this magnitude requires. The current climate of the regional economy constitutes a propitious framework for undertaking commitments whose costs may be marginal in comparison to their impact on the wellbeing of the population. A Latin American and Caribbean integration project requires the political backing that both the region's leaders and social and economic actors can identify with. This will help address issues of common interest and will provide the actors in integration with stability and confidence.

Now more than ever, it is necessary to make progress in regional integration in order to face up to the difficult and uncertain world scenario. The region's heads of state have called for integration to be deepened. Now they must seal a serious political commitment that can bring about the necessary change of course. Obtaining the benefits hoped for requires trade, production, financial, and investment schemes, as well as the physical infrastructure that will enable the region as a whole to cease to be merely a series of fragmented markets and instead become one big market of over 500 million inhabitants, with positive prospects for growth and employment. ◆

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Financial Cooperation within the Context of South American Integration: Current Balance and Future Challenges*

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As the world is again going through a period of uncertainty and increasing external risks, the discussion on the financial aspects of South American regional integration is gaining in importance. This is also happening because the South American authorities' first reactions to the worsening international crisis in the second half of 2011 were to seek joint protection against external difficulties and to build on already existing mechanisms. Within that context this article intends, in the following sections, to: (i) define financial cooperation, its relationship with the process of integration and its conceptual basis; (ii) present a balance of South American's current institutionality, and analyze the main challenges for the future. The article concludes with some brief final considerations.

Introduction

In the field of plans and projects (and even some actual mechanisms), statements about the priority of Latin American integration or, more specifically, South American integration, are nothing new. The major examples range from Bolívar's "Common Motherland" dream to the famous prediction of J. D. Perón late in the 1960's: "*The year 2000 will find us united or dominated*". However, integration rhetoric throughout history has been as strong as the recurrent difficulties and barriers to the effective takeoff of economic integration processes (Vaillant, 2007). The most important institutional developments -like the Andean Community of Nations (CAN) and the Latin American Integration Association (LAIA), set up thirty years ago, and the Southern Common Market (MERCOSUR), twenty years old- are all marred by that difficult balance between higher ambitions and large practical difficulties.

In South America (and some other quarters of the globe), there emerged the so-called "open regionalism", i.e. a regional rapprochement which was highly focused on free trade agreements and the issue of "leveling the playing field" to let market forces take it from there. Under this concept, regions were considered as building blocks, a fundamental part of an open, free multilateral world orders (Kuwayama, 1999). The proposal to create the Free Trade Area of the Americas (FTAA), led by the United States, also aligned itself with this more liberal view of integration.

Influenced by the more general changes in political issues and ideology in this subcontinent, the regional integration process gained further momentum and seemingly incorporated new content and demands, although it is still plagued with limitations and contradictions. The path of regional cooperation -insofar as it is directed by a common political will, is concerned with the asymmetries among the various

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partners, and shares a more comprehensive approach than the mere exchange of goods- appears, at the beginning of the XXI century, as a promising road to advance development objectives (UNCTAD, 2007). The so-called "post-liberal regionalism" (Da Motta Veiga and Rios, 2007) resulted in the rejection of the FTAA proposed by the United States, and, in a constructive way, as the creation of the Union of South American Nations (*Unión de Naciones Suramericanas* - UNASUR) in 2004-2005.

It is in that more "developmental" notion of regionalism, in addition to the emphasis placed on "strategic trade", "industrialization with a regional approach", and other ideas dear to the Latin American structuralist tradition (Tavares and Gomes, 1998; Medeiros, 2008), that financial efforts and initiatives become important. The latter are justified not only as a defense before the international financial system (and the difficulty of reforming it), but also as a demand for other regional integration dimensions. In the specific case of South America, this issue is even more sensitive, since external financial vulnerability and lack of adequate long-term financing structures have historically been two of the main hurdles to development.

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Integration and Financial Cooperation within the Context of Regional Integration

"Financial integration" is a controversial concept, both as regards its definition and the discussion of its effects. If we took it as meaning the strengthening of financial markets and the removal of the barriers to free movement across national borders, or the interpenetration of capital (in terms of flows and stocks), its regional dimension would be just to transpose a wider process defined by the so-called "financial globalization" onto this geographical area. From this perspective, the situation in South America is distinguished by marked asymmetries and a scant integration of private agents. Only recently has there been a regional expansion of activities led by the big Brazilian banks, but the process is still in its infancy.[1]

But there is another public dimension, better suited to the above described process, to the regional process of rapprochement in these areas. Best defined under the heading "regional financial cooperation", the initiatives making up this integration front can be grouped, following the division by the United Nations Conference on Trade and Development (UNCTAD), into three levels:

- Regional cooperation to facilitate payments and short-term financing;
- Regional cooperation to finance development; and,
- Exchange agreements and monetary unions.

The first level includes regional trade facilitation mechanisms and the provision of liquidity when facing balance-of-payment difficulties: joint payments, clearing offices, reciprocal loan agreements, and common reserves. *The second level* includes two large types of institutions: regional development banks and regional stock markets. Finally, *the third level* encompasses formal agreements to coordinate policies (mainly, the rate of exchange policy) and possible mechanisms to adopt a single currency.

Therefore, we are dealing here with different initiatives to achieve different goals. And these are precisely related to the South American short-term external financing and long-term credit weaknesses mentioned above, in addition to the obvious lack of policy coordination. The three problems are critical, not easily faced at the domestic level and much less so in the international arena, given the asymmetry and structural instability of the current international monetary and financial systems which this post-crisis world scarcely seems to highlight. But, in addition to facing these difficulties squarely, financial

[1] Fanelli *et al.* (2008) provides a diagnosis of the financial systems of MERCOSUR countries in terms of depth and degree of integration. Biancareli (2010) makes a preliminary attempt to quantify the degree of financial integration (in the first sense) of the largest South American economies.

cooperation is justified by other complementary reasons (Ocampo, 2006).

First, developing the other dimensions of the integration process requires financial cooperation. This is illustrated by several examples: the region needs protection against the balance-of-payment crisis; the effects of domestic policy initiatives on the economy of neighboring countries should be considered; the financing of infrastructure and other "regional public goods" will be more effective if adapted to local monitoring and specificities; reducing regional information asymmetries and peer pressure ("sense of belonging") reduce these institutions' credit risks; and, finally, as regards financial systems' regulation, there are also immense benefits insofar as the costs of learning and adapting to international rules are concerned.

Moreover, the existence and strengthening of regional financial institutions may act as a foil for multilateral financial institutions by complementing them and, at the same time, competing with them. More specifically, regional bodies would be better placed to detect the needs of smaller economies and meet their demands, and would provide a sort of "division of labor" with global institutions, both as regards surveillance and the provision of liquidity in a balance-of-payment crisis.

Lastly, regional financial cooperation has a significant political content, mainly in view of the under-representation and scant influence of the lesser developed economies on the global multilateral agencies. The sense of "belonging" or even "ownership" that a regional institution inspires in its members may increase its recommendations' legitimacy and acceptance (even if they express the opinions of their members as a bloc in the widest spheres). And, most important, the regional body is thus given a "privileged creditor" treatment by all members. As a result, the rates of default and, accordingly, the risks, are significantly lower than in individual economies.

Institutions and Challenges for South American Financial Cooperation

From the institutional perspective, vast possibilities of financial cooperation are available to South America, although certain challenges loom ahead. Speaking in general terms, it may be said that the historical problems -that globalization failed to solve and were likely worsened by the current downturn- and the development of the integration process increase the significance of these issues and the demand for short- and long-term financial resources. But the real picture is quite a heterogeneous mixture within the above three levels.

Starting off at the third level, South America has almost no macroeconomic cooperation experience. Several circumstances have undermined policy coordination attempts, such as the wide diversity and cyclical behavior of their economies, or the national sovereignty issue. This resulted in wholly uncoordinated approaches to exchange-rate and interest-rate policies (which were, as a rule, contrary to long-term growth). This is probably the biggest hindrance to advancing the trade (and financial) integration process in South America, not only for the impact that lack of coordination has on transactions, but also because the absence of formal harmonization mechanisms end up facilitating differentiation and the so-called *beggar-thy-neighbor* policies, that are counterproductive to regional rapprochement. Therefore, the first political challenge would be to look for approaches for an effective coordination of macroeconomic policies (UNCTAD, 2011).

Current institutionality is much more developed on the other two levels, which not always guarantees that actual progress is made.[2] From now on, we will mainly focus on those two levels.

Payment Facilitation and Liquidity Assistance

At this level, there are institutions for payment facilitation, setting up joint reserves, and providing regional liquidity assistance.

To begin with, a Reciprocal Payments and Credit Agreement (*Convenio de Pagos y Créditos Recíprocos* - CCR) became effective in 1966 within the LAIA. Apart from facilitating trade integration itself, the aim of the agreement was to economize on scarce foreign currency by delaying payments and granting credit among members during a four-month period, after which only the balance would be compensated. This mechanism, essential in the 1980's, is losing weight and becoming distorted, mainly because a more balanced trade relationship is required among

[2] For further details on the initiatives below, in addition to the specific references given, please see SELA (2009) and Biancareli (2011).

the members, and because of the rise in advance payments (LAIA, 2009).[3]

In October 2008, partly in answer to the structural problems of CCR, another mechanism was adopted to facilitate payments in the region: the Local Currency Payments System (*Sistema de Pagos en Moneda Local* - SML) between Brazil and Argentina. Unlike the previous case, the aim of this system is not to defer payments or preserve foreign exchange but to avoid the transaction costs of payments made in US Dollars, and to reduce the need for trade credit, also expressed in a foreign currency. It may be said that the SML is simpler and better adapted to the present time, although the geographical scope of the system is (still) much smaller. From the quantitative viewpoint, the numbers reported are still low but of growing significance -mainly for small and medium-sized companies- and, seemingly, with a high potential for cost reduction.[4]

The contrast between CCR's difficulties and SML's potential raises questions about the present strength of foreign currency economies. Thinking about the continent as a whole, but mainly in terms of the larger economies that have greater access to international funding, this does not seem to be a key issue, as it was, for instance, in the 1980's. Deterrents to the expansion of intra-regional trade seem to have much less to do with the difficulties of payment systems than with the lack of exchange policy coordination, or the to-ing and fro-ing of trade negotiations themselves (not to mention the productive complementarity -or lack of it- of the affected economies.)

But the question of basing trade transactions on the US Dollar or gradually replacing it, and its attendant impact on transaction costs, is always an issue in the current international debates. Less ambitious initiatives such as the SML, which focus on transaction cost problems, seem more in line with current realities. The challenge lies in expanding the use and scope of the system so as to include the other MERCOSUR members (a process which is already being prepared) and, possibly, the rest of the subcontinent. Undoubtedly, the worsening of the international financial conditions, the slow growth of the central countries, and the challenges of the US Dollar as international trading currency increase the importance of expanding and furthering this type of mechanisms.[5]

It should be noted that the only -and also successful- initiative put forward under the other group of initiatives at this first level is that of the Latin American Reserve Fund (*Fondo Latinoamericano de Reservas* - FLAR). The basic principle behind it is a shared use of part of the international reserves so as to increase the liquidity available to the members at a time of balance-of-payments difficulties. The FLAR was set up in 1978, and it has currently seven member countries, almost all of them located in the Andean region.[6] Despite its modest size (the capital subscribed for is less than US$2.5 billion, and the paid-in capital does not reach US$2 billion), all available performance appraisals rate it as quite good. For instance, between 1978 and 2003 the FLAR lent close to 60% of the disbursements made by the International Monetary Fund (IMF) among its member countries; after 1998, this percentage rose to 200% (Titelman, 2006; Ocampo and Titelman, 2009-2010), helped along by preconditions that were much less tight, and an efficient technical management of resources. Together with a historical default rate of zero because of the "sense of belonging", this translated into much better risk assessments than those enjoyed by individual member countries, which even allows raising capital on the international market under advantageous conditions.

Here, unlike what happens in a foreign currency economy, regional protection against balance-of-

[3] Quantitatively, the loss of the agreement's binding force may be measured using various indicators. *On the one hand*, intra-regional trade channeled through the CCR dropped from 90% in 1989 to only 1.5% in 2003, from then on it recovered to reach a high of 10% in 2007. *On the other hand*, there was a boom of advanced payments (which rose from less than 10% in the 1980's to more than 90% midway through the 1990's) and a strong decline of the foreign currency economy in regional exchanges, collapsing from 70%-80% in the "lost decade" to less than 5% in 2006. For further information on these and other CCR-related numbers, please see Biancareli (2011) and IDB-INTAL (2009 y 2011).

[4] Said portion of the bilateral trade between Brazil and Argentina to be paid for under the SML grew, from the launching of the system in October 2009, to almost 4% in mid-2010, and has been fluctuating around that percentage ever since. These figures conceal the fact that Brazilian exports (remaining at around 8% from the first half of 2010) are much larger than Argentine exports, which never went above 0.5% from the implementation of the system. With regard to SML, please also see IDB-INTAL (2011), and Pinto and Severo (2010).

[5] Another initiative, more recent and much more limited (although more ambitious too) is the Unified System for Regional Compensation (*Sistema Único de Compensación Regional* - SUCRE), that became effective in the *Alianza Bolivariana para los Pueblos de Nuestra América* (ALBA) area in 2010. As regards the SUCRE, please see UNCTAD (2011).

[6] Bolivia, Colombia, Ecuador, Costa Rica, Peru, Uruguay and Venezuela.

payment crises does not seem to be less important nowadays. On the contrary, in view of the probability of an increasing rush of private capital inflows to developing countries, and the substantial unpredictability of future commodities' prices (both have been crucial for the region to achieve greater external strength in recent times), the existence of a fund, adapted to local conditions and controlled by the potential customers themselves, to face liquidity crises, is a fundamental requirement to increase economic stability and prevent difficulties from spreading. Moreover, in addition to correcting some of the main flaws of the international financial architecture, FLAR makes a direct and indirect contribution to regional integration.

But such advantages would only be effective if the fund were quite a lot larger than the present FLAR. Thus, the challenge lies in the participation of the more powerful economies in the South of the continent -above all, Argentina and Brazil- in such joint reserve fund, which would change the nature and operational capacity of the initiative. For instance, if Brazil joined the FLAR paying the current members' average contribution (close to 1.5% of the stock of international reserves), it would, by itself, more than double the capital currently subscribed for. Hence, within the context of the search for coordinated defense mechanisms to face a worsening financial crisis, Brazil's recent statements of interest are to be welcomed.

Long-Term Financing

Finally, there are also various institutions at the second cooperation level working in the region and it is not difficult to evaluate their performance and identify their main challenges.

The first case to be commented on is that of the Inter- American Development Bank (IDB). As stated by Bouzas and Knaack (2009), from its creation in 1959 the IDB has been permeated by the spirit and integrationist ideas of the region; over the last five decades it was an important tool mobilizing financial resources in the direction of the public and private sectors. It should be noted that the IDB's priorities and actions have shifted over the years to adapt to the various profiles that, as already mentioned, regional integration began to cover in the region during that time. Speaking in numbers, the Bank's capital subscribed for at the end of 2010 amounted to approximately US$105 billion, of which US$4.3 billion had actually been paid. These figures will be significantly hiked in the coming years, as a capital increase for an additional US$70 billion was approved by the majority of the members in 2010, indicating the prominent role the IDB will play in this new stage of regional integration promotion. From the point of view of the disbursements, statistics also show an ascending trend in the last few years, with approvals totaling US$15.3 billion in 2009 and US$12.1 billion in 2010. At the end of 2010, the IDB's loan portfolio stood at US$63 billion.

The other differences between the IDB and other distinguished entities -*Corporación Andina de Fomento* (CAF), the Bank of the South and the Brazilian Social and Economic Development Bank (BNDES)- are its shareholding and decision-making structures. By the end of 2009, the capital subscribed for and voting rights in the IDB were divided as follows: Latin American developing countries represented approximately 50%, a significant portion (30%) was held by the United States, and the rest was divided between Canada and advanced economies outside the region.[7]

The performance evaluation of CAF (the capital and disbursements of which grew significantly) is quite positive. According to Ocampo and Titelman (2009-2010), in addition to a marked anti-cyclical component in its disbursements, the fact that CAF was better suited to local conditions and subject to the control of its beneficiaries made it extremely successful in complementing its multilateral peers. By year-end 2010, CAF's paid-in capital totaled US$2.8 billion (from authorized capital of US$10 billion), for which regional development economies are almost solely responsible.[8] CAF's portfolio of projects as of the same date amounted to US$13.9 billion; its annual disbursements grew substantially in the last few years: from US$5.5 billion in 2006, they went up to US$10.5 billion in 2010.

[7] Brazil and Argentina were the developing economies that carried the most weight (a little more than 10% each.) Under the IDB's projected capital structure and voting rights once capitalization is finalized (2015), this distribution will remain unchanged. As in previously cited statistics, these figures were obtained from the *IDB*'s website, particularly from the *2010 Annual Report and the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank.*

[8] Colombia, Peru and Venezuela stand out, with Argentina and Brazil still at a secondary level but increasing their importance in the last years. The only important partner outside the region is Spain, with a contribution of only US$90 million to the total paid-in capital of US$2.8 billion. For further information, please refer to *CAF*.

Although a more ambitious initiative, the Bank of the South is confronting serious implementation problems and is still at a pre-operational stage. Cloaked in a strong integrationist rhetoric, the bank was formally created late in 2007, when Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela signed its founding charter. Differences among the partners -regarding the bank's internal power structure, allocation of resources, conditions for granting loans, and even its functions (whether to be a development bank or a provider, in addition, of liquidity assistance)- remained even during the period of ministerial meetings which concluded with the execution of the Agreement establishing the bank in September 2009. The agreement is in the process of ratification by national Legislative Branches (it has already been ratified by Venezuela, Ecuador, Bolivia and Argentina). It was launched with an initial authorized capital of US$20 billion (double the amount at CAF), and US$7 billion to be initially subscribed for,[9] which proves its significant potential for action. Clearly, a higher consensus level is necessary, as evidenced by the delay in ratifying the Agreement by key countries, such as Brazil, for the bank to become operational.

Finally, the BNDES has been expanding its operations considerably in South America, working more and more as a domestic bank with a regional presence. Quantitatively speaking, the comparison in this case is not against the bank's general numbers but its regional performance.[10] Even under this light, figures are impressive, as shown by Nyko (2011): the bank's disbursements for funding infrastructure and other sectors' projects in the region exceeded US$1 billion in 2010, more than 45% of the disbursements made under the BNDES Exim post-shipment line. This percentage has been rising constantly since the early 2010's, with a total portfolio of projects of this type amounting to over US$20 billion (almost half of which would be funded by the bank).

However, the Brazilian bank should not be taken as a replacement, or even as the perfect complement of regional or sub-regional long-term financing sources. First, because of charter restrictions: unlike the IDB, CAF, and the plans for the Bank of the South, the BNDES only funds Brazilian companies or branches of multinational companies established in Brazil. Thus, the regional transactions of the bank only cover the export of goods and (more frequently) engineering services performed by Brazilian companies in neighboring countries. As stated by Nyko (2011), this certainly contributes to improving the internal infrastructure of several Latin American economies, but it does not necessarily support the physical integration of the region.

In the area of cooperation, and despite the variety of institutions, the increasing demand for resources will have to face at least three critical dilemmas.

In the first place, what seems to arise from the discussions and proposals for new institutions is the need to separate resources and initiatives for the first and second financial cooperation level. The lack of clarity concerning the institutions' functions and privileges has proved to be counterproductive, in addition to holding up the development of initiatives. The issue at hand is the work allocation that takes into account the nature and maturity of available resources, and is necessarily performed by different bodies.

The second challenge would consist in separating the grants or concessional loans from the bank proper financing (in the long term). At this point, the same institution may even perform both functions, but it is necessary to ensure that they do not get confused or substitute each other. Although this is not a difficulty at institutions already existing and operating adequately, the need for a more accurate definition also hampers discussions and proposals for new institutions, or the search for new long-term sources of financing.[11]

[9] Divided into contributions by Brazil, Argentina and Venezuela (US$2 billion each); Ecuador and Uruguay (US$400 million), and Bolivia and Paraguay (US$100 million). Regarding the Bank of the South, please see Ponsot and Rochon (2009-2010), and Carvalho *et al.* (2009).

[10] The general statistics of the BNDES are not paralleled by any other regional institution, not even multilateral agencies. At the end of 2010, total disbursements almost reached R$170,000 (some US$100 billion at the rate of exchange prevailing at the time of drafting this paper.) Its total portfolio amounted to R$362.000 (in excess of US$210,000).

[11] For instance, MERCOSUR has the Structural Convergence Fund (*Fondo para la Convergencia Estructural del MERCOSUR* - FOCEM), which does not grant loans as such but funds, out of contributions almost exclusively made by Brazil and Argentina, projects identified as priority projects -almost all of them in Paraguay and Uruguay- aimed at reducing asymmetries. Although significant, this is, by nature, a limited mechanism. The IDB also has a concessional lending window (recapitalized in 2010 too), with an important history of providing external debt relief or assistance to countries stricken by catastrophic disasters such as Bolivia, Nicaragua and Haiti. Resources and objectives are also explicitly separated in this case, a structure that should be preserved when setting up new institutions.

In addition, large projects on regional physical integration are not only for correcting asymmetries; they are mostly private, economically feasible undertakings and, therefore, they may (and should) be financed through non-concessional loans, under transactions subject to guarantees, conditions, terms, etc. Likewise, good operational results are a distinguishing feature of the experience of both CAF and IDB; hence, the ultimate goal should be to increase disbursements without compromising technical efficiency.

The third challenge has to do with the BNDES' growing role and protagonism in this process. It is true that the Brazilian development bank has filled a place that had been left vacant by the regional agencies' inability to meet an increasing demand. It is also clear that it serves Brazil's interests and priorities, and is extremely beneficial to regional integration, particularly as regards the deficit in large infrastructure works. However, it leads to friction and resistance because the BNDES only funds Brazilian companies and, even in that case, its assistance is restricted to supporting exports of engineering services and capital goods (see again, Nyko, 2011). Likewise, not really being a regional agency, it does not enjoy the above mentioned "sense of belonging" advantages. Moreover, there are serious doubts regarding the BNDES' capacity to go on fulfilling this role with competence, given the virtual depletion of its funding (which has already been increased several times in the last few years) and the absence of other long-term financing sources in the most booming economy of the region.

Final Considerations

The second half of 2011 started with new financial turmoil, thus reminding the optimists that the economic-financial crisis of 2008 is far from over. Fiscal problems and lack of financial regulations, together with an implicit or explicit veto to the use of more efficient anti-cyclical policies, seem to sentence a good part of the developed world to a long period of low growth. In such an adverse scenario, the highest risk for South American economies, which faced the 2008 financial crisis enjoying a more solid external position, is the possibility of increased volatility in capital flows and the price of commodities.

It has become a commonplace but, once again, a crisis emerges as an opportunity. Unlike the position ordinarily adopted in the past, the initial reaction of the South American authorities seems to focus on seeking joint defense mechanisms. The information and ideas presented in this paper allow us to conclude that, more than defensive, this strategy may be considered as giving more momentum to the strengthening of international financial cooperation.

Although the subject of relatively little discussion, this guideline is a critical dimension of South American integration and, as such, needs to be prioritized and enhanced at all three levels: cooperation on macroeconomic policies, short-term external financing, and funding for development. With regard to the first case, the challenge consists in implementing specific cooperation mechanisms; in the other two, a set of existing initiatives provides the starting point.

The challenges for the second level would be, on the one hand, to rethink and increase the coverage of payment facilitating systems (particularly, those better adapted to present realities, such as the SML between Brazil and Argentina) and, on the other, to expand resources and the membership of the common reserve fund (FLAR) by the addition of the larger countries. AS regards long-term funding, the necessary steps include the more technical aspects, such as an accurate definition of the institutions' functions and their funding conditions (always geared towards meeting regional demands in the most suitable manner, and without losing technical efficiency). Such ambiguity, together with some political aspects, seems to be the biggest stumbling block for the Bank of the South, whose presence is becoming more necessary. Above all other things, the issue here is mobilizing new financial agents and increasing the volume of resources, given the size of funding needs and the limits of existing major institutions to expand their operations (IDB, CAF and BNDES). ◆

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The Relevance of LAIA

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The passing of time has demonstrated the permanent relevance of the Latin American Integration Association - LAIA's integration model. Although to some observers the Association has seemed obsolete to face the challenges of the political and economic reality at the international and regional levels, the unique flexibility of its design has enabled it to adapt to the various different stages or circumstances that its member countries have had to overcome in the last 30 years, both individually as well as in their various subregional groupings. In recent years, which have seen the emergence of new integrationist initiatives that, at least so far, lack any institutional and instrumental framework that might enable them to manifest their objectives with regard to trade, LAIA has maintained its presence by acting as a sort of notary's office for preferential agreements and by proposing the progressive formation of a Free Trade Zone, albeit with modest results to date. With an eye to the future, its variety and instrumental pragmatism once again provide it with the attributes needed to function in whatever scenarios may present themselves. This article is based on and expands on the document entitled El debate sobre el modelo de integración de la ALADI y su evolución *(The debate on LAIA's integration model and its evolution - edited by LAIA in June, 2011), which earned the author first prize in the "2010 LAIA Regional Integration Essay Competition", organized by the Association's Secretariat to commemorate the 50th anniversary of the Latin American integration process.*

A Retrospective View: Pragmatism and Flexibility

Throughout its 50-year lifespan, the Latin American integration process has been characterized by pragmatic solutions to the issues raised by the different and shifting positions of the member countries, and the complex variables of the context. Flexibility in the mechanisms for implementing the regional integration strategy has been the main evidence of such pragmatism, enabling the process to progressively adapt to those changes and prove functional to them, particularly over the last 30 years within the framework of LAIA.

Pragmatism is in the genes of the Latin American integration process. Proof of this can be found in the memorable article by Miguel Wionczek (1964), a chronicle of the origins of the Latin American Free Trade Association (LAFTA) process that contrasts ECLAC's recommendations for the constitution of a Latin American common market with the spirit -rather than the letter- of a Constitutive Treaty that only aimed to establish an instrument potentially greater than that represented by a free trade zone, but was lacking in the

necessary ambition to achieve the degree of integration that experts were seeking at the time. Having proposed a program of tariff reduction to meet the requirements of GATT Article 24, the Treaty of Montevideo would be extended for 20 years and would result in over 20,000 negotiated trade preferences, used by many economic agents, for all that it translated into a modest volume of intrazonal trade in terms of the total (Sloan, 1979).

In LAIA's design, it is possible to see what Vacchino (1982, p. 122) would term "pluralist realism and negotiating pragmatism". The 1980 Treaty of Montevideo (TM80) would seek greater rapprochement with the specificities and heterogeneities of the regional reality and would abandon the traditional program of trade deregulation that characterized both LAFTA and other contemporary processes in order to adopt new operating modalities within its original economic preference area (EPA). The new Association would salvage from LAFTA "what was salvageable" (the so-called "historical heritage") and would formalize a process open to the bilateral initiatives that its members were implementing with each other and with other developing countries, both inside and outside Latin America at the time.

LAIA's EPA includes the regional tariff preference (RTP), regional scope agreements (RSAs) and partial scope agreements (PSAs). While the first two instruments were developed timidly, mainly in the 1980s, PSAs would be the real driving force behind the process, particularly those known as economic complementation agreements (ECAs) (Garnelo, 2011, p. 35-48).[1]

The particular historical dynamic of PSAs is evidence of LAIA's great capacity to adapt to the varying circumstances the process has been through. The difficult economic and financial situation of the member countries during the 1980s led to selective agreements with little coverage of tariff items and fixed preferences without automatic tariff elimination schedules. Of particular relevance during this period were the Renegotiation Agreements, Trade Agreements, and the first ECAs (LAIA, 2010b, p. 23).[2]

From the 1990s, the LAIA process spurred changes in economic policies aimed at the liberalization and deregulation of regional trade by making room through ECAs for the new Free Trade Agreements (FTAs) signed among the member countries. Unlike their predecessors, these ECAs establish schedules for extending tariff preferences covering the substantial number of items, incorporate new issues (investments, government procurement, etc.) and include a far higher level of development with regard to trade disciplines and regulations (trade defense, technical barriers, etc.).[3]

During that decade, negotiating pragmatism made resurfaced decisively via the Interpretive Protocol of TM80 Article 44. This legal solution allowed Mexico to form the North American Free Trade Area (NAFTA) without extending the preferential treatment granted by the United States and Canada to its LAIA partners. From then on, this flexible mechanism of LAIA's would be invoked repeatedly by member countries interested in formalizing agreements with third countries in the industrialized world (Garnelo, 2011, p. 51-52).

When the conclusion of the GATT's Uruguay Round and the subsequent creation of the World Trade Organization (WTO) led many experts to consider the inexorable end to international trade barriers, and therefore the progressive expiry of economic integration regimes, the multilateral process came to a halt and later even saw a reversion. It was against this background, at the start of the new century, that LAIA once again maintained its presence through new ECAs resulting from the inertia in negotiations initiated during the previous decade (e.g. as those subscribed between the MERCOSUR countries and the Andean Community of Nations - CAN) and through new initiatives relating to the regional and

[1] PSAs can take the form of agreements on trade, economic complementation, agriculture, and trade promotion, as well as "other modalities" (TM80 Arts. 10-14). Although the classification can be applied to RSAs (TM80 Art. 6), their lack of development did not require such differentiation. In turn, the RTP is formalized in RSA N° 4, which is why in practice the EPA only includes two mechanisms: RSAs and PSAs.

[2] Renegotiation Agreements and Trade Agreements contain much of the "historical heritage." While the former-with characteristics similar to PSAs-come from the LAFTA deregulation program, the latter sectoral kind included Complementation Agreements, particularly those signed in the 1970s. Consequently, only ECAs embody the modest progress achieved during this period, including ECAs 1 (formerly CAUCEs), 2 (formerly PECs) 3-13, 15, 16, and 19-21.

[3] The ECAs currently in force, from that decade, which include free trade areas are 18, 23, 24, 35, 36 and 41.

international situation.[4] It also took action in an attempt to achieve convergence of partial actions on the basis of instrumental and institutional initiatives.[5]

The Current Situation: Between New Initiatives and Transgressions

One phenomenon to acquire particular relevance in the present is the proliferation of new regional integration schemes. In 2004, while the Free Trade Area of the Americas (FTAA) project was doomed to fail, the South American Community of Nations (SACN, known from 2006 as the Union of South American Nations - UNASUR), and the Bolivarian Alternative for Latin America and the Caribbean (ALBA) were both created. Since then, the UNASUR process has been gradually consolidated, particularly in the political and financial arenas, while ALBA has also been making strides with the joining of several countries and the progress it has made in various different areas.[6] To these new initiatives could be added the Latin American Pacific Basin Initiative (also known as the Latin American Pacific Rim Forum), despite coming into being as a policy coordination forum rather than an integration process (LAIA, 2010a, p. 97-102).

The complex institutional structure made up of these new schemes and existing ones (OAS, SELA, MERCOSUR, CAN, SICA, CARICOM, and LAIA itself) led the countries to create a new ambit of coordination and joint advancement in 2008 through the Summit of Latin America and the Caribbean Countries on Integration and Development (CALC). LAIA found its place within this complicated context following the second Summit held in 2010, when it was granted the task of facilitating dialogue on the economic and trade dimensions of integration, after presenting its specific action proposals to the CALC Presidency (LAIA, 2011, p. 26-27).[7]

While the new initiatives resolve the organizational structure and the mechanisms in pursuit of their objectives, LAIA continues to be a veritable notary's office, safeguarding the formally recognized agreements in its purview, and is the true forum for concrete trade negotiations at the regional level. For example, in June 2010 a new trade preference agreement, ECA 66, came into force between Bolivia and Mexico. This agreement was more restricted than the free trade zone established by its predecessor, ECA 31, condemned by Bolivia in December 2009, which had been designed for the international context and the national realities that the two countries were experiencing in the mid-1990s.

This ability to adapt at present enables LAIA to maintain 94 Agreements in force (*Table 1*). There are 55 agreements that contain tariff preferences covering over 80% of items, including 11 ECAs establishing FTAs that account for almost 60% of totally tariff-free items (*Table 2*) (LAIA, 2010b).

Whether it is to implement particular trade policies that introduce new national development strategies and/or as a consequence of stagnation and backtracking in multilateral trade negotiations, several LAIA member countries -like others in Latin America and the world- have habitually enforced protectionist measures -as safeguards or otherwise- that are not formally set out in the agreements in force and even

[4] Among the former are ECAs 58 (Peru-MERCOSUR countries) and 59 (rest of CAN-MERCOSUR). The latter include ECAs 53, 54, 55, and 60, which involve Mexico together with the MERCOSUR countries; ECAs 63 and 64 related to Venezuela; and ECA 66 Bolivia-Mexico, which will be referred to further on.

[5] In 2004 the LAIA Council of Ministers established the *Bases de un Programa para la Conformación Progresiva de un Espacio de Libre Comercio en la ALADI*, CM/Res. 59 (XIII). The new strategy sets aside the objective of seeking a common regulatory framework in order to achieve linkage and convergence via inertia, as a natural result of the agreements in force, and the initiatives and negotiations undertaken by the member countries. Under the institutional framework, the Council resolved to activate the Evaluation and Convergence Conference created by TM80 and unimportant ever since (CM/Res. 70 and 71 (XV).

[6] Set up in 2008, UNASUR has made advances in the areas of infrastructure (South American Infrastructure and Planning Council - COSIPLAN), energy (South American Energy Council - CES), health (South American Council of Health - CSS), finance (Bank of the South), and defense (South American Defense Council). What is now the Bolivarian Alternative for the Peoples of Our America-People's Trade Agreement (ALBA-TCP) has made progress on finance (Bank of ALBA), education (literacy and post-literacy), culture (ALBA CULTURAL project), health (ALBA-Med), trade (Peoples Trade Agreements), and production (Transnational Corporations).

[7] The 2nd CALC Summit was held on February 22 and 23, 2010, in Riviera Maya (Mexico) and resulted in the Cancun Declaration. The Declaration includes the Montego Bay Action Plan, which identified four areas of work: *(i)* the economy and trade (with LAIA's abovementioned role); *(ii)* production; *(iii)* society and institutions; and *(iv)* culture.

Table 1

Agreements Signed and in Force in the Framework of LAIA
To July 2011

LAIA Agreement Modality	Signed	In force	(1)	(2)	Comments
Regional scope (RSAs)	8	7	6	4.6%	Including RTP.
Renegotiation (PSA.Rs)	40	2	2	0.2%	Nearly all replaced by ECAs.
Trade (PSA.Ts)	23	0	0	0.0%	Sole existing ones originating in LAFTA.
Economic complementation (ECAs)	66	34	33	94.7%	Including selective and free trade agreements.
Partial scope agreements on agriculture (PSA.Ags)	3	3	2	X%	
Trade promotion (PSA.TPs)	19	15	0	-	Not including tariff preferences.
Partial scope via Art. 14 (PSA.A14s)	17	15	3	X%	Issues not included in earlier types.
Partial scope via Art. 25 (PSA.A25s)	41	18	9	X%	With non-member Latin American countries.
Total number of LAIA agreements to July 2011	*217*	*94*	*55*	*100%*	

Notes: (1) Number of agreements in force that have (negotiated trade) tariff preferences.

(2) Negotiated trade according to agreement modality (as %). X%: negotiated trade in PSA.AGs + PSA.A14s + PSA.A25s amounts to 0.4% of the total. These percentage values are for 2008 (LAIA 2010b, p. 22).

Source: Based on information available at *http://www.aladi.org*.

contravene their regulations, as well as multilateral regulations. These measures, which are not usually tariff-related, have undermined the advantages of LAIA's negotiated preferences.[8]

The Outlook: Scenarios and Proposals

A review of the new schemes and initiatives mentioned above, in addition to the new debates and regulations approved in the schemes from the past, reveals the existence of different conceptions of the strategy to achieve the region's economic and social development, and how it should fit into the international scenario. The process is shifting from political and philosophical discussion to the planning and implementation of actions at a time when the region is recovering from the international economic crisis that began in August 2007 and looks set to become immersed in a further crisis, despite ECLAC projecting average GDP growth of 4.2% for LAIA member countries and a 24% expansion being expected in interregional trade, according to the LAIA Secretariat (LAIA, 2011).

As previously stated, LAIA has proved to be flexible thanks to its particular design. In this sense, in the immediate future the association is likely to reflect the tendencies shown by some member countries towards a revision of the FTA or other agreements signed in the 1990s; such as the case of the replacement of ECA 31 for ECA 66, between Bolivia and Mexico afore mentioned.

For any scenario arising with regard to linkage and convergence, the intensification of activities in the framework of the Progressive Training Program of LAIA's Free Trade Zone (FTZ) could prove to be an interesting alternative and even a complement to the Action Plan established by CALC, in addition to the role

[8] For details of the quantitative restrictions applied among the MERCOSUR countries (ECA 18), see IDB-INTAL (2007a, b; 2009a, b; 2011).

Table 2

Free Trade ECAs in Force

PSA.ECs* (ECAs) N°	Signatory countries	Date of original Protocol and no of additional Protocols**	Duration/Current situation and Observations
18	Argentina/Brazil/ Paraguay/Uruguay	11-29-91 (74)	Indefinite duration. Formally recognizes Southern Common Market (MERCOSUR)
23	Chile/Venezuela	4-2-93 (3)	Indefinite duration
24	Chile/Colombia	12-6-93 (9)	Indefinite duration
33	Colombia/Mexico	6-13-94 (7)	Indefinite duration. Originally also included Venezuela
35	Chile/MERCOSUR	6-25-96 (55)	Indefinite duration. 4+1 Format
36	Bolivia/MERCOSUR	12-17-96 (26)	Indefinite duration. 4+1 Format
38	Chile/Peru	6-22-98 (3)	Indefinite duration
41	Chile/Mexico	4-17-98 (1)	Indefinite duration
58	Arg./Brazil/Parag./Peru/ Urug.	11-30-05 (4)	Indefinite duration
59	Arg./Br./Col./Ec./Par./ Urug./Ven.	10-18-04 (8)	Indefinite duration
60	Mexico/Uruguay	11-15-03	Indefinite duration

Notes: (*) Parcial Scope Agreement - Economic Complementation.
(**) Includes date the original Protocol was signed and, in brackets, the number of Additional Protocols.

Source: LAIA (*http://www.aladi.org)*.

so far assigned to the program within the framework of the process.

Looking to the future, other actions may be carried out to facilitate and promote preferential treatment in trading between members, for example, replicating what we might call the automotive sector model of negotiation. For over 20 years, this important and sensitive sector has been creating and updating different national and bilateral administered trade regimes in which LAIA has been the main player through agreements and protocols signed over the years. These reflect the transformations that have come about in the interests of vehicle manufacturers, auto parts manufacturers, and nation states as the process of fragmentation of the sector's value chain has become increasingly complex (López & Ramos, 2009).

In addition to the existing FTAs (*Table 2*), which include the automotive sector within the substantial deregulation of trade, there are also sectoral ECAs applied to the sector and specifically signed agreements (*Table 3*).

- ECA 1 between Argentina and Uruguay (a regime originating in LAFTA, which established trade deregulation for a list of various goods), was linked for most of its existence to automotive trade, from the Colonia Act of May 19, 1985 (4th Additional Protocol), to the 28th Additional Protocol determined its expiry as of May 1, 2003, when ECA 57, devoted exclusively to the sector, came into force.[9]

- ECA 2 between Brazil and Uruguay gave continuity to the Trade Expansion Program (PEC), part of the "heritage" originating in LAFTA.

[9] ECA 57 establishes the "Agreement on Conditions for Bilateral Trade between Argentina-Uruguay for automotive sector products".

Table 3

Economic Complementation Agreements Applying to the Automotive Sector

PSA.ECs* (ECAs) N°	Signatory countries	Date of original Protocol and no of additional Protocols**	Duration/Current situation and Observations
1	Argentina/Uruguay (CAUCE)	12-20-82 (28)	Not in force. Replaced by ECA 57.
2	Brazil/Uruguay (PEC)	12-20-82 (68)	In force. Extendable duration of 6 years.
14	Argentina/Brazil	12-20-90 (39)	In force. Indefinite duration.
55	Argentina/Brazil/Mexico/ Paraguay/Uruguay	9-27-02 (7)	In force. Exclusively automotive To be replaced when MERCOSUR-Mexico FTA is defined.
57	Argentina/Uruguay	3-31-03 (2)	In force. Exclusively automotive (until MERCOSUR regime is established).

Notes: (*) Parcial Scope Agreement - Economic Complementation.
(**) Includes date the original Protocol was signed and, in brackets, the number of Additional Protocols.

Source: LAIA (*http://www.aladi.org*).

Since July 1993 (17th Additional Protocol), it has almost exclusively contained provisions relating to the administered trade regime of the automotive sector between the two countries. The 68th and last Protocol to this ECA established an "Agreement" with similar characteristics to the one between Argentina and Brazil (ECA 14), which will also be in force until mid 2014, or until a MERCOSUR common policy is established for the sector.

- ECA 14 shaped the Argentine-Brazilian integration process initiated prior to the creation of MERCOSUR. Once the latter was created (ECA 18), the Protocols of ECA 14 contained all the bilateral actions that the two countries did not wish to or were unable to frame under the regime of MERCOSUR. The 38th Additional Protocol established the "Agreement on Common Automotive Policy between the Argentine Republic and the Federative Republic of Brazil," in force until 6/30/2014.[10]

- ECA 56 established the regime linking individual MERCOSUR countries with Mexico, in response to the interest in corporate integration shown by certain automotive manufacturers based in the countries involved.

Table 4 features statistics that demonstrate the importance of automotive agreements for exports, in this case from Argentina. We can see that Argentine exports from Chapter 87 alone (automotive vehicles, tractors and other terrestrial vehicles, and their parts and accessories) account for over 43% of total exports to Brazil and over 35% to Mexico in 2010. These results and those of previous years would not be possible without the preferences established in the corresponding agreements.[11]

All in all, the possibilities of replicating this network of preferential agreements that coordinate national and international corporate strategies in other sectors are far from remote. Designing administered trade regimes for other metallurgical industries (e.g. white line

[10] Practically all the 39 Protocols to ECA 14 refer to this bilateral regime of sectoral administered trade, forming an integration of sorts within the MERCOSUR integration process itself.

[11] The amount of sectoral exports and the percentage share of the totals would be far higher if the auto parts included in NALADISA Chapters 39, 40, 45, 73, 78, and 84 were added.

Table 4

Argentine Exports to Selected Countries

FOB value in thousands of dollars

Year	Argentine exports to Brazil			Argentine exports to Mexico		
	Totals (1)	Chapter 87 (2)	(2/1) x 100	Totals (1)	Chapter 87 (2)	(2/1) x 100
2002	4,848,035	845,307	17.44%	670,361	338,479	50.49%
2003	4,666,335	557,686	11.95%	796,309	383,101	48.11%
2004	5,605,067	811,651	14.48%	1,035,908	542,997	46.86%
2005	6,335,068	1,242,379	19.61%	1,158,663	535,194	46.19%
2006	8,140,942	1,960,443	24.08%	1,519,175	616,020	40.55%
2007	10,497,885	3,069,911	29.24%	1,439,486	552,497	38.38%
2008	13,272,361	4,325,146	32.59%	1,336,504	578,015	43.25%
2009	11,379,426	4,411,240	38.77%	935,186	302,310	32.33%
2010	14,419,525	6,247,963	43.33%	1,226,806	432,605	35.26%

Source: Based on data from ALADI SICOEX *http://www.aladi.org*.

products), the naval industry (structurally similar to the automotive industry), electrical products, or electronics and computing, would enable the actors based in LAIA countries not only to take fuller advantage of the preferences negotiated, in this case specifically, but would also open up the possibility of eliminating many quantitative restrictions and formally advancing the trade policies adopted by various member countries. ◆

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The Andean Integration Process: Origins, Transformations and Structures

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This paper depicts the context in which Andean integration has occurred and then, the changes in its economic strategies and specificities of its political rationale. The historical point of view has enabled the author to account for the characteristic features of Andean regionalism, portray the obstacles to economic integration and the consolidation of institutional structures, as well as shed light on the conditions where disintegration has come about.

Introduction

Contemporary studies on the Andean integration process shed light on its crises, shortcomings and failed objectives. However, they can teach us few lessons about its origins, the rationale of its changes over time or even the nature of its peculiarities. Also, the name "Andean Community of Nations" (Fairlie, 2006; Lagos, 2008; Altmann and Rojas Aravena, 2008; Martínez Alfonso *et al.*, 2008; De Lombaerde, Kochi and Briceño, 2008; Bonilla and Long, 2010) proves to be a symptom of both simplified approaches and the cognitive consistence of recent analyses on this regional integration experience, whose name, chosen by the member countries, is Andean Community (CAN). No doubt, accounting for the Andean integration process will definitely deepen our knowledge about the CAN and enrich debates over its outcomes. From this perspective, this paper depicts a history-based portrait of Andean regionalism.

Integration: An Economic Project

The first conceptualizations of regional integration were addressed to Europe and Latin America. While the Second World War paved the way to question the conditions of peace in Europe (Deutsch *et al.*, 1957), or the mechanisms and interactions to maintain unity and avoid war (Haas, 1948; Haas, 1958), Latin America looked into the characteristics of its own social, industrial and economic development. When the Economic Commission for Latin America and the Caribbean (ECLAC) was created, Executive Secretary Raúl Prebisch proposed stimulating intergovernmental

cooperation and industrialization relating them to protectionism in order to put an end to unequal trade and the deterioration of the terms of exchange typical of global economic structures. According to Prebisch (1948), the import-substitution industrialization strategy should be implemented regionally, based on plans also concerned with complementariness. ECLAC gave birth to a network of experts and intellectuals connected with regional, national or multilateral organizations, for which integration was an instrument to attain industrialization and economic development as well as "entry" into the world's economy. They considered that regional integration made it possible not only to overcome underdevelopment but also to strengthen Latin America's bargaining power *vis-à-vis* industrialized countries. Thus, all debates on Latin American integration were based on economic and political foundations.

Under the auspices of ECLAC, the Latin American Association of Free Trade (LAFTA) and the Central American Common Market were created in 1960. LAFTA, which aimed to create a free trade area through selective negotiations, brought about a considerable decrease in customs duties. But the Association soon faced difficulties on account of its own poor organizational structure and its members' extremely heterogeneous economic development. Such structure -a Conference of the Contracting Parties, a Secretariat and an Executive Committee- made it impossible to overcome the three obstacles LAFTA had to face: profit allocation, decision-making and negotiation processes, and the lack of a judicial body (Grunwald, Wionczek and Carnoy, 1972, p. 14).

In this context, in January 1965 Chilean President Eduardo Frei Montalva asked four economists -Raúl Prebisch, Secretary-General of the United Nations Conference on Trade and Development (UNCTAD); José Mayorbe, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC); Felipe Herrera, President of the Inter-American Development Bank (IDB); and Carlos Sanz de Santamaría, Chairman of the Inter-American Committee on the Alliance for Progress (IACAP)- to submit concrete proposals to re-start the Latin American integration process. These economists suggested creating strong central institutions as well as an agency aimed at financing common investment projects. They also emphasized the importance of redefining a new way to lower tariffs and to promote regional development (Mayorbe *et al.*, 1965). Nevertheless, their ideas had no effect and failed to transform LAFTA. It was during this deadlock that the Andean integration process started.

A regional market would offer Andean governments the chance to take advantage of scale economies and would allow entrepreneurs to compete by availing themselves of a better and more efficient use of land, labor and capital. Besides, a new Andean organization would consolidate Latin American integration. Should LAFTA experience a failure, the Andean countries would have at hand a means to strengthen their negotiations with the rest of the world (Milenky, 1971). As the rest of Latin America, the Andean countries were concerned by the U.S. trade protectionism and about the future of their exports, particularly agricultural goods, to the European Economic Community (EEC). But Andean integration was the result of an initiative by politicians (Santander, 2008, p. 74), and the technocrats' role was subordinated to politicians' directions (Puyana, 1982, pp. 168-169).

On August 15, 1966, Colombian President Carlos Lleras Restrepo invited his counterparts from Chile, Ecuador, Peru and Venezuela to a meeting in Bogotá. Chilean President Frei Montalva and Venezuelan Raúl Leoni Otero attended in person, whereas Peruvian Fernando Belaúnde Terry and Ecuadorian Clement Yerovi Indaburu sent envoys. The meeting gave origin to the Bogota Declaration, which included an immediate action plan to achieve economic integration within LAFTA as well as the creation of a mixed commission. In 1967, the Bolivian military regime of René Barrientos Ortuño announced the country would join the Andean integration process and suggested the inclusion of a full review of the level of development of each member country. His proposal, endorsed by the Ecuadorian Administration of José María Velasco Ibarra, was adopted without further ado, because it was similar to the arguments put forward by Chile and Colombia within LAFTA geared towards having special measures implemented for middle-sized market countries. The same year, representatives of Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela created the Andean Development Corporation (CAF) in order to finance regional projects. In February 1968, the mixed commission became an Assembly -the *Junta*- which, in the course of the January 1969 meeting, commissioned a group of experts to prepare a regional treaty, and only four months later they presented a draft. The short time devoted to the negotiations is accounted for by the chosen methodology: they worked in isolation, allowing

no businessman to review the text until submittal to the *Junta* (Mimbela, 1970, p. 11). Two months later, representatives of Bolivia, Colombia, Chile, Ecuador and Peru signed the Cartagena Agreement, better known as the Andean Pact or Andean Group, which Venezuela joined in 1973.

The Cartagena Agreement institutionalized the *Junta* as its independent executive organ and created a Commission, comprised of the Trade Ministers of the signatory countries and responsible for making the rules, as well as an advisory body -a social and economic committee. The new regional organization vested itself with decision-making powers by a two-third majority and set up its headquarters in Lima, after which the Ministers of Foreign Affairs began holding informal meetings. This institutional framework was no doubt inspired in the European Economic Community (Prebisch *et al.*, 1966). Besides, the Andean representatives requested -and managed to obtain- technical assistance from Brussels. However, asserting that the Andean Group was fashioned after the EEC (Dabène, 2009, p. 18) leaves us on the verge of reductionism. Latin American theorists of integration strained to point out that Andean institutions, like ECLAC, enjoyed technical capabilities independent of member states and at the service of collective interests (Prebisch, 1973, pp. 34-35). As a matter of fact, Andean technocrats found inspiration in their ECLAC counterparts (Puyana, 1982, p. 8). Andean politicians wished to address the concrete problems posed by Latin America's integration process than the replication of the European model.

Economic and Political Strategies

By signing the Cartagena Agreement, the Andean governments embarked on the harmonization of their trade policies and the creation of a free trade area and a customs union in 1985. To these classic methods of trade liberalization, the Andean Pact added the implementation of sectoral industrial programs based on a traditional import substitution policy. But the most significant innovation lies in the financial arena. In 1970, the Andean Community Commission passed Decision 24, which granted a preference to Andean capitals and businesses. By favoring the domestic markets and import substitution, this regionalism was configured for a closed process. This choice had, however, an overtly strategic and political stance. *On the one hand*, the firm belief that free trade would not lead by itself to integration demanded that regional industries should be protected and promoted. *On the other hand*, there was the interpretation that an incipient common market would attract multinationals, which would be the first to take advantage of the opportunities offered by an expanded market to the detriment of local capitals and the economic sovereignty of the Andean countries. Dependence could only be reduced by controlling foreign investments regionally (Kuczynisky and Huelin, 1973, p. 21), and Decision 24 offered above all a means to re-define the "rules of the game" (Salgado, 1972, p. 4). Andean integration had a target: rationalizing capitalism, where the State allocates resources and economic profits benefit national actors primarily (Mace, 1981, p. 71).

During the first half of the 1970's, intraregional trade grew on account of the fast decrease in customs tariffs, and sectoral development programs favored an industrial re-orientation towards consumer goods. Afterwards, the integration process was affected by internal and external factors: border conflicts between Peru and Ecuador, and between Venezuela and Colombia, as well as a breach of the obligations prescribed by the Andean institutions. The implementation of the customs union was procrastinated and joint projects were delayed (Puyana, 1988). Decision 24 sparked antagonistic reactions from the U.S. Administration, banks and businesses (Lynn, 1977). Also, a military *coup d'état* took place in Chile in 1973 and the dictators announced their withdrawal from the integration process three years later. Nevertheless, the Andean integration experienced structural consolidation. The Andean Reserve Fund (FAR) was created in 1976 to grant loans to member countries in balance of payment difficulties. In 1979, the Andean Presidents signed two documents with a view to streamlining integration. The Cartagena Mandate was the starting line for Andean presidential summits and the formalization of political cooperation, left in the hands of the Ministers of Foreign Affairs. However, both this ministerial cooperation and presidential meetings remained outside regional institutions. The second document gave birth to the Andean Community Court of Justice, charged with standardizing the interpretation of rules, and guarantee that they come into effect simultaneously in all member countries. The Andean governments also decided to create three advisory bodies: the regional Andean Parliament, the Andean Labor Advisory Council and the Andean Business Advisory Council. They also signed

cooperation agreements in the fields of education, culture, health, labor and the environment.

In the 1980's, the region's macroeconomic turmoil took place within the framework of a global economic crisis that influenced the balance of payments on account of the higher oil prices and the huge foreign debt that affected the whole of Latin America. In 1983, the Andean countries concentrated 20% of the Latin American US$336 billion debt (Figueredo, 1987). The governments held Latin American conferences in Quito, Caracas and Cartagena on how to negotiate debt repayment, and the Andean institutions were involved in drafting the documents to address the social and economic impact of the debt crisis (Roett, 1985). In 1988, the FAR, which had enjoyed positive results, expanded to the entire region to become the Latin American Reserve Fund (FLAR). The progress attained by the Andean integration process in the 1980's was marked by the operation of the institutions (Angarita, 1988, p. 155). However, the consolidation of regional political and economic cooperation structures was neither reflected by increased trade nor by the adoption of a common external tariff (CET) within the Andean Group.

In order to face the credit and indebtedness problems, Latin American countries individually implemented so-called "structural adjustment" programs (Williamson, 1990). And 1987 is a milestone in the Andean integration process -the members signed the Quito Protocol in May, which amended the Cartagena Agreement and affirmed two fundamental orientations. *The first one* upholds the resolve to create a free trade area and adopt a CET, while *the second* seeks to allow member countries to enter into bilateral agreements with third parties. Moreover, Decision 24 was repealed that year too: from then onwards, the national economies would have enough autonomy to pass their own rules to control investments and technology transfer.

Opening Up the Integration Process

In 1992, the Cartagena Agreement signatories honored, only in part though, their latest commitment to create a free trade area. They also established a four-level CET (5%, 10%, 15% and 20%) to give birth to an imperfect customs union as from 1996 and adopted a Decision granting some degree of autonomy to each member country when negotiating with Latin American partners. These steps, prior to integration, were accompanied by national programs targeting privatization, financial deregulation and the liberalization of markets and foreign trade. The opening of the regional integration process was reflected in stronger links with the world's economic hubs and a significant increase in intraregional trade. The value of trade within the Andean integration area increased fourfold between 1989 and 1995. In a context of consistent application of an imperfect CET and harmonization of customs regimes and rules, in 1995 intraregional trade attained 12.7% of the overall trade, when it had never exceeded 5%. That year, trade integration reached the highest level ever (Andean Community General Secretariat, 2006).

In the Andean region, as in the remaining Latin American countries, open regionalism had three peculiarities: regional technocrats were involved in supporting the relationship between the States and the private sector; the belated entry of social actors into the process; and the hegemony of the private sector in the expansion of the regional market (De Lombaerde and Garay, 2008). Following its own rationale, this regionalism fashioned another feature: the progress of the Andean integration process would remain dependant upon the global economy. The increase in intraregional trade remained quite weak in relation to the members' extra-regional trade (Andean Community General Secretariat, 2009). In fact, it was investments -and not trade- which were benefitted by open integration. In comparison with other Latin American regional organizations, the Andean integration participants experienced a considerable increase in their foreign direct investments, primarily from the United States and the European Union (Dunning, 2002). The Andean integration became more complex as from 1990 by gradually including other cooperation areas, such as citizenship, economic and social rights, cultural diversity and the struggle against international crime (Fuentes Hernández, 2008, pp. 196-206; Moncayo, 1999). Even though Andean regionalism thus remained formally concerned about global issues, such as "cosmopolitan democracy", "the emergence of civil society" and "the protection of the world's ecosystem," it was particularly in the struggle against illegal drug trafficking, an unavoidable goal of international policy, that the Andean countries acted in concert.

In 1990, both the common treatment given to Andean exports by the U.S. and the EU, and the political and social violence phenomena connected to illegal cocaine production and trade prompted the Andean Presidents

to demand that these two extraregional markets should open their doors to legal Andean exports. The Andean rationale was that the countries targeted by cocaine trafficking had a duty to help redress the social and economic problems engendered by the anti-drug struggle on the Andes and that opening their markets to the Andean exports was an unquestionable means to grant such compensation, as it contributed towards strengthening the Andean economies (Barco, 1990; Paz Zamora, 1990; Andean Community General Secretariat, 2000, pp. 41-44). Until the mid-2000's, the defense and scope of these trade privileges, by way of anti-drug struggle, prompted the Andean governments to coordinate a common trade diplomacy *vis-à-vis* Washington and Brussels.

The foreign policy became a key aspect of the open regionalism process. The Andean countries took notice in 1996 and implemented an institutional reform: they signed the Trujillo Protocol, which amended the founding treaty in order to reinforce their desire for integration beyond trade issues. The regional process was baptized Andean Community, and the *Junta* turned into a General Secretariat. Also, the role of Presidents, so far outside the province of organizational structures, was institutionalized through the creation of the Andean Presidential Council, while the role played by the Ministers of Foreign Affairs was institutionalized with the creation of the Andean Council of Foreign Affairs, which was vested with legislative powers. That same year, CAN and the Southern Common Market (MERCOSUR) representatives agreed to create a free trade area. Internally, the regional process contributed to the reconciliation between Peru and Ecuador, which had engaged in an armed conflict for a month in 1995. Also in 1996, Andean and European representatives scheduled regular meetings as part of the interregional process started in 1983. However, the true novelty of a coordinated action lay in the Free Trade Area of the Americas (FTAA) negotiations, during which the Andean countries succeeded in upholding a common trade position (Rico Frontaura, 2004; Tussie, 2009, p. 181).

Investments fell sharply between the late 1990's and the early 2000's. But from a long-term perspective, the opening up of the integration process encouraged an increase in intraregional trade, especially in border areas (Acosta, Calfat and Flôres, 2006, p. 52), as well as in extraregional trade and even a transformation of members' industrial structures (Adkisson, 2003; Creamer, 2004). In this context of trade integration impetus, the Andean Community laid down the objectives, criteria and mechanisms of a common foreign policy in 1999. In 2002, the Presidential Council decided to set a common market in motion in 2005. But neither did the CET ever come into force, nor was the Andean free trade area implemented. Since the beginning of the 2000's, the regional process and the CAN foreign agenda have been procrastinated on account of political differences.

The Political Arena

Andean regionalism has never been characterized by political homogeneity. The idea of a regional Andean group was part of an initiative by Chilean President Frei Montalba and his Colombian counterpart Lleras Restrepo, both interested in achieving integration in order to effect their own socio-economic reforms. Their project was successively endorsed by the Presidents of Venezuela (Rafael Leoni), Peru (Fernando Belaúnde), Ecuador (Velasco Ibarra), and the Bolivian military regime. Shortly before the signature of the Cartagena Agreement, Peru fell under a dictatorship led by General Velasco Alvarado, who advocated a revolutionary and nationalist change (Bernales, 1973).

Alvarado's plans found support in the newly elected democratic Chilean President Salvador Allende and the military regimes headed by the "leftist" General Juan José Torres in Bolivia and the nationalist and revolutionary General Guillermo Rodríguez, in Ecuador. Colombia and Venezuela experienced the political alternation embodied by Misael Pastrana Borrero and Rafael Caldera, respectively, who were in favor of moderate social and economic reforms. In 1971, in a context of deliberations sparked by the Chilean Administration's political orientation, the Andean Community Commission and the Andean countries' Ministers of Foreign Affairs recognized that every country has the right to adopt their own political and ideological structures, which was called "the principle of pluralism". Shortly afterwards, two groups emerged within the Andean regional integration process: three radical regimes, *on one part*, and two reformist governments, *on the other*.

The Chilean dictators' decision to abandon the regional integration did not entail the withdrawal of other Andean military regimes. But another political cleavage took place: Peruvian General Velasco Alvarado was overthrown by Morales Bermúdez, another less

revolutionary and more centrist military officer. In Bolivia, General Hugo Banzer, close to the conservative sectors, ousted General Torres from office. The political differences remained nearly unaltered and during the 1970's, the Andean integration process continued to be supported by military regimes (Bolivia, Ecuador and Peru), democracies (Colombia and Venezuela), two political institutions -the executive *Junta* (which was completely autonomous *vis-à-vis* Governments) and the legislative Commission- and a financial body (CAF). The first organizational transformation, brought about in 1979 by military and democratic governments, is overlooked by the analyses seeking to conceptualize the links between democracy (Dabène, 2009, pp. 102-106) and the role of Presidents (Malamud, 2010, p. 653), on the one part, and the attainment of regional integration, on the other. However, even though Latin American regionalism has always been promoted from the top down (Casas Gragea, 2002, p. 104), authoritarian (civilian or military) regimes have never adopted a position of leadership in the regional process. Their explanation is simple: authoritarian regimes avoid both discussion and debate so as to keep decision-making uncompromised.

Two of the salient features of Andean regionalism were fashioned during the first decade of life: the creation of supranational institutions and the impetus given to integration by government heads, whether military or democratic. It was not until the 1980's, following the return of democracy and the revitalization of regional integragion, that the concept of "presidential diplomacy" and the ensuing notion of "inter-presidentialism" (Malamud, 2010, p. 649) attain a theoretical and practical significance to understand Latin American regionalism. As a matter of fact, the Andean integration process was begun anew in 1987 by the Presidents, gathered in Quito. During the 1990's, despite the implementation of a common Andean foreign policy, the negotiations of the CAN with its two main trade partners -the United States and the European Union-[1] were adversely affected on the threshold of the 21st century.

[1] The United States is not only the main trade partner of each CAN member state but also the target market of around 40% of their exports, followed by the EU, which purchases about 12% of all Andean exports (Andean Community General Secretariat, 2004 and 2005).

The early end of several governments in Ecuador and Bolivia, the political transition after ten years of Fujimorism in Peru, the attempted coup d'état in Venezuela, and the renewal of armed conflicts in Colombia spawned the context of Andean disagreements over the political-economic model based on open integration into global trade and on the limitation of State economic intervention. In 2003, Colombia, Ecuador and Peru opted to enter together into a free trade agreement with the U.S., while Bolivia took part as an observer and Venezuela took distance from the process. This situation reached a denouement within the Andean Council of Foreign Affairs, which allowed trade negotiations with any third countries by passing Decision 598 in 2004, the priority being the community approach and the exception being the individual negotiation. Contrary to a general and shallow misconception, these acts revealed that the decision by certain Andean states to negotiate a free trade agreement with the U.S. was not made unbeknownst to the Andean institutions.

In 2005, the rift within the Andean Community was confirmed when Colombia, Ecuador and Peru endorsed the U.S. initiative to re-launch their negotiations to create the FTAA, to which Venezuelan President Hugo Chávez offered fierce opposition. In 2006, the new Bolivian President, Evo Morales, endorsed the Venezuelan rejection, while Colombia, Ecuador and Peru abandoned their plans to coordinate their postures *vis-à-vis* the U.S. and continued their negotiations individually. Peru and Colombia decided to enter into free trade agreements with the U.S. on their own, which paved the waty for Venezuela to leave the CAN. As Chile in 1976, 30 years later Venezuela deemed that integration constrained its economic policy and hence withdrew from the CAN, whereas Chile rejoined the CAN as an associate member.

As regards the EU, the situation was similar: in 2003 the CAN had signed a Dialogue and Cooperation Agreement with the EU, including an initiative to create a free trade area. But in late 2006, the different viewpoints between two clear-cut political groups within the Andean Community proved unfavorable for the interregional process. Colombia and Peru insisted on beginning bilateral negotiations with the European Union, whereas Bolivia and Ecuador turned down the European proposal. Eventually, in 2008 Brussels accepted the proposal by Colombia and Peru to negotiate a free

trade agreement bilaterally. This year was also marked by the last interstate conflict, which broke out when President Álvaro Uribe decided to attack a Colombian guerrilla camp in Ecuadorian territory.

The new Administrations of Ollanta Humala in Peru and Juan Manuel Santos in Colombia heralded a new political alignment with Bolivia, Ecuador and Peru in the same ideological arena. However, no country envisaged leaving the CAN: the political disagreements over the economic agenda of the integration process certainly embodied the framework of disintegration (Chile and Venezuela), but did not necessarily cause their withdrawal from the regional process (Bolivia, Colombia, Ecuador, Peru). On the contrary, interstate disputes, even armed conflicts, have never represented conditions or arguments to abandon Andean integration. As a result of the global deceleration trend of the economic opening process (Bouzas, Da Motta Veiga and Ríos, 2008, p. 331), the CAN would be able to gather momentum under the More Market and a Better State motto (Iglesias, 2008, p. 34).

The Integration Institutions

During the last decade, the extreme fragility of the political links between the CAN members came hand in hand with the buoyancy of regional institutions. The Andean foreign policy forged a network of officials accountable for discussing and working on the decisions on trade negotiations and foreign affairs. Between 1996 and 2005, 625 decisions were passed, representing 61% of all those adopted since 1969 (Bustamante, 2006). During the same period, out of the overall 172 non-compliance cases dealt with by the Andean institutions, 78% were rectified (ECLAC, 2006, p. 3). In 2004, the General Secretariat promoted a discussion about the Andean countries' development model and encouraged coordinating their positions on the United Nations reform. Even though these actions were hardly successful, between 1997 and 2010,[2] they illustrate the scope of the General Secretariat's efforts, producing hundreds of similar initiatives of a propositional nature resulting from their own research.

[2] See the *Working Documents* Section at *CAN* website.

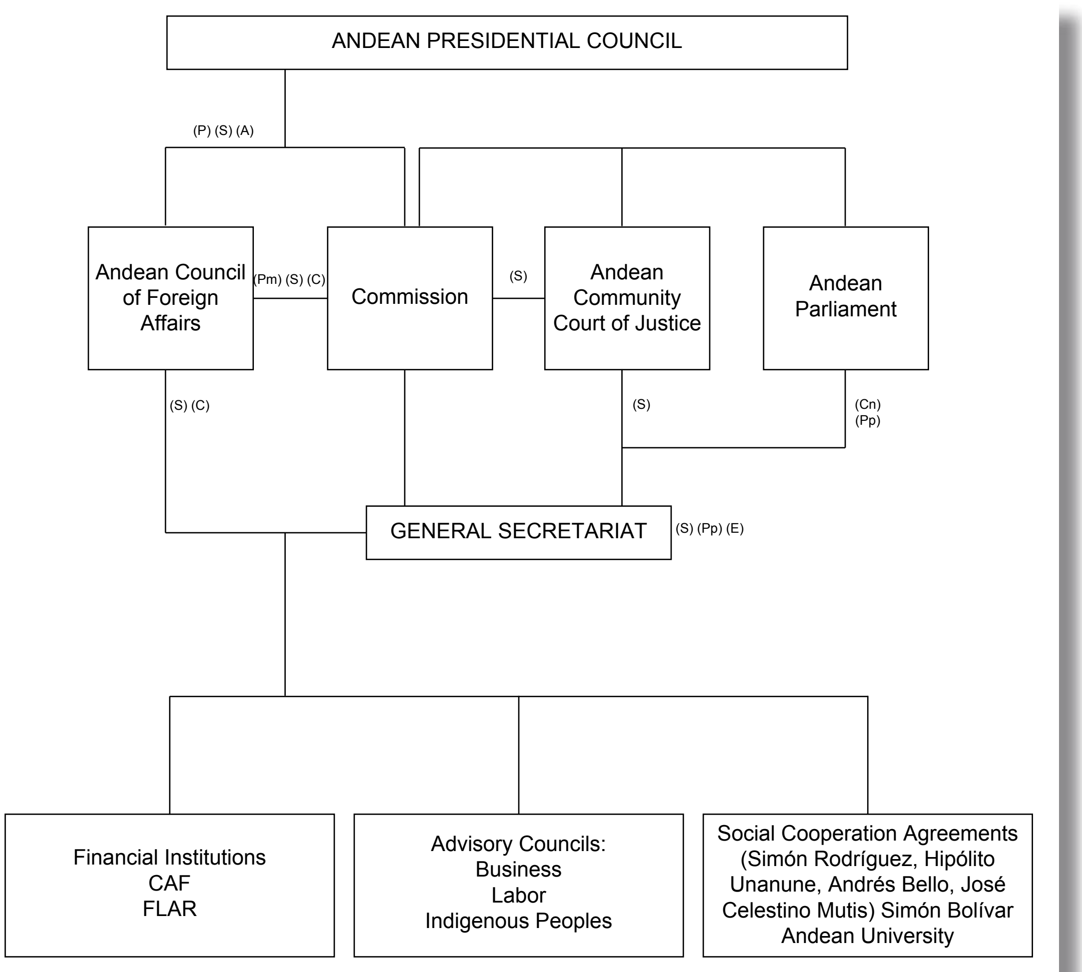
The workload of the Andean Community Court of Justice has also increased considerably since 2000, evidenced by about 1,200 prejudicial interpretations. Experience shows that when countries resorted to the dispute resolution mechanism, they were able to remedy non-compliance of CAN rules, particularly trade rules (Fuentes and Allegret, 2009). Besides, the credibility and success of CAF financing projects resulted in an increase in the number of shareholder countries from 12 in 2001 to 19 in 2010. Jointly with the World Bank and the Inter-American Development Bank, CAF is one of the leading sources for financing the infrastructure in Latin America and the Caribbean (SELA, 2011, p. 46-47).

The dynamics of Andean institutions and their voluminous body of rules require rigorous studies with a view to pinpointing their impact on the integration process as well as their link with the political coordination and discussions between member countries. Certainly, the experience in the integration process management and dispute settlement is one of the CAN's main virtues. The Community's institutional organization (*Figure 1*) is unanimously considered the most robust of all integration processes in Latin America and the Caribbean. In fact, throughout the history of Andean regionalism, the recurrent crises endured by the economic integration process have been accompanied by the sound development of regional institutions. Nevertheless, the Andean bureaucracy, the operation of CAN institutions and their links to member states, and the demands by those who are not State players in the region are hardly known at all. Moreover, contemporary studies on Latin American regionalism often overlook the initiatives of Andean countries, even though their governments have played a primary role in building the most recent Latin American regional integration experiences.

The first South American summit, held in Brasilia in 2002, launched the process leading to the creation of the Union of South American Nations (UNASUR), and was followed by meetings in Guayaquil, Ecuador, in 2002; Cuzco, Peru, in 2004; and Cochabamba, Bolivia, in 2006. In its founding ceremony, UNASUR proclaimed that all member states construe integration as a means to attain sustainable development and promote the consolidation of multilateralism on the global scene. The new Latin American regional organization aimed for economic integration. Thus, in 2003 CAN and MERCOSUR signed

Figure 1

Institutional Structure of the Andean Community



Notes: (C): Coordination, (Cn): Consultation, (P): Political direction, (Pm): Policy-making, (A): Appoint, (Pr): Promote; (Pp): Propose, (S): Supervise, (E): Examine, and (Sr): Submission of rules.

Source: Author´s elaboration based on Bustamante (2004).

a free trade area agreement, which, despite the efforts of regional institutions, has hardly made any progress since.[3] But the reciprocal association between CAN and MERCOSUR member countries confirms that the stepping stones of such process have already been laid. Besides, Bolivia and Ecuador have joined the Bolivarian Alternative for the Americas (ALBA), a more ideological than economic association founded in 2004 from a Venezuelan initiative. In April 2011, Chile, Colombia, Peru and Mexico created the Pacific Alliance (AP), an integration initiative based on the coordination of economic policies. It could also be said that as back in 1969, the future of the CAN has gone hand in hand with Latin American integration movements. ◆

[3] See the *Documents drafted by the General Secretariats of the Andean Community, MERCOSUR and the Latin American Integration Association (ALADI) for the South American convergence process*.

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20 Years On: The Achievements and Pending Challenges of MERCOSUR*

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Twenty years have elapsed since Argentina, Brazil, Paraguay and Uruguay adopted "new regionalism" as an integration strategy to promote the region's development and improve its international insertion. This article analyzes MERCOSUR's principal achievements, bearing in mind the objectives stated at the outset, and highlights the main challenges it still faces in achieving deeper integration and reaching those objectives. An analysis is made of foreign trade performance, both extra- and intra-MERCOSUR, as well as its main characteristics: share in world trade, importance of intrazone trade, main asymmetries, and composition and intensity of regional trade. Although regional integration has achieved important results in terms of trade liberalization, there are still significant barriers that have prevented further deepening. With the current global context in mind, the article analyzes the challenges remaining for MERCOSUR as an imperfect customs union in which significant transaction costs, asymmetries, and a low level of institutional development continue to exist.

Introduction

Against a background of a new wave of regional agreements, and political and economic regionalism brought about by the end of the Cold War, Argentina, Brazil, Paraguay, and Uruguay decided to move forward with a process of regional integration, which became reality with the signing of the Treaty of Asuncion on March 26, 1991, and was given the name Southern Common Market (MERCOSUR). While there had already been previous attempts to seek economic integration between these

* All the opinions expressed in this article are the exclusive responsibility of the authors and do not necessarily reflect the opinion or thinking of the Argentine Chamber of Commerce.

countries, MERCOSUR was the first to be formalized. In the 1970s, Uruguay deepened its trade relations with Brazil, through the Trade Expansion Protocol (PEC), and with Argentina, through the Argentine-Uruguayan Economic Cooperation Agreement (CAUCE). Furthermore, between 1984 and 1989, Argentina and Brazil signed 24 bilateral protocols regulating various different areas, including the creation of the Argentina-Brazil High-Level Joint Commission for Integration in 1985, and the adoption of the Argentina-Brazil Integration and Economics Cooperation Program (PICE) in 1986, which demonstrate the high degree of interest existing in both countries regarding integration. In 1990, Argentina and Brazil signed and registered an Economic Complementation Agreement (ECA) with LAIA, systematizing and deepening the preexisting bilateral trade agreements. It was in that same year that authorities from the two countries met with their counterparts from Paraguay and Uruguay, who showed a willingness to join in the bilateral process already under way, on condition that an agreement was signed to create a common market among the four nations.

In March 1991, the signing took place of the aforementioned Treaty of Asuncion, the international instrument designed to make MERCOSUR possible. The Treaty is an ECA with a regional scope between Argentina, Brazil, Paraguay, and Uruguay, as it remains open to the other LAIA member countries. This type of agreement seeks to establish free trade zones among its signatories, to completely eliminate duties and other tariff-related restrictions (in some cases with exceptions, in the framework of promoting maximum utilization of production factors), to stimulate economic complementation, to ensure equitable conditions for competition, to facilitate entry of products into the international market, and to encourage the balanced and harmonious development of member countries.

The Context of New Regionalism

While, as mentioned above, it is possible to identify an evolution or linear development over time in the regional integration process in the Southern Cone, the MERCOSUR agreement came about in a very different context than the attempts made in previous decades.

After a couple of decades of implementing a closed economic model of industrialization by import substitution with a strong State presence, when this policy began to show flaws, regional integration processes were initiated in the framework of what was termed "old regionalism" (Devlin & Estevadeordal, 2001, pp. 3-4). The latter was characterized by a clear pessimism over the possibilities of insertion in international markets, and over deregulated markets. The main objective was not to achieve greater integration in the world (as skepticism continued to reign where the possibilities of inserting domestic production into world markets was concerned), but rather to replace imports from third countries by regional production. The Latin American Free Trade Association (LAFTA), created in 1960 by the Treaty of Montevideo, was an example of such an initiative. But, as the years went by, it became clear that the results of most of these integration processes did not live up to expectations, and pessimism and lack of interest about them spread. However, the situation began to change in the 1980s and 1990s.

Some authors claim that the regional integration of the 1990s must be understood in the contemporary economic context (Devlin & Ffrench Davis, 1998). In this view, integration schemes were partly designed to improve the efficiency of the import substitution model through an expansion strategy that would protect the domestic market. These authors also point out that the traditional Latin American development model changed in the 1980s, leading to a shift in the conception of regional integration. They categorize "open regionalism" in regional integration as an additional instrument for opening up economies to competition and trade liberalization, the emphasis being placed on the fact that various tariffs are different than zero, albeit at moderate levels, as a way of establishing preferences but generating less distortion than with previous trade agreements.

The consensus around moving forward in regional integration during this period was motivated by both external and internal factors that redefined the possibility of integration from a more pragmatic viewpoint. To quote Salgado (1990, p. 149): "*Interest in integration has been renewed, not just because the logic of joint action or scale of production has become established, but because of the living example of more powerful countries that have already organized themselves into integrated blocs*".

Regarding external influence, the launch of the "Americas Initiative" in 1990, which was the precedent

to the North American Free Trade Agreement (NAFTA), marked a change in US trade policy, showing that United States also favored regional agreements (Bouzas, 2005, pp. 7-18). Following the signing of the Single European Act in 1986, the European Economic Community had begun to consolidate its internal market and adopt common policies, which would be deepened with the signing of the Maastricht Treaty and the creation of the European Union (EU). We must add to this the growing pessimism over the stagnation of trade negotiations in the framework of the Uruguay Round of GATT.

Where internal influence is concerned, after several decades of following an "inward development" strategy and as a consequence of the impact of the "debt crisis," a transition toward a new policy paradigm known as "the Washington Consensus" was initiated. This new paradigm included trade liberalization and the fuller integration of Latin American economies in the world economy with the aim of revitalizing these economies by increasing productivity, developing economies of scale, and improving competitiveness. This motivated the adoption of a more externalist strategic approach, in which "regionalization" meant integration for opening-up to world markets, and regional integration programs became vehicles of structural reform.

Thus, in the regional sphere, MERCOSUR emerged as a response to a new model that placed fresh value on the idea of economic integration and, in the international sphere, in response to the formation and consolidation of regional economic blocs.[1] This renewed integrationist interest was unlike the "old regionalism" in that it was no longer considered a mere regional extension of protectionism (Sanahuja, 2007, p. 77) and because it was not limited exclusively to integration between Latin American countries. This "new regionalism," which Bhagwati (1992) termed "second regionalism" and ECLAC called "open regionalism", was conceived as the appropriate strategy to: *(a)* promote development; *(b)* improve the international insertion of the region's countries; *(c)* increase regional power in trade negotiations with industrialized countries and in multilateral organizations; and *(d)* manage interdependencies more efficiently (ECLAC, 1994; IDB, 2002). Moreover, this "new regionalism" proposed to go beyond economic integration and sought, among other things, to promote the coordination of foreign and security policy, environmental cooperation, and the movement of persons.

The aim of this article is to analyze MERCOSUR's performance according to the objectives proposed by this "new regionalism." That is to say, to what extent progress has been made on the region's international insertion in the world economy, regional trade has intensified, exports have diversified, valued has been added to them, and an increase has been achieved in influence within international negotiations; in short, to what extent the region's development has been achieved through international trade.

Objectives Proposed by "New Regionalism" in the Early 1990s

One of the main objectives of this "new regionalism" was to achieve gains in wellbeing through economic integration as a result of the trade creation and efficiency brought about by the associated productive restructuring: in other words, the classic static effects of integration. However, this was not the only objective (Robson, 1993, pp. 277-278).

"New regionalism" also sought to promote the elimination of transaction costs and other administrative costs, i.e. to encourage the dynamic effects of integration through the impact they have on competitiveness (Burki *et al.*, 1997, pp. 3-12). This type of deeper integration had to include the liberalization of capital and services, and the elimination of non-tariff barriers and other fiscal or physical barriers to free competition and free movement.

Hence, this strategy involved the following aspects:

1. Broad liberalization that would eliminate tariff and non-tariff barriers, temporarily allowing limited exceptions for sectors where there were strong asymmetries ("sensitive sectors").

2. As a counterweight, this liberalization had an important regional preference component aimed at promoting economies of scale and other dynamic effects, intended to be realized through the adoption of common external tariffs and to result in a customs union. It also involved the adoption of a common or coordinated trade policy.

[1] For an analysis of the stages in MERCOSUR's evolution, see Saccone (1995).

3. Free movement, for which it was necessary to adopt common policies and rules regarding origin, investments, services, safeguards, intellectual property, and public procurement.

4. Coordination of fiscal and monetary policy in order to achieve macroeconomic stability through the convergence of internal and external equilibria.

5. Sectoral policies, such as in transport, energy, or technological innovation.

6. Active policies to reduce asymmetries between members, thereby improving social cohesion.

7. An institutional and regulatory structure that would enable the integration process to be governed democratically and efficiently.

All these objectives have in one way or another been more or less explicitly incorporated into the MERCOSUR agenda or have been taken into account in the various negotiations and agreements where the integration process has made progress.

MERCOSUR's Performance According to the Objectives of "New Regionalism"

Evolution of MERCOSUR's External Trade

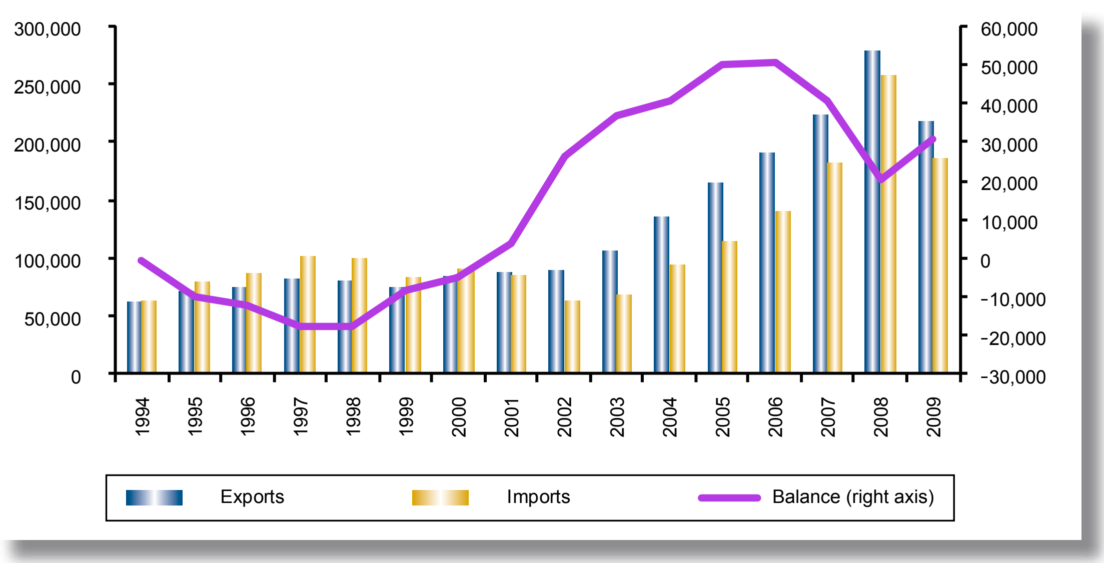
If we analyze the evolution of MERCOSUR's total external trade in goods (measured in current dollars) from 1994 to 2009, we can see that it has expanded by 230.4%: an average annual growth rate of 8.3%, with an average annual expansion in exports of 8.7%, higher than the average annual progress in imports (7.8%) *(Figure 1)*.

The evolution of MERCOSUR's external trade has not, however, been even, and can be divided into two stages. From 1994 to 2001, the bloc's expansion of external trade was moderate, totaling no more than 40.7%, an average annual of 4.97%. In almost every year of that period (with the exception of 2001), the bloc's imports exceeded its exports, generating negative trade balances, which reached a high in 1998, at almost US$18 billion current dollars. In this first stage, the country that experienced the greatest expansion in total trade was Brazil, with average annual

Figure 1

Evolution of MERCOSUR's External Trade

In US$ millions



Source: Based on data from the Center for International Economy (*Centro de Economía Internacional* - CEI).

growth of 8.9%. During this stage, we see an average annual expansion in intrazone trade of 3.68%, while extrazone trade was up 5.28%.

In contrast, during the second stage, in the period from 2002 to 2009, the increase in MERCOSUR's total external trade was far more pronounced, expanding by over 167% at an average annual rate of 15.1%. These values might have been higher had it not been for the international financial crisis, which hit both exports and imports. For every year within this period, exports exceeded imports, producing increasingly large positive balances (the highest trade surplus of almost US$50.592 billion current dollars was recorded in 2006). During this stage intrazone trade grew at an average annual rate of 17.76%, while extrazone trade increased by 14.61% *(Table 1)*.

In terms of the factors that can explain these two stages, it is important first and foremost to highlight the positive correlation existing between the performance of external trade and that of the economy as a whole: gross domestic product. In the period from 2002 to 2009, MERCOSUR's real GDP grew at an average rate of 3.4%, which was above the 2.3% for the period from 1994 to 2001.

The deceleration of global economic activity, which was first seen in early 2001 and became apparent by the end of that year, led to lower demand for exports, unfavorable external financing conditions, and a deterioration in the terms of trade. This all resulted in difficulties for the MERCOSUR member countries. Argentina, with a balance of payments crisis in late 2001 and a sharp contraction in its levels of GDP, is the clearest example.

However, the outlook began to change as of 2002 and presented a far more favorable scenario for the bloc's member countries. First of all, it should be pointed out that the evolution of MERCOSUR's real GDP improved in relation to the poor performance it had displayed in 2001 and 2002 (when it had had a negative rate of growth of 0.6% and 0.4%, respectively), which boosted trade in the bloc's economies *(Figure 2)*.

The other key factor has to do with the evolution of international commodity prices. The emergence of China, India, and other Asian countries as major raw material consumer markets markedly increased demand for these products and drove up their prices. Latin American countries -and the MERCOSUR members in particular- benefited from these changes, being major exporters of raw materials *(Figure 3)*.

This new global scenario gave a notable fillip to the MERCOSUR countries' trade and GDP. In addition, far sounder fiscal and monetary policies than those

Table 1

MERCOSUR External Tade

As a percentage

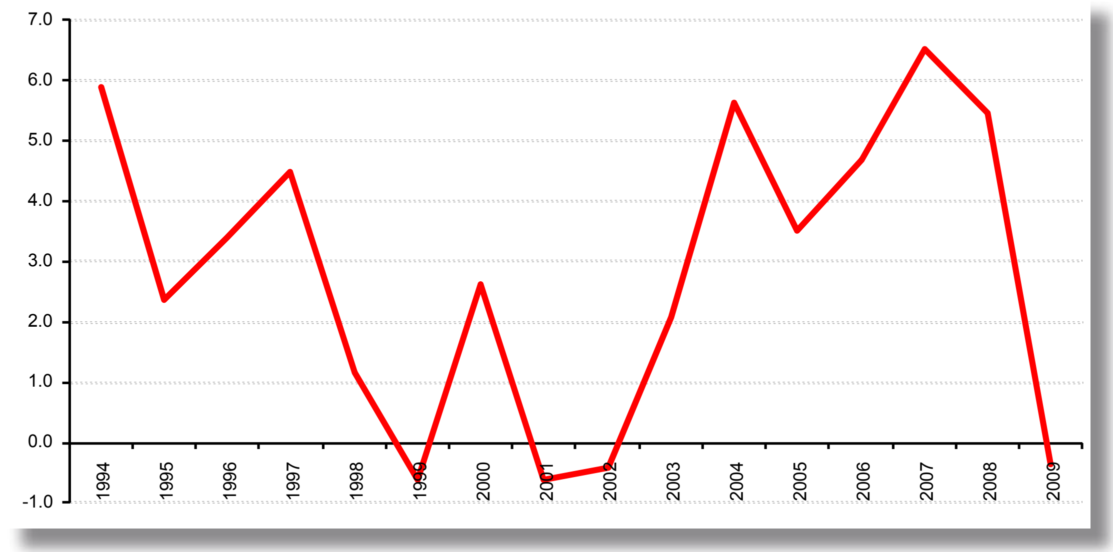
MERCOSUR	1994-2001	2002-2009
Total Trade	4.70	15.10
Total Exports	5.10	13.60
Total Imports	4.90	17.10
Intrazone Trade	3.68	17.76
Intrazone Exports	3.33	18.10
Intrazone Imports	4.04	17.40
Extrazone Trade	5.28	14.61
Extrazone Exports	5.48	13.00
Extrazone Imports	5.06	17.00

Source: Based on CEI data.

Figure 2

Evolution of MERCOSUR's Real Growth Rate

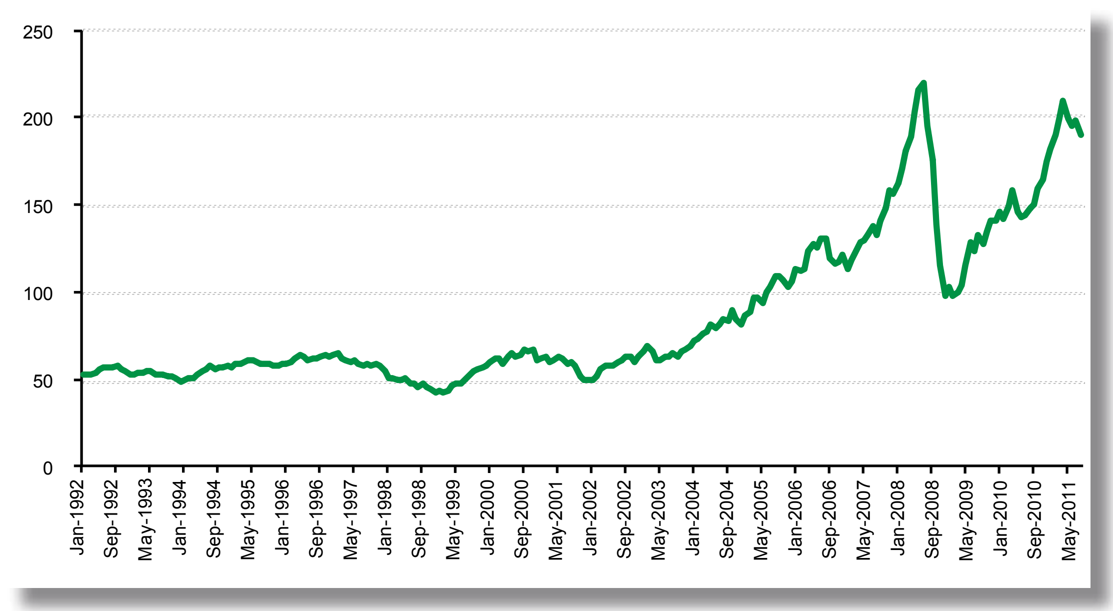
As a percentage



Source: Based on CEI data.

Figure 3

Annual Evolution of Commodity Prices



Source: Based on International Monetary Fund (IMF) data.

that had characterized the region in previous decades also improved investor confidence and led to positive economic performance throughout the decade.

MERCOSUR's Export and Import Performance

During the ten-year period from 2000 to 2009, the export performance of the MERCOSUR countries as a whole-as gauged by the evolution of their external sales at current prices-improved in relation to the two previous decades. The average annual growth rate for sales went from 4.79% in the period from 1990 to 1999, to 11.32% in the period from 2000 to 2009. This variation was the result of a significant improvement in the growth of most of the countries' sales, with the exception of Argentina, which saw a slight decline, albeit from already high levels in relation to the other member countries *(Table 2)*.

As far as imports are concerned, in the case of MERCOSUR a deceleration can be seen in the last period under consideration, with annual growth falling from 12.25% to 8.46%. This dynamic was driven by the strong downturn experienced by Argentine purchases, which went from an annual growth rate of almost 20% during the 1990s to one of 4.28% for the period from 2000 to 2009. Paraguay and Uruguay also underwent a deceleration in the growth of their imports-although to a much lesser extent than in the case of Argentina-, while Paraguay saw an acceleration.

To sum up, MERCOSUR has, in absolute terms, experienced strong growth in external trade-particularly during the last decade, when the growth of sales abroad and intrazone trade reached record levels. However, it should be emphasized that its performance was below that of the Andean Community of Nations (CAN), with external sales that went from an average annual growth rate of 6.48% in the period from 1990 to 1999 to 12.96% in the period from 2000 to 2009. In the case of CAN, imports were seen to increase from an average annual growth rate of 8.91% in the first period to one of 12.81% in the second. Although it is true that the sectoral composition of external trade is different for the two blocs, with greater relative importance of fuel exports for Venezuela, Colombia, and Ecuador, it is noteworthy that even Peru, with exports of non-fuel raw materials alone, saw performance superior to the MERCOSUR average for both its exports and imports over the last two decades *(Table 3)*.

MERCOSUR's Share in World Trade

Although, in absolute terms, there has been very significant growth of MERCOSUR's external trade, if we look at its share in total world trade, we can see a positive, albeit slow evolution, with an increase of just 0.71 percentage points (p.p.) over a 20-year period. In 1990, MERCOSUR's total trade accounted for 1.1% of world trade. For 2010, the bloc's share of trade was 1.81%. This was after a reverse, which in 2005 saw

Table 2

Evolution of Trade in Goods over Recent Decades

Mean annual growth rates calculated on the basis of current US$

	Exports			Imports		
	1980-1989	1990-1999	2000-2009	1980-1989	1990-1999	2000-2009
MERCOSUR	6.79%	4.79%	11.32%	-0.80%	12.25%	8.46%
Argentina	2.06%	9.31%	9.08%	-4.56%	19.76%	4.28%
Brazil	8.47%	3.40%	12.29%	0.04%	10.08%	9.92%
Paraguay	12.70%	-3.04%	15.63%	3.85%	9.63%	13.79%
Uruguay	7.32%	3.42%	9.22%	-0.04%	10.82%	7.48%

Source: Based on World Trade Organization (WTO) data.

Table 3

Evolution of Trade in Goods over Recent Decades

Mean annual growth rates calculated on the basis of current US$

	Exports			Imports		
	1980-1989	1990-1999	2000-2009	1980-1989	1990-1999	2000-2009
CAN	2.40%	6.48%	12.96%	2.13%	8.91%	12.81%
Bolivia	0.79%	2.49%	16.68%	-3.74%	11.13%	9.71%
Colombia	5.30%	7.31%	10.99%	4.05%	7.85%	11.93%
Ecuador	1.13%	6.58%	11.98%	1.49%	4.98%	17.47%
Peru	-0.01%	5.77%	15.96%	0.99%	13.01%	12.35%

Source: Based on WTO data.

MERCOSUR virtually back to where it had started *(Figure 4)*.

If we analyze the performance from a long-term perspective, we can see that from the end of the Second World War, MERCOSUR experienced a sustained relative decline in its share in world trade until 1990. Driven by imports, MERCOSUR's share in world trade increased from 1990 to reach 1.5%. By 2005, our bloc's share had fallen slightly to 1.3% (due to the crisis in Argentina and Brazil, which also affected Paraguay and Uruguay) before reaching a 1.81% share of world trade in 2010 *(Figure 5)*.

It should be emphasized that, even in this latter, more favorable position, MERCOSUR's relative importance in international trade is below the level its current members jointly achieved in the 1960s -the very decade in which negotiations were started within the framework of "old regionalism" *(Figure 5)*.

The most striking of the trade components is the evolution of imports, whose share in world trade in the early 1990s was 0.84% and reached over 1.75% in 2010, an increase of almost 1 p.p. Meanwhile MERCOSUR's exports only increased their share by 0.42 p.p. *(Figure 4)*. Although these data are not conclusive, there could be said to be unresolved structural competitiveness issues. After the 1990s, when there was higher relative growth in exports and an increasing deficit in the balance of trade, with overvalued real exchange rates following the crises as the start of this decade and sharp devaluations, MERCOSUR increased its relative importance as an importer in world trade more than as an exporter.

If we look at the MERCOSUR countries' individual share in the decades leading up to the bloc's formation, we can see a fall of external trade (in both exports and imports) in total world trade up to the early 1990s, with the exception of the improvement in Brazil's relative position during the 1970s *(Figure 6)*. From the early 1990s, the bloc's four member countries again began to increase their share in international trade, although much of MERCOSUR's performance is explained by the increase in the Brazilian share. Given the size of the Paraguayan and Uruguayan economies, their variation is of little significance and, in the case of Argentina, we can see a slight increase during the period, albeit stagnation from the early 1980s.

Even though the region's external trade increased its share in world trade to 1.81% in 2010, it is important to underline its relatively low levels in relation to the share of MERCOSUR's GDP of world GDP (3.9%); MERCOSUR's share in world population (3.6%); or MERCOSUR's surface area as a percentage of world surface area (7.9%). Also, if GDP is measured using the purchasing power parity (PPP) method, we observe a fall in share in world GDP, from 4.5% in 1984 to 3.9% in 2010.

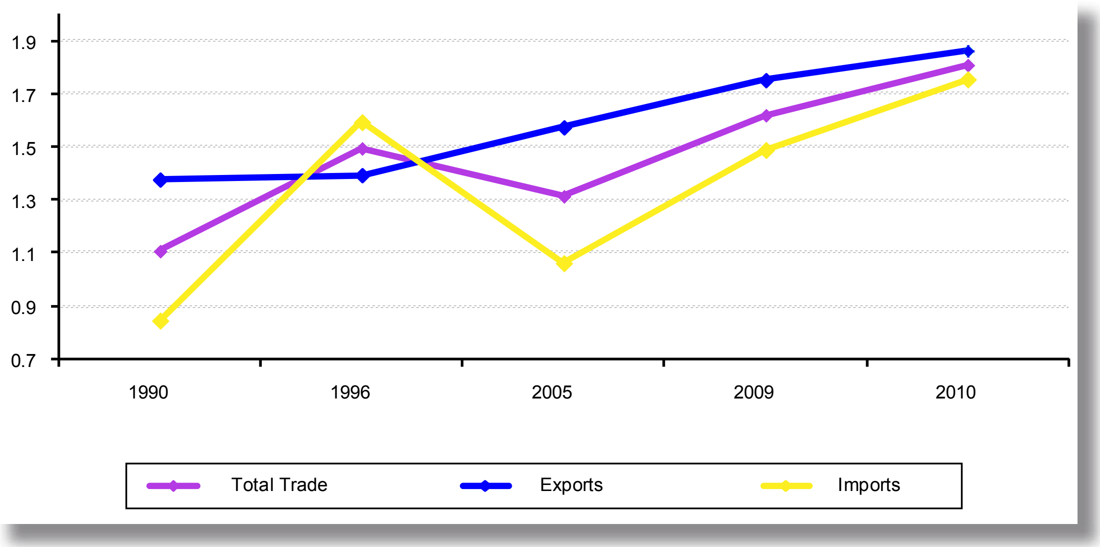
MERCOSUR's Intrazone Trade

When it comes to the evolution of intrazone trade, i.e. with other MERCOSUR countries, a notable increase took place in the 2000s. Both exports and imports grew steadily until 2009, when the consequences of the international financial crisis were felt. From 1994 to 2001, MERCOSUR's intrabloc trade had increased

Figure 4

MERCOSUR's Share in World Trade

As a percentage

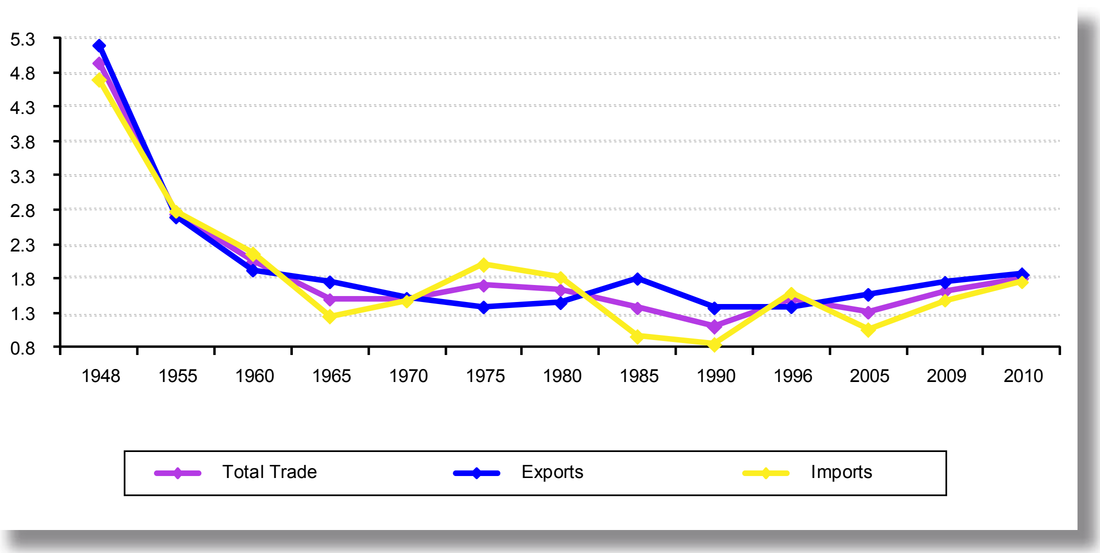


Source: Based on CEI and UNComtrade data.

Figure 5

MERCOSUR's Share in World Trade

As a percentage

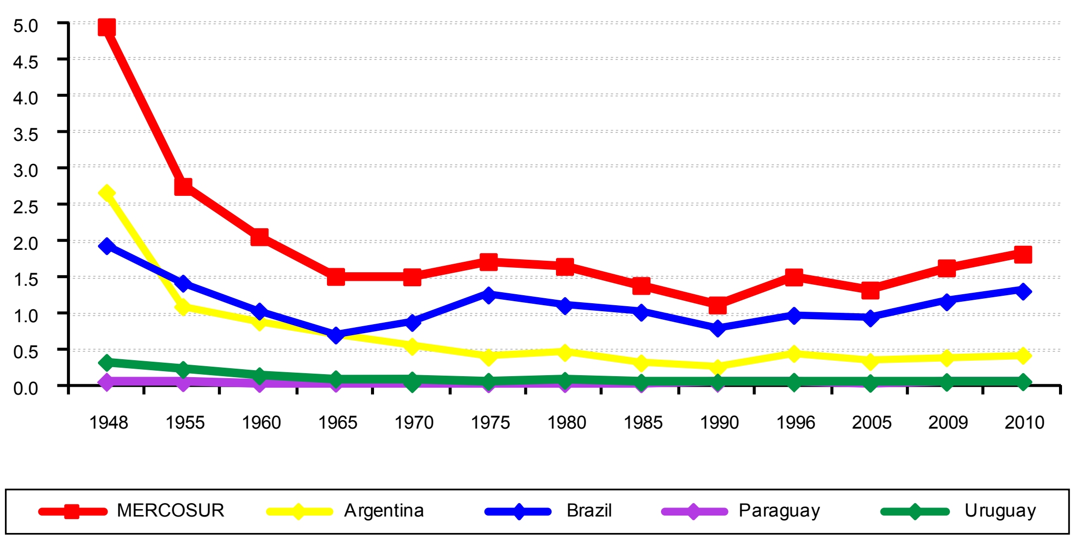


Source: Based on WTO, CEI and UNComtrade data.

Figure 6

MERCOSUR's Share in World Trade

As a percentage



Source: Based on WTO, CEI and UNComtrade data.

at an annual average of 3.7%, while from 2002 to 2009 and after experiencing the consequences of the international crisis of that year, the average growth in the total trade in imports stood at 17.8% *(Figure 7)*.

However, it is important to stress that there are significant asymmetries within the bloc, in relation to not only size, population, and GDP, but also to relative importance in regional trade and the role this plays in each country's external trade.

If we analyze the market share of MERCOSUR's intraregional trade, we find an initial scenario from 1994 in which Brazil led regional trade with 49.1%, Argentina ranked second with almost 40%, Uruguay was in third place with 7.47%, and Paraguay in fourth with just 3.5%. The situation in 2009 was very similar, albeit with different levels of share and Paraguay being ahead of Uruguay. Brazil led MERCOSUR's exports with 48.4%, followed by Argentina, which exported 42.3% of the total, and, with a very similar level of share, Uruguay and Paraguay exported almost 4.7% *(Figure 8)*.

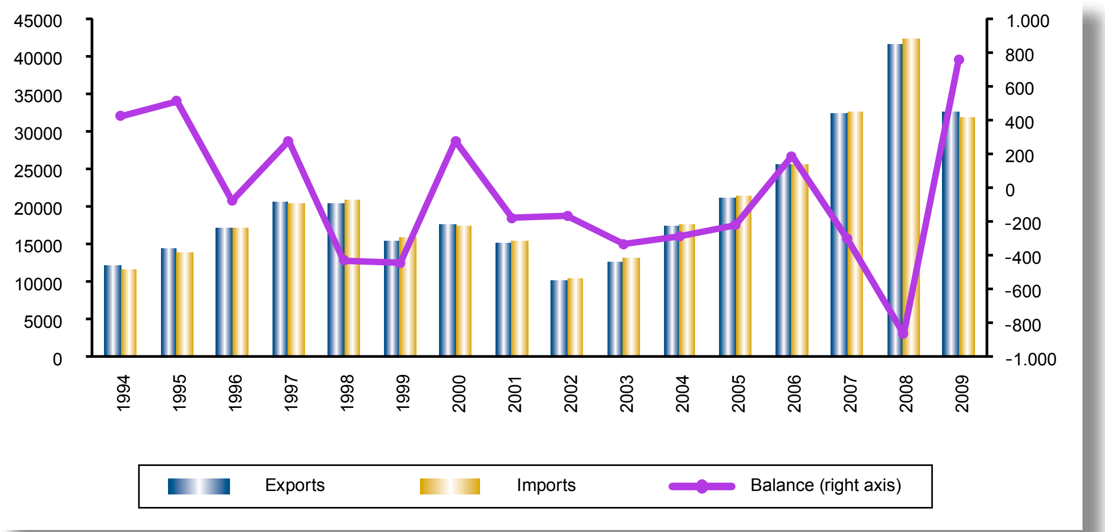
These differences in size, along with other asymmetries, such as different coefficients of liberalization and diversification of the productive structure, led to the fact that while the smaller partners (Paraguay and Uruguay) are highly integrated in trade terms, the larger partners (Argentina and particularly Brazil) are far less so. For example, while Argentine and Brazilian exports to MERCOSUR as a percentage of the total accounted for 30% and 14% respectively in 1994, this share had fallen to 25% and 10% respectively for 2009. In contrast, Paraguay shipped 48% of its external sales to MERCOSUR countries in this same year, and Uruguay 28%.

The explanation for the declining importance of intrazone trade for Brazil and Argentina from 2002 on is again related to the unprecedented increase in raw material prices *(Figure 3)*. Given that both Brazil and Argentina's main export commodities are not traditionally destined for other countries in the bloc, the excellent performance of the extrazone export sector meant at the same time a reduction in the importance of the intrazone sector for the two countries.

Figure 7

MERCOSUR's Intrazone Trade

In US$ millions

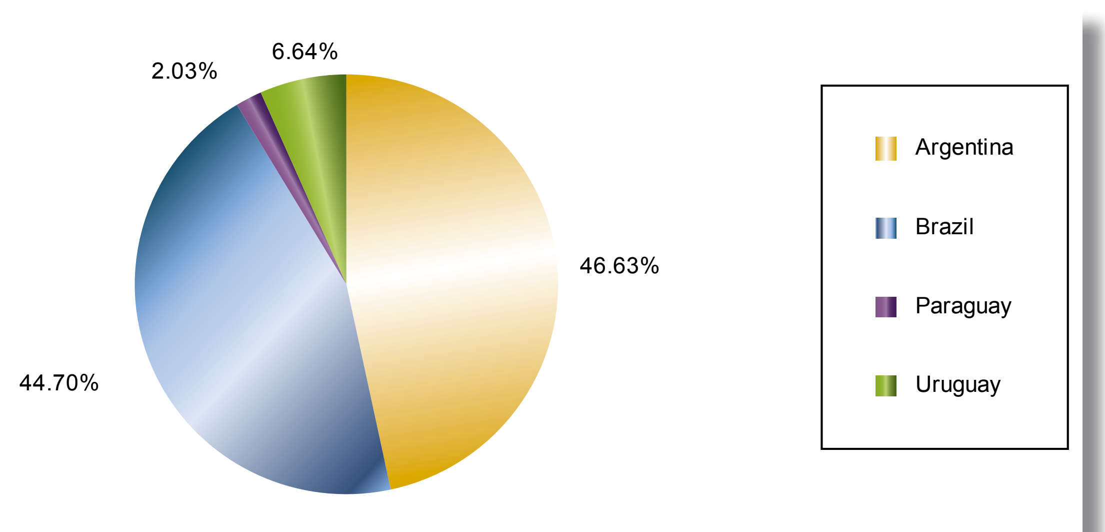


Source: Based on CEI data.

Figure 8

MERCOSUR's Share in Exports

For 2009



Source: Based on UNComtrade data.

Intrabloc Exports: An International Comparison

MERCOSUR's integration process has been characterized by relatively low levels of economic interdependence. Despite the rapid growth in intrabloc trade flows, their share in MERCOSUR's total trade reached just 25% at the height of regional relations in 1998. From then on this share tailed off steeply until 2002, when it reached a 11.5% low, before slowly climbing to 15.1% in 2009, over 9 p.p. below the 1998 high.

Although intrabloc exports' share in total exports has not shown a clear trend for other regional blocs either (e.g. CAN or the Central American Common Market - CACM), it is important to emphasize that, in both cases, the share for 2010 was above the value for the early 1990s.

It is also important to bear in mind that, in the case of the EU, the eurozone's trade share in total trade exceeds 60%. Although MERCOSUR's intrazone trade cannot be expected to equal the eurozone's, on account of the nature of its productive structure, factors of production, and technological development, an increased importance of interregional trade would certainly enable more rapid progress to be made in the integration process *(Figure 9)*.

Composition of Intrabloc Trade

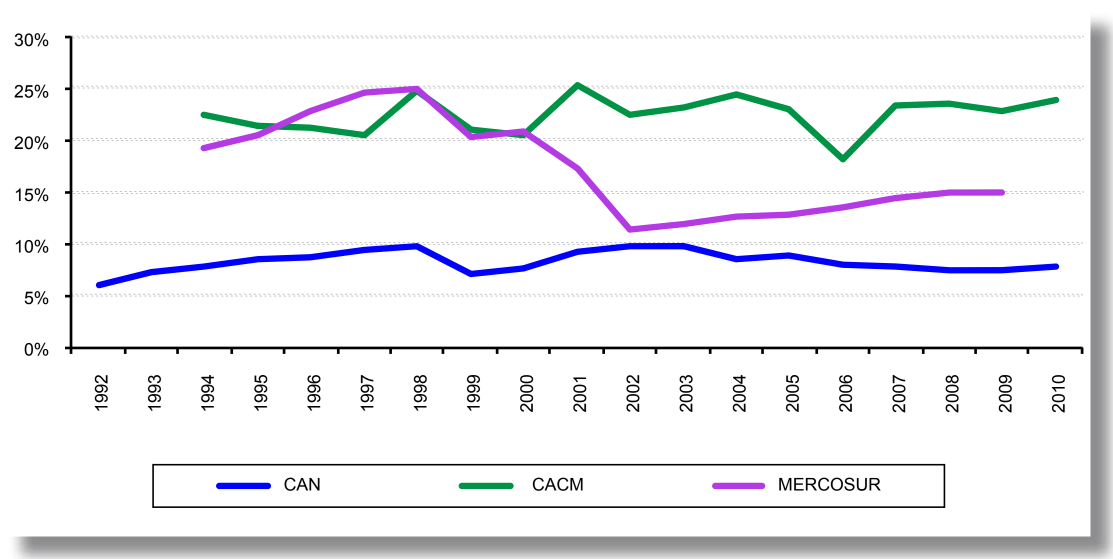
One important feature of interregional trade has been its higher quality in relation to extraregional trade, since the former has been characterized by the higher content of manufactures and intraindustrial trade. This is true at least of the period from 1985 to 2000, for which the ECLAC study (ECLAC, 2002, pp. 36-7) highlights the fact that the growth in international trade in natural resource-based commodities and manufactures was lower than for manufactures with a greater technological component.

Since the beginnings of MERCOSUR, a continual increase has been seen in the share of manufactures in intrabloc external trade. To be specific, manufactures

Figure 9

Share of Intrabloc Exports in Total Exports

Measured in current US$



Source: Based on UNComtrade data.

went from 63.1% of intraregional exports in 1994 to 66.1% in 1999, before reaching 69.2% in 2009. The other side of the coin was the progressive reduction in the share of foods, raw materials (except fuels) and manufactures of agricultural origin (MOA): these went from 28.6% in 1994 to 27% in 1999, before falling to 19.4% in 2009. In intrabloc trade, the automotive sector occupies a predominant position: in 2009, intra-MERCOSUR exports of motor vehicles totaled almost US$5.5 billion or 17.7% of intraregional exports.

Intraregional trade can, then, be said to have contributed toward developing new alternative comparative advantages to the pattern of specialization in primary goods, thereby increasing industry's productive efficiency and boosting its diversification. However, regarding the bloc's insertion in the world economy, it has not been possible to develop new advantages, since extrabloc trade has become more raw material-intensive. This sector's grew from 48.2% in 1994, from to 51.6% in 1999, and reached 58.4% in 2009 *(Table 4)*.

Intensity of Intrazone Trade

The regionalization of trade can also be analyzed using the Trade Intensity Index (Anderson & Nordheim, 1993, and Frankel, 1997). This *ratio* indicates whether a particular country exports more to another country than the world sells it on average.[2] The higher the *ratio*, the greater the trade between the two blocs or countries.

The following graphs show the annual evolution of the intensity index for each of the MERCOSUR countries and for the bloc as a whole during the period from 1994 to 2009. In all possible analyses, trade intensity can be seen to have either remained stagnant or even decreased since 1994 *(Figures 10-14)*.

In the case of Argentina, the intensity of trade with the bloc follows the pattern of trade intensity with Brazil, which increased slightly between 1995 and 2000 before falling steadily to 2008, recovering in 2009, but still below 1994 levels. There was a marked increase in intensity with Paraguay from 1997 to 1999, and with Uruguay from 1998 to 2002.

In Brazil's case, the intensity of trade with the bloc increased slightly between 1998 and 2003, before steadily decreasing. A slow but steady increase in intensity occurred with Uruguay to 2007 and with Paraguay to 2008, and, following the increase from

[2] The index is calculated according to the following formula: $I_{ij} = (X_{ij}/X_{wj})/(X_{iw}/X_w)$ where "i" and "j" are countries, "w" is the world, and the order indicates exports 'from' (first) 'to' (second). A negative change indicates that trade between the partners is less intense.

Table 4

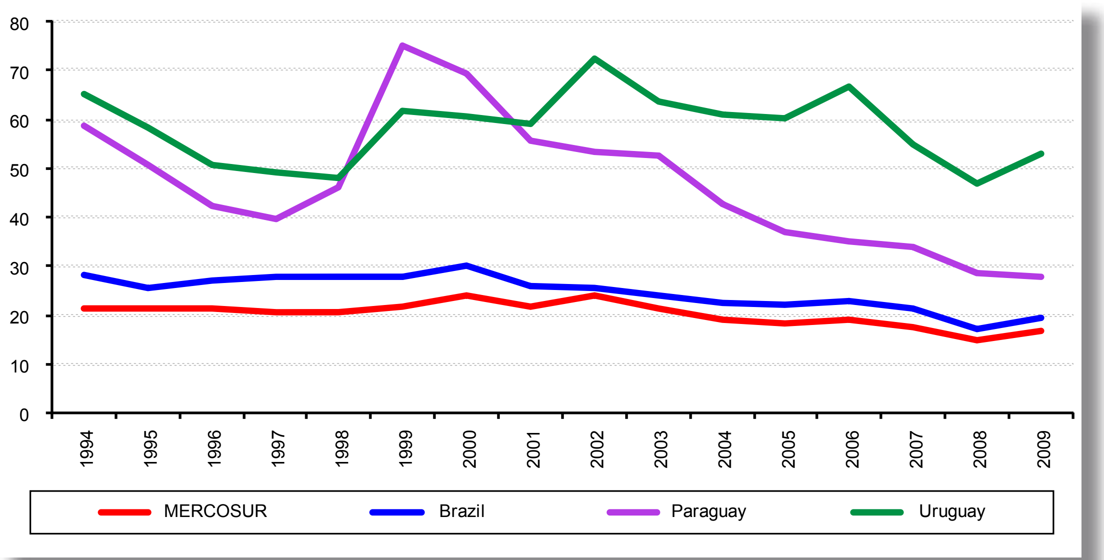
Composition of MERCOSUR's Exports

	1994		1999		2009	
	Intra-MERCOSUR	Extra-MERCOSUR	Intra-MERCOSUR	Extra-MERCOSUR	Intra-MERCOSUR	Extra-MERCOSUR
Foods and beverages, tobacco, raw materials and manufactures of agricultural origin (except fuels)	28.60%	48.20%	27.00%	51.60%	19.40%	58.40%
Fuels and lubricants	8.30%	2.90%	6.90%	3.80%	11.40%	8.80%
Manufactures	63.10%	48.90%	66.10%	44.60%	69.20%	32.80%
Subtotal (excluding "Others")	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Based on UNComtrade data.

Figure 10

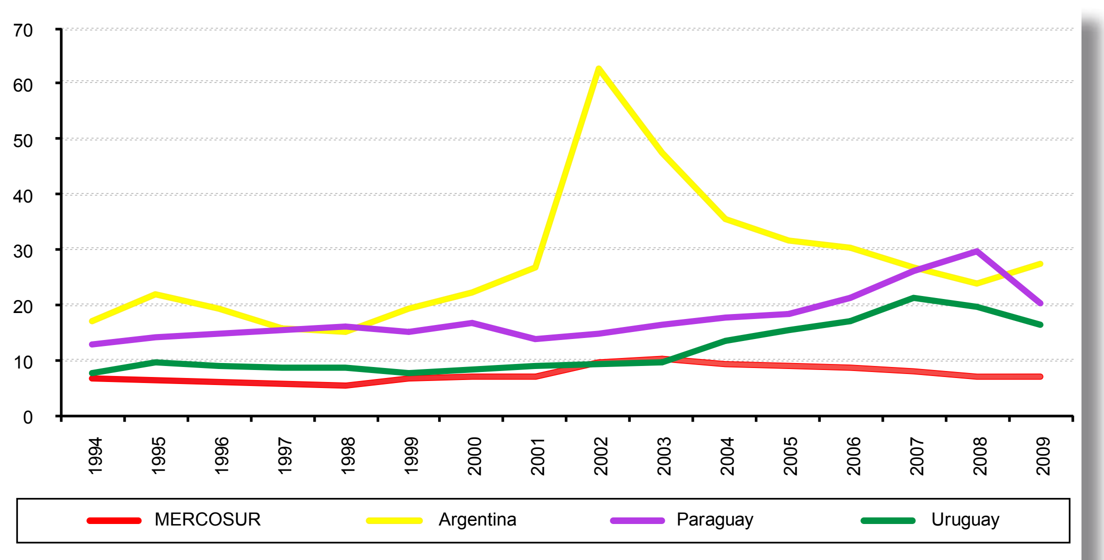
Annual Evolution of Argentina's Intensity Index



Source: Based on UNComtrade and WTO data.

Figure 11

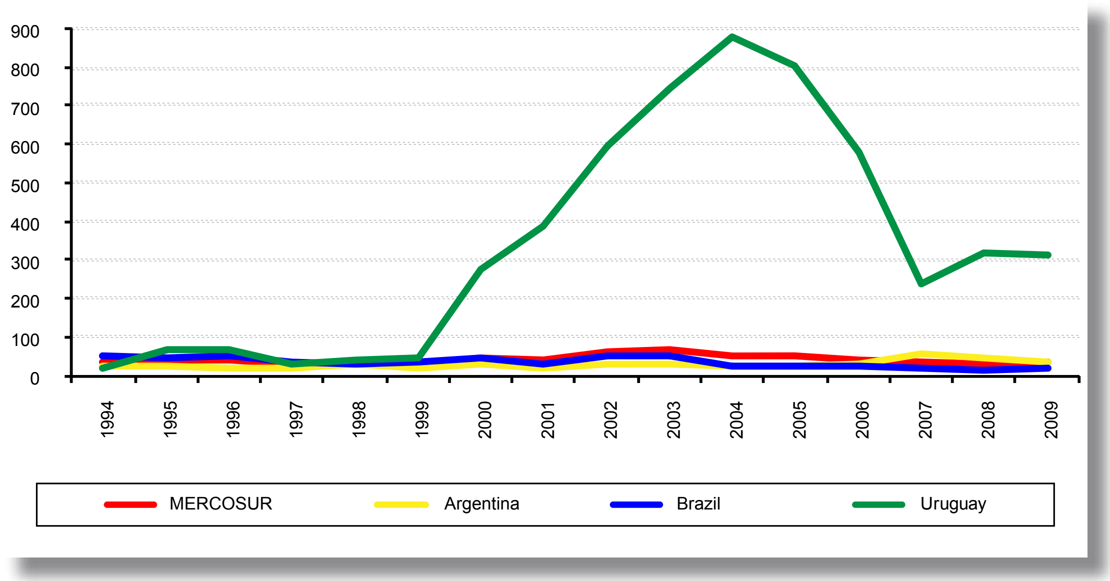
Annual Evolution of Brazil´s Intensity Index



Source: Based on UNComtrade and WTO data.

Figure 12

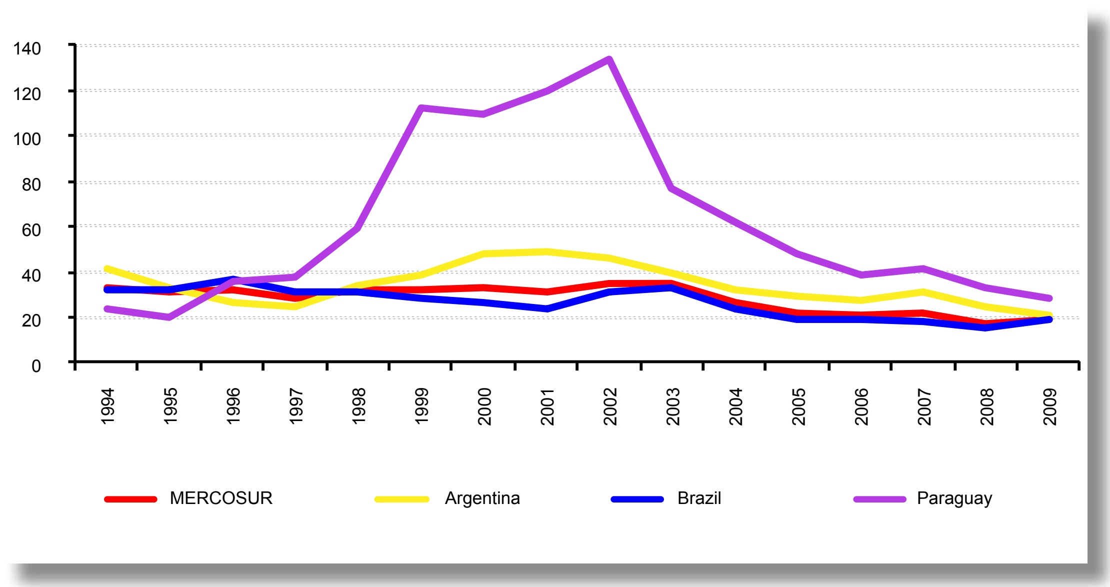
Annual Evolution of Paraguay's Intensity Index



Source: Based on UNComtrade and WTO data.

Figure 13

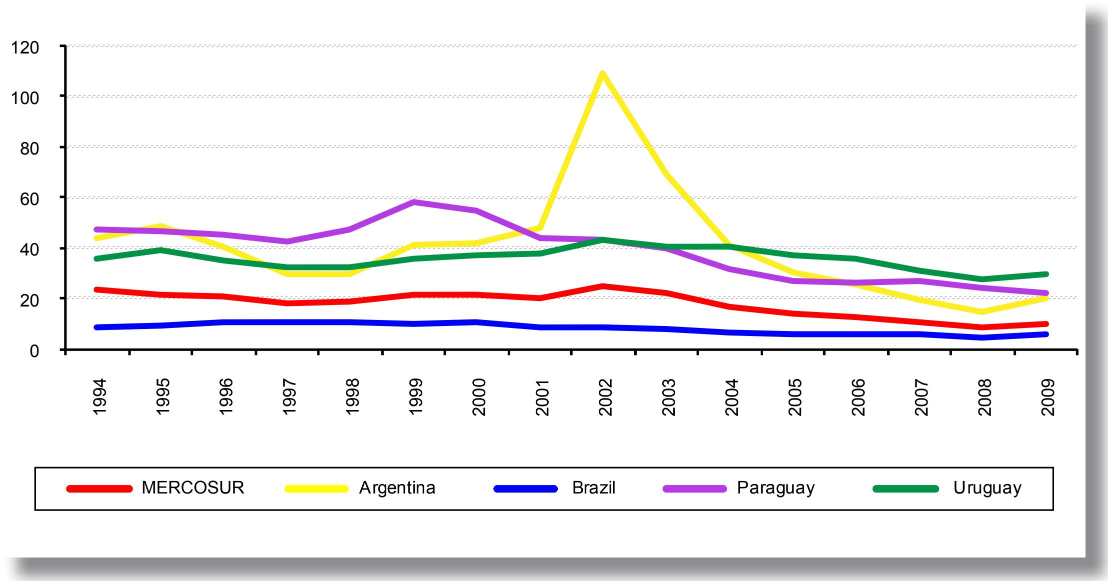
Annual Evolution of Uruguay's Intensity Index



Source: Based on UNComtrade and WTO data.

Figure 14

Annual Evolution of MERCOSUR's Intensity Index



Source: Based on UNComtrade and WTO data.

1998 to 2002, there was a steady fall until 2008 with Argentina, again with an upturn in 2009.

Where Uruguay and Paraguay are concerned, a significant increase can be observed in the intensity of trade between the two countries, from 1999 to 2004 in the case of Paraguay and from 1995 to 2002 for Uruguay. Also evident is a relative stagnation or reduction in trade intensity with the bloc and with Brazil, particularly from 2003. Regarding Argentina, in the case of Uruguay, intensity increased between 1997 and 2001, before steadily decreasing, and in the case of Paraguay, remained relatively stable, with a slight increase between 2005 and 2007.

Finally, if we look at the trade intensity of the bloc as a whole in relation to each of the members, we see a relative stagnation with Brazil, with a very slight increase in the 1990s and a drop in the last decade, an increase in relation to Paraguay from 1997 to 1999, and to Uruguay and Argentina from 1997 to 2002.

Table 5 also shows the absolute changes in the index values calculated for the periods from 1994 to 1999 and 1999 to 2009. When comparing the variations in the intensity index, a reduction in the trade intensity indices can be seen in most (approximately 66%) bilateral relations between the four countries. An increase in trade intensity was only seen in Argentina's relationship with Uruguay; Brazil's relationship with Argentina; Paraguay's relationship with Argentina and Uruguay; and Uruguay's relationship with Paraguay.

If we look at each country's relationship with the bloc as a whole, the only increase in intensity occurred in the case of Paraguay. Moreover, if we look at MERCOSUR's relationship as a bloc, we can see that there was a reduction in trade intensity *(Table 5)*.

Although these data are not enough for us to state that the reduction in trade intensity is due to the deceleration in the regional integration process, it is certainly a factor to be borne in mind.

Nevertheless, we do not believe that it would be reasonable to demand of MERCOSUR levels of trade intensity similar to those seen in the EU. This is due to multiple factors, most notably: the greater length

Table 5

Evolution of Intrazone Trade Intensity *Ratios*

Variation of Intrazone Trade Intensity *Ratios* (1994-1999)					
	Argentina	Brazil	Paraguay	Uruguay	MERCOSUR
Argentina		-5.8	-11.9	2.9	-2.6
Brazil	5.5		-16.5	-4.9	-1.2
Paraguay	17.8	-16.5		393.1	7.3
Uruguay	-0.9	-11.5	1.6		-8.1
MERCOSUR	4.3	-2.9	-14.6	2.7	-2.0

Source: Based on UNComtrade data.

of time since the European bloc's formation; and the stability it enjoyed during the 1990s and 2000s, in contrast to the crises affecting Latin American countries.

Finally, given that the impact of integration cannot be evaluated solely on the basis of developments in intraregional trade, according to the objectives of the "new regionalism," the next section will look at the extent to which transaction and administrative costs were reduced within the bloc.

Challenges Remaining for the Deepening of MERCOSUR

Challenges Raised by the Current Global Context

Twenty years on, integration would still appear to be an inevitable requirement for the MERCOSUR countries' development and international insertion. Some of the factors that motivated the bloc's launch in the early 1990s continue to be present today. *Firstly*, there is now a markedly multipolar international system, more apparent following the attack on the World Trade Centre (September 11, 2001) and the financial crisis of 2008. The emergence and strong growth of China, India, and Russia only confirm the fact, and raise important challenges for the region in terms of competitiveness. *Secondly*, the international negotiations in the framework of the World Trade Organization (WTO) are now not only as uncertain as in the early 1990s, but also more complex. For these reasons, strengthening the multilateral system now requires, more than ever, strong regions with the capacity to act.

Flaws in the Customs Union: Barriers and Transaction Costs

Interregional trade liberalization is one of the most important assets achieved by MERCOSUR. Regarding tariffs, most trade in goods has been liberalized. According to LAIA estimates for 2010, the percentage of tariff items in free-trade conditions is currently over 90% for the MERCOSUR countries and their partners, Chile and Bolivia (LAIA *et al.*, 2006). However, MERCOSUR is technically an incomplete free-trade zone and a flawed customs union. Despite the progress made on the tariff front, there are still significant exceptions (e.g. sugar and automobiles) and non-tariff restrictions (technical, health, and phytosanitary standards), which constitute significant barriers to trade.

On the subject of flaws in the customs union, the Common External Tariff (CET) is of particular importance. This is a system whereby the whole sample of goods is classified and identified, with each having a tariff (as a percentage) paid for each product entering MERCOSUR through any of its States Parties. There are many exceptions, however, to the CET, which are temporary and established with gradual elimination in mind.

The importance of the CET lies in the necessity of its existence in order for MERCOSUR to become a single customs territory. This would in turn enable the free movement of goods, thereby facilitating trading, and taking advantage of economies of scale and each area's specialization in sectors with potential advantages. However, it is important to remember that having a CET means abandoning each country's autonomy to set the conditions of its trade policy. MERCOSUR's CET currently has many exceptions, which include a list of products up to 20% of which the country can define and change every six months, and exceptions for IT and telecommunications goods and for capital goods (sectors in which negotiation is difficult), for the sugar and motor vehicle sectors, and in the event of supply shortages. Those exceptions, which are part of a gradual reduction mechanism, benefit Paraguay and Uruguay more than their partners, Argentina and Brazil.

It is important to consider Bouzas's clarification (Bouzas, 2001) in reference to the CET in a customs union: "*The implementation of a common trade policy not only requires reaching agreement on the CET to be implemented, but also applying homogeneous customs procedures. As far as the latter is concerned, what is needed is a long process of harmonization of practices and procedures that transcends the mere existence of a common customs code. As the European experience demonstrates, in order to reach this threshold it is necessary to invest heavily in human resource training and homogenization of the quality of the institutions responsible for its implementation.*" In some cases, such as in trade between Argentina and Brazil, the number of non-tariff measures has even increased as a partial compensation for the elimination of tariffs. Many authors point in turn to the increase in non-tariff barriers attributed by the countries themselves to the crises affecting the MERCOSUR members. Estrades (2009) believes that, although many countries have expressed their opposition to a commercial protectionism that would further delay their emergence from the crisis, these were no more than empty promises: many not only increased their tariffs but also imposed restrictions by means of health and phytosanitary measures.

A significant impact was felt from the Brazilian crisis of 1998 and the Argentine crisis of 2001, which led MERCOSUR into a deep crisis in which the customs union was severely damaged as a result of unilateral measures adopted on the basis of local interests.

Regarding the expansion of MERCOSUR beyond the states that joined through the signing of ECAs, such as in the case of Bolivia and Chile (1996), Peru (2003), and Colombia, Ecuador, and Venezuela (2004), no new members have yet been incorporated. Meanwhile, the incorporation of the Bolivarian Republic of Venezuela as a MERCOSUR member state has been awaiting approval by the Paraguayan parliament since 2006.

Finally, although the fact that, as a proportion of the total, interregional trade remains low may be due to various short-term factors, such as the strong growth in exports of primary goods to Asian markets, it also reflects the structure of the MERCOSUR economies and the obvious deficiencies regarding physical integration, transport and communications, which continue to fragment the market and impose extremely high cost overruns (Duran & Maldonado, 2005, pp. 19-26).

Lack of Intrabloc Coordination

MERCOSUR is still considerably behind in terms of macroeconomic harmonization. Although it has agreed on common indicators, there is as yet no convergence program. The agreement to move toward monetary union, which emerged following the Brazilian crisis of 1998, did not prosper due to the Argentine crisis of 2001 and a lack of political will. The harmonization of macroeconomic policies is a requirement of the dynamic of the integration process itself and a necessary condition for moving toward the formation of a common market. Furthermore, creating macroeconomic harmonization avoids the potential conflict of contradictory national policies and creates a favorable scenario for developing trade and economic relations (Bersch, 2002).

The theory of optimum currency areas holds that countries with strong trade integration are able to carry out macroeconomic coordination and establish a common currency, which means they stop using exchange rates to promote adjustments in competitiveness or deal with external shocks. "*When countries form a customs union or free trade zone, by definition they eliminate or reduce trade policy as an independent economic policy tool. And the elimination or reduction of trade policy can create incentives to manipulate exchange rates*

to create comparative advantages within the region" (Martirena-Mantel, 2003).

In order for a group of countries to become an optimum currency area they must meet certain conditions-or at least some of them-if their decisions are to be credible. We know that the economic advantage of a currency area is that it eliminates foreign exchange uncertainty, thereby encouraging economic growth and an improvement in the standard of living of the population. The main implicit cost is to give up the exchange rate as a macroeconomic adjustment variable. The greater the degree of liberalization of the area's economies and/or the greater the degree of synchronization in the behavior of the macroeconomic variables of the countries in question, the lower this cost is on account of their being subject to common external shocks or the effects of policy harmonization. Also, the higher the degree of mobility of the productive factors between the economies, the lower this cost will be.

Regarding free movement and the adoption of common rules on investment, intellectual property, public procurement, and trade defense, although MERCOSUR has signed a series of protocols, they are not currently applied.

When it comes to the adoption of sectoral policies for the region, the potential of integration has yet to be exploited. There is still a considerable gap in policies on innovation, science, and technology, and infrastructure or energy policies, despite the significant impact they could have on the region's competitiveness.

As far as the adoption of a common external policy is concerned, we can also see significant difficulties, translating into a lack of efficiency and a reduced influence in international forums due to low levels of coordination (which also occurs with other subregions of Latin America). One example of these difficulties has been the divergence in the positions of Argentina and Brazil at the last Doha Round negotiations: while Brazil was in favor of an agreement, Argentina strongly opposed the possibility. According to Bouzas (2010, pp. 17-18), this is due to the differences in the two countries' international economic strategies: while Brazil added an agenda of "offensive" interests to its traditional "defensive" strategy, Argentina has focused on a "defensive" strategy in its relations with Brazil and with the rest of the world economy. These differences have also been observed in the negotiations with the European Union.

Reduction of Asymmetries

Regarding the tackling of asymmetries, MERCOSUR adopted an agenda of cooperation in the social and labor arena and, in 2005, set up the MERCOSUR Structural Convergence Fund (FOCEM). Although the FOCEM is based on principles of progressiveness in both contributions and disbursements, it has so far been too modest in tackling social, territorial, sectoral, or development level-related asymmetries (Masi *et al.*, 2008). Indeed, some authors highlight the fact that these resources may be lower than the costs generated by unilateral measures that hinder market access or regulatory measures (subsidies or State assistance) that reinforce asymmetries. Another example is the adoption of a Competitive Adaptation Mechanism (CAM), proposed by Argentina and accepted by Brazil in 2006 with the aim of providing temporary protection for domestic producers in difficulty. This mechanism only covered these countries, leaving out the economies of Paraguay and Uruguay.

The importance of these inequalities and their consequences has led to the smaller members (Uruguay and Paraguay) questioning and rejecting the Argentina-Brazil axis, whose leadership promotes trade without assuming the economic costs of creating supranational bodies and without creating the necessary mechanisms to correct these asymmetries. Soares de Lima & Hirst (2006) underline the fact that the leaders' current political affinity coincides with one of the low points of intragroup relations. It was for this reason and because of the increasing weight of bilateralism in US trade policy, that for a time the MERCOSUR agenda included the possibility of a bilateral agreement between the United States and Uruguay (FTA), in spite of the fact that the customs union was still formally in force.

Poor Institutional Development

Lastly, it is important to highlight MERCOSUR's scant institutional development, which has hindered policy coordination and the adoption of common rules. The resistance to creating a supranational institution and

endowing it with the necessary authorities has led to the maintenance of a purely intergovernmental scheme with a weak common legal system. MERCOSUR still does not have an adequate supranational framework, which is to say, one with common bodies that have the capacity to create a common legal system, and there is therefore no effective legal body. On the basis of the European experience, ECLAC (1994, pp. 19-20) emphasizes that although a free-trade zone can survive with modest intergovernmental institutions, they do not allow a more advanced integration scheme to be sustained. The existence of "non-binding" political agreements or the necessary "unanimity" of intergovernmentalism make it very difficult, among other things, to resolve disputes, harmonize rules, eliminate non-tariff barriers, or define common policies. Also necessary is the institutional development of integration regarding the democratic legitimacy of the process.

Although MERCOSUR is equipped with a Permanent Review Tribunal and over 1,700 legal instruments, there are still serious problems of application due to the incompatibility of the common and national rules. Some authors estimate that only 50% of the rules adopted have been incorporated in the national legal systems and have actually come into force (Durán & Maldonado, 2005).

For example, the MERCOSUR Parliament began functioning in 2007 and was initially made up of representatives from the national parliaments, but, as of 2011, these representatives are to be elected by citizens by direct, universal, secret ballot. However, this year it was decided that, up to 2014, the MERCOSUR Parliament would continue to be made up of members appointed by the national parliaments, thereby postponing the start of a truly democratic process. The reality is that, in a purely intergovernmental framework, the common bodies find themselves on the margins of the decision process, with a very limited role. And this affects the legitimacy and image of those bodies.

Conclusions

If we compare MERCOSUR's progress with the objectives of "new regionalism" that influenced the birth of this integration process, we can say that: *(a)* the development of this process has been partial insofar as progress has only been made in trade liberalization (tariff elimination), but not the other objectives; *(b)* the development of this process has been informal, with no progress in building strong supranational institutions; and *(c)* the development of the process has been "top-down" rather than "bottom-up" insofar as its progress has depended on the political will of governments or "summit diplomacy" rather than on a natural development over time resulting from a common identity and shared needs.

Both the modest intensity of its interdependence and the pronounced asymmetries existing within MERCOSUR are important factors that help to explain why there have been few incentives to cooperate and give up discretion in the management of political instruments. Basically, its members have been unable to settle their differences, and it is because of this difficulty that the customs union has still not come into being, owing to exceptions and *ad hoc* measures. The lack of policy coordination-in conjunction with a weak institutional structure-also helps explain the dip in social support for the integration process. The adoption of unilateral measures (devaluations, health regulations, and trade defense instruments), end up having a negative impact on the other members, by aggravating asymmetries and inequalities in the distribution of the costs and benefits of integration.

However, the divergences at the economic and trade levels that may arise from such heterogeneity should not necessarily represent an obstacle to the formation of a customs union, as demonstrated by Europe or South Africa (Bouzas, 2010, pp. 12-14). In these cases, in addition to there having been greater interdependence, success was based on the identification of sustainable tradeoffs (cost-benefit), which become incentives for maintaining stable cooperation.

Moreover, given that there are usually temporary inconsistencies between the costs and benefits of an integration process, and given that there may be regional public goods (RPGs) needed to make the process viable, the success of integration necessarily requires the presence of a leader who can put the collective good before short-term interests. For this there needs to be one or more leaders with the ability to provide such leadership. In the case of MERCOSUR, although Brazil is the "natural" leader, given its size and level of relative development, it has not consistently exercised such leadership, either lacking decisiveness or else the capacity to do so.

On the basis of the analysis provided in this article, it can be concluded that, to meet the objectives proposed by the "new regionalism" at the start of the integration process, MERCOSUR should in the medium-term: *(a)* adopt effective supranational institutions and binding rules; *(b)* possess effective leadership that makes it possible to carry out the deepening of the integration process and resolve temporary cost-benefit inconsistencies (sustainable tradeoffs) or the provision of RPGs; *(c)* progress toward a true common market through the rebuilding of the customs union via the elimination of non-tariff exceptions and restrictions; *(d)* reduce transaction costs, which would enable improvements in the member countries' competitiveness through advances in physical integration, transport, and communications; *(e)* establish real and effective mechanisms to tackle asymmetries and promote social cohesion; *(f)* coordinate foreign policy in order to have a greater impact on international negotiations, while also coordinating the macroeconomic and sectoral policies needed so as not to increase asymmetries; and *(g)* move ahead in broadening the common market by incorporating new members. ◆

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MERCOSUR and the Challenges of its Joint Trade Policy: Achievements and Shortcomings of a Process of Incomplete *Communitarization*

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This article seeks to take stock of the process of designing and implementing a common foreign trade policy for the Southern Common Market (MERCOSUR) countries. The introduction refers to the growing importance placed on coordinating the subcontinent's external projection within Latin America as a consequence of the advance of globalization. In the case of MERCOSUR, this has led to efforts to strengthen its position as an external actor with joint policies, in parallel with the advancement of its internal agenda. The first section of the paper reviews some of the mechanisms and instruments that make up the joint trade policy currently being pursued by the bloc. It goes on to look at the international negotiations entered into. In conclusion, it outlines a number of future challenges that arise from a process of incomplete communitarization, which in turn reflects the difficulties of consolidating the integration process internally.

Introduction

Given the progressive advance of globalization and in the framework of what has been termed the *open regionalism* of the 1990s, the decisive and growing influence of external relations on the internal policy design of the countries of Latin America and the Caribbean (LAC) became increasing apparent. Policies and courses of action that had previously been the sole responsibility of individual states had to obtain the approval of the international community and their application was in some cases subject to negotiation with its most powerful members. This was accompanied by the declining participation of developing countries in forums where international regulations were designed and stipulated. Against such a background, it became crucial for the LAC countries to achieve sufficient cohesion in their external projection, since the LAC regional body had to formally present itself in a world where actors with the capacity for global action, regional groups from individual states, and transnational organizations interacted with each other. LAC's external economic agenda thus faced a formidable challenge: to refashion Latin American and Caribbean integration using a holistic design that would allow it multiple interactions on an expanded number of negotiating fronts. In this sense, designing a negotiating strategy was essential, or at least clarifying the options the region appeared to be facing was a matter of urgency (Moneta, 1998, pp. 11-12).

MERCOSUR was no exception to this trend, which led to efforts to develop joint positions, particularly over trade policy, with a view to the goal of constructing

a Customs Union. Virtually from its creation, then, one of the bloc's objectives was joint participation in international negotiations as a way of strengthening its negotiating capacity (Giacalone, 1998, p. 144).

Over the last decade, the regional process has seen new developments, which has led to its being conceptualized, from the point of view of political theory, as *strategic regionalism* (Briceño Ruiz, 2006; Guerra Borges, 2009; Bizzozero, 2009; Bizzozero, 2011a, 2011b). This accounts for the fact that the early 21st century coincides with changes in government in the region and with the revision of the priorities of Brazil's development model and its foreign policy towards the region, thereby strengthening the concept of MERCOSUR as a strategic option for better negotiating the terms of international insertion. The progressive change in the global context leads to a rethink of the role of the State and its spheres of influence, in addition to the discussion regarding regionalism's links to the strategic debate on the international order and its structure. Within that framework, the focus is placed on the role befitting the so-called "emergent powers" of the system, which is to say the regional medium-sized states like Brazil, and the significance of their links with regionalism and the global context: it is of particular interest to look at the capacity to actively influence the definition of various issues at the different levels of the international structure (Bizzozero, 2011b, p. 36 ff). In turn, this structure is affected by the irruption of other new actors, particularly China, which modifies the balance of power in the international arena and influences the regional outlook (Cesarín & Moneta, 2005). Consequently, the crucial challenge still to be met at the regional level lies in Brazil's ability to consolidate its leadership by overcoming long-standing sensitivities and disagreements with regard to policy with key partners like Argentina, as well as by drawing together the South American region, the natural arena for its external projection, but one in which its influence has often been perceived as hegemonic claim.

Bearing this evolution in mind, now that two decades have elapsed since the first Treaty of Asuncion was signed (1991), we might well attempt to elucidate MERCOSUR's ability to deal with its external agenda in the sense proposed by Moneta, by evaluating the achievements and shortcomings of a process of *communitarization* of its foreign policy at the level of trade. This process must necessarily be regarded as incomplete.

Joint External Policy Mechanisms

To start with, it should be pointed out that MERCOSUR was granted international legal status by its member states through the signing of the Ouro Preto Protocol of December 17, 1994. This status was also recognized by third-party countries that consider it a different entity to its member states, which can be clearly seen in the broad agenda of negotiations undertaken by the bloc (Stuhldreher, 2004, p. 420). It thus became an autonomous entity capable of setting its own rules and regulations, as well as making its own decisions. However, due to the intergovernmental nature of MERCOSUR's institutional system, decision-making became dependent on the political will of its members. More specifically, the mechanisms and management of the group's external relations with other subjects of international law were set up in such a way that, when the member states bilaterally or jointly negotiated issues affecting competencies belonging to MERCOSUR, they had to take that particular dimension into consideration. If on the other hand it was the bloc as such that took part in negotiations, the responsibilities were divided between the Common Market Council (CMC), the highest decision-making body, and the Common Market Group (GMC), responsible for day-to-day management. Responsibility for the bloc's external representation, as well as the development of a joint position, fell in principle to the President of the Council holding the *pro tempore* presidency.

Of the *Ad Hoc* Groups (which are not subordinated to any special body and meet as necessary on specific issues), we should also mention the one associated with external relations.[1] Operating under the orbit of the GMC, it participates on its behalf in the Technical Cooperation Committee responsible for preparing agreements with international organizations and ensuring they are complied with, while it also assists the GMC in its negotiations. With specific regard to joint trade policy, the MERCOSUR Trade Commission (CCM) takes care of follow-up on issues relating to intrazone and third country trade. It constitutes the ultimate trade-customs body, entrusted with monitoring the

[1] This *Ad Hoc* group was created in 1995 as a result of the merger between two pre-existing groups: the one responsible for "MERCOSUR-WTO Relations" and the one in charge of "MERCOSUR-LAIA Relations."

process of customs union formation. For all that it is a support body to the GMC, it is endowed with its own decision-making powers.[2]

Alongside these fundamental joint trade policy bodies, there are others that are also pivotal, whether on account of their external representativeness or the technical support they lend to that policy area. Thus, as of 2002, the Administrative Secretariat became the MERCOSUR Secretariat, whose technical profile was adjusted in 2007 and whose powers are to provide the other MERCOSUR bodies with advice and technical support. One Unit that should be mentioned here is the Foreign Trade Technical Statistics Unit for Member Countries (UTECE). This was joined in 2003 by the Commission of Permanent MERCOSUR Representatives (CRPM), which was newly created as an administrative body responsible for political representation to third parties.[3] In addition, during the Foz de Iguazú Summit held in December 2010, the post of MERCOSUR High General Representative was created and entrusted with the functions of policy coordination, proposal development, and representation of the bloc's common positions. In January 2011, Samuel Pinheiro Guimarães was appointed to the post, which was seen as a strong sign of commitment by Brazil.

When it comes to making a differentiated evaluation, consideration of the different mechanisms developed by MERCOSUR allows various readings. On the one hand, it can be observed that, even with its limitations, MERCOSUR's institutional design meets the need for external representation for LAC put forward by Moneta. The progressive strengthening of the Secretariat, the creation of mechanisms like the CRPM, or the appointment of the High Representative thus provide evidence of an attempt to give relevance to the bloc's foreign policy and its representativeness in the international arena. The choice of prestigious candidates to occupy these posts underlines this impression. However, the possibilities that arise from the creation of the above mechanisms are underutilized, due, among other things, to the lack of a clear direction for the bloc's external projection, which is dependent on the intergovernmental nature of the cooperation, leaving it at the mercy of governments' political will. In this respect, any initiatives carried out by the High Representative will be decisive in the future to ensure that his appointment is not seen as merely an attempt to compensate for shortcomings in other areas of MERCOSUR's institutional framework and does not overlap with actions taken by other bodies. In this sense, in the second half of 2011, the Uruguayan President's Office announced its intention to seek greater coordination, by rearranging the structural framework on the existing base without duplications and by granting the Secretariat and the High Representative new powers (El País, 2011a, p. 7).

With specific regard to joint trade policy mechanisms, the institutional design also provides an indication of the importance given to this dimension, which is evident in the decision to set up the CCM as one of the bloc's decision-making bodies and to make its Directives obligatory. However, this approach is muted by institutional weakness, on account of the low level of internalization of MERCOSUR rules (less than half of these regulations having been effectively incorporated into national legislations), because of a critical level of compliance with the existing provisions, and due to the non-existence of efficient dispute settlement mechanisms, which overall leads, among other things, to the failure to comply with trade-related agreements (Bekerman & Rodríguez, 2005, p. 6).

Joint Trade Policy Instruments

The establishment of MERCOSUR in 1991 required that its members terminate all their respective bilateral agreements with third countries by the end of 1994. With the adoption in 1995 of a common external tariff (CET) as an instrument to set up a customs union, MERCOSUR would go on to negotiate

[2] The CCM is one of MERCOSUR's three decision-making bodies, along with the CMC and the GMC. Its Directives must be applied in the member countries. The CMC operates under the orbit of the GMC and can make proposals for it to pass Resolutions on. The CCM, in turn, tackles its work areas through the use of Technical Committees.

[3] The CRPM represents the evolution of the MERCOSUR's Permanent Secretariat (SPM), to which each member country had a prominent official assigned on a permanent basis until 2003. Following the crisis of 2001-2002, it was decided through CMC Decision 11/03 to give the bloc a stronger institutional framework by appointing a distinguished figure to head the CRPM as a way of ensuring a higher level of external representation. His duties are geared mainly to supporting the six-monthly *pro tempore* presidency, as well as consolidating economic, social, and parliamentary relations.

fresh joint agreements. This move was ratified by Decision 32/00 preventing bilateral negotiations with third parties. In addition, with customs union as an objective, a convergence process was initiated, leading from national tariff structures towards a common scheme, which was not fully achieved (Vaillant, 2011 pp. 1-2):[4] sectoral lists and national lists of products with different tariffs thus continue to exist side by side.

The contradictions brought about by the simultaneous existence of a rigid scheme of external relations shaped by the above decision and the scant progress made on establishing the CET led to strong criticism. In Uruguay, in particular, the country's legitimate interests were not felt to be adequately reflected (IDB-INTAL, 2009, pp. 80-81), provoking debate on alternative paths to its international insertion (Pérez del Castillo, 2010, pp. 28-30; Ons, 2010, pp. 69-72). In the context of the global crisis and the protectionist measures adopted by Brazil and Argentina, that debate has been reignited in Uruguay (El País, 2011b).

A significant though belated step forward was taken at the San Juan Summit in 2010, when the bloc's Customs Code was adopted, along with the MERCOSUR Single Customs Document (DUAM) and the MERCOSUR Procedural Guide to Customs Value. The elimination of the double external tariff, to be carried out in three stages (Lucángeli *et al.*, 2010, p. 20), was also stipulated, and a schedule was set for establishing customs revenue distribution mechanisms by 2019. At any rate, the customs integration process is conceptualized by the drafters of the bloc's Code as being "evolutionary" in nature and of increasing complexity (Sacerdote *et al.*, 2010).[5] In theory, if the envisaged steps were to be carried out, it would produce an almost complete body of community customs legislation: individual customs legislations would still exist, but would only be responsible for the regulation of various organizational and operational aspects of the national customs organizations. Given the bloc's delay in defining core aspects of the Customs Union, critical question marks emerge with regard to this communitarian *corpus*'s capacity for real development.

MERCOSUR's External Agenda

MERCOSUR has progressively tackled a broad agenda of international negotiations, which can be systematized into concentric circles according to geographical proximity and intensity of relations with the respective partners (Luján, 2011, p. 337 ff). *Firstly*, efforts were made to strengthen relations with neighboring countries, through economic complementation agreements established with MERCOSUR's associate states, Bolivia (1996) and Chile (1998), and with the Andean Community of Nations (CAN). This was accompanied by rapprochements to the Central American Integration System (SICA) and the Caribbean Community and Common Market (CARICOM), as well as problematic progress with Mexico, Canada, and United States on the one side. *Second*, the focus was laid mainly on negotiations with the European Union (EU), which were suspended in 2004. *Third*, Israel and Muslim countries such as Egypt, the Gulf Cooperation Council, Morocco, Turkey and Pakistan were targeted, in addition to advances being sought with Japan, Korea, India, China, Association of South East Asian Nations (ASEAN), Asia-Pacific Economic Cooperation (APEC) and Singapore, while, in Africa, the aim was Southern Africa Customs Union (SACU) and, in Oceania, Australia and New Zealand.

This process catalyzed the need to arbitrate the differences between members, though not always successfully, if we consider the survival of bilateral agreements that were incompatible with the ECA. Although with some difficulties, a common base was nevertheless achieved in relation to the EU and the failed Free Trade Area of the Americas (FTAA), which was not always the case with CAN and Mexico.

From the middle of that decade MERCOSUR progressed with some difficulty in consolidating its external agenda via preferential trade agreements with third countries. The crisis unleashed in late 2008 posed an even greater challenge for trade negotiations at the various levels, multilateral, regional, or bilateral

[4] What in theory was the previous objective of constructing a free trade zone cannot either be considered to have been achieved when there is no universal coverage of products, export duties are still in force in Argentina, non-tariff barriers continue to exist, special unauthorized safeguards are applied, and trade disputes between partners are not resolved via the relevant institutional mechanisms, but instead through bilateral negotiations.

[5] The "framework" rules approved unify the concepts, establishing the fundamental legal institutions for customs procedures. Later they will have to advance through regulatory channels (procedural and operational aspects) and through complementary channels (aspects not reconciled in the basic rules, having been voluntarily excluded or constituting new institutions resulting from the evolution of international trade).

(IDB-INTAL, 2011 p. 133), although in relative terms the bloc showed itself to be resilient to the effects of the global crisis. Against this background, within the framework of the EU-LAC Summits held in May 2010, EU-MERCOSUR trade negotiations were relaunched, with Argentina's MERCOSUR *pro tempore* presidency prepared to play a more leading role in pursuit of revitalizing the bloc.

In this regard, it is necessary to emphasize the gap existing between expectations and real advances in negotiations. Despite long-standing blockages and continuing fears (University of Bologna, 2011),[6] the opposition of ten European countries to the relaunch, and the inconsistencies within the South American bloc,[7] the importance of resuming the negotiations cannot be understated, even though in fact this took place without the fundamental points that led to stagnation having been resolved (Bizzozero, 2010, p. 15). This is now added to by the difficulties of a critical international context marked by protectionist pressures and unilateral trade restriction measures, the serious vicissitudes of the European project and the contingency of the Argentine electoral process, which will probably delay the exchange of offers. In spite of everything, the centrality of the process is determined by the fact that, in recent decades, the EU has become a significant trading partner for the MERCOSUR countries, albeit with temporary variations (ECLAC, 2011, pp. 29-31; IDB-INTAL, 2010, pp. 14-15; Donizeti, 2010, p. 6).[8] The impact of a possible agreement is undeniable, particularly against a background of oscillating trends (University of Bologna, 2011).[9] However, given the current circumstances, the negotiations look unlikely to be concluded.

On the other hand, MERCOSUR has, in the last few years, finalized two of the desired extraregional agreements, which also calls for a differentiated evaluation with regard to the symbolic importance and concrete significance of the terms agreed. The first agreement, signed with Israel in 2007, was enacted in Brazil in April 2010. The bloc's strategy here was aimed at simultaneously negotiating a fixed preference agreement with both the Gulf Cooperation Council (GCC) and Israel in order to avoid inflaming sensitivities in this area of foreign policy. Although its impact in market terms is not particularly significant (IDB-INTAL, 2009, p. 127),[10] the agreement with Israel is of symbolic importance, as it set a precedent which was followed by the signing of the agreement with Egypt in July 2010, while trade negotiations with Jordan, Morocco, and the GCC countries are still ongoing. At the same time, in June 2009, after the entry into force of the agreement with India, MERCOSUR negotiators resumed talks in pursuit of extending the preferences. The framework agreements signed with Turkey and Pakistan should make it possible to enter into the negotiation of an FTA in the future, even though little concrete progress was made (IDB-INTAL, 2011, p. 133 on).[11]

6 In particular, the European agricultural associations, Committee of Professional Agricultural Organisations-General Confederation of Agricultural Cooperatives (Copa-Cogeca), believe that any agreement would have a "catastrophic impact" on sectors like sugar, meat, fruit juices, and corn (€13 billions), and stress that MERCOSUR already exports in excess of its tariff quota, making it the main exporter of agricultural and food products.

7 The issue that probably caused greatest concern was the application of non-automatic import licensing (LNA) by Argentina.

8 According to the ECLAC (2011) study, the EU has reduced its share in Latin American imports as well as exports since the 1980s. During the first decade of this century, both the EU and US lost market share to China, although, in 2009, the EU still ranked as LAC's second most important trading partner. China could come to occupy this position by 2015, although this may be delayed depending on the EU's partnership agreements with Central America, the Caribbean, the CAN countries and, if agreement is reached, with MERCOSUR. According to data from Uruguay XXI, MERCOSUR's exports to the EU in 2010 totaled US$57,687,246,000 and imports US$50,374,850,000. Exports to China amounted to US$38,000,350,000 and imports reached US$36,095,740,000. The bloc's imports from United States totaled US$35,810,184,000, while exports to that destination amounted to US$23,752,472,000.

9 According to the study requested by the Commission (reference year: 2020), exports would rise by between 67.7% and 105.4% depending on levels of ambition. Whereas industrial exports would rise by between 79.1% and 117.6%, exports of goods and services would grow by between 19.7% and 52.5%. Agricultural sector revenues would fall by between 1.1% and 1.6%, according to sector and country.

10 At the time the agreement was signed, Israel was not an important partner for MERCOSUR (accounting for 0.48% of its imports and 0.27% of exports). The agreement relating to trade in goods, with the prospect of incorporating services and investments in the future, includes an automatic, linear tariff elimination methodology. Given Israel's difficulties in liberalizing the agricultural sector, 866 codes are excluded from the program of tariff eliminations, while MERCOSUR excludes 326.

11 Looking to the negotiations with Turkey, consultations were initiated within the bloc to draw up a list for immediate elimination. The agreement with Pakistan did not prosper following the submission of a list of products with potential for export to MERCOSUR in February 2008, and the bloc must therefore evaluate its interest in these negotiations.

Meanwhile, the sub-regional negotiations are, according to each particular case, mainly aimed at reaching an agreement on services (Chile, Colombia), preventing the deterioration of existing preferences (Peru), or the entry into force of protocols that have already been negotiated (Colombia, Ecuador, Venezuela).

The redefinition of the multilateral negotiations following the announcement of a proposed "early harvest" package by the WTO Director-General in May 2011 will, for its part, probably lead to some kind of watered-down results in relation to initial expectations, where it will remain to assess the real future impact for the countries in the bloc that did not manage to clearly unify their positions. A question mark also remains over the effects of a "degraded" agreement on the consolidation of the multilateral system, where regionalism might become a different proposal, as a replacement to and no longer a complement of the latter.

Final Reflections

From the moment of its creation, MERCOSUR was regarded as an autonomous entity with the necessary structural conditions for it to perform at international level. Significant advances during its early years cemented its presence at that level. Irrespective of its intergovernmental nature, that presence influenced the actions and expectations of other international actors and allowed the bloc to gradually position itself in trade diplomacy. Even in times of crisis, from 1998-1999, the bloc's external image was not significantly damaged and its achievements appeared to receive greater recognition abroad than at home.

However, the passage of time has made apparent the need to move beyond recourse to merely symbolic politics in which the bloc's joint trade policy appears to have stagnated for some time. With regard to its image as an international actor, in the long term it cannot be functional for there to be an overlap between various fronts of drawn-out negotiations taking place at varying speeds, which would appear to demonstrate the irrelevance of the efforts undertaken and ultimately are likely to weaken the bloc's chances of becoming a consistent, operational body.

It is clear that, in the future, the intergovernmental nature of cooperation within the bloc will continue to largely determine its evolution, and that the political-and not necessarily ideological-stamp given to it by the respective governments will be the decisive factor in steering MERCOSUR in terms of *strategic regionalism*. As Caetano (2011, pp. 22-23) points out, it has not been the lack of an agenda, but rather of the political will to implement it that has hindered the consolidation of the integrationist process, including joint trade policy. With an eye to the future, the need inevitably arises for a reconfirmation of the pact with a consequent reformulation of the institutional framework, which will touch on the complex dialectic between intergovernmentalism and some form of supranationality.

In keeping with the search for new coordination between foreign policy and a model of its own for developing *strategic regionalism*, the recent evolution shows a clear focus on cooperation at the political and social levels, as well as a strong emphasis on the development of infrastructure, where the MERCOSUR Structural Convergence Fund (FOCEM) could eventually be consolidated as a significant instrument to combat structural asymmetries. The indispensable condition for this is provided by the effective introduction of a reform of the Fund carried out to implement the projects planned at the San Juan Summit of August 2010 (Arce, 2010).[12] Another key issue is the increase in resources allocated to FOCEM, an issue raised in September 2011 by the High Representative at a public hearing in the Brazilian Senate.

In turn, steps such as approving the Customs Code or demonstrating the will to resume negotiations regarded as truly strategic, such as those with the EU, indicate an attempt -at least in formal terms- to also consolidate the bloc's joint trade policy and its external agenda. The question marks over the gap between expectations regarding the various initiatives under way -often suffused with a formalist bias- and the actual capacity to implement them in reality, on the one hand constitute a heavy mortgage on the bloc's future; on the other hand, these disagreements are reminiscent of the European debate of the 1990s over the so-called "capability-expectation gap" with regard to the international role of a unified Europe

[12] On this occasion, it was decided to reform the Fund's structure and functioning in order to increase its impact. The planned regional development initiatives (electrical transmission lines, roads, support for SMEs, public school reforms), which will mainly benefit Paraguay and Uruguay, will be financed with US$650 million contributed by FOCEM, as well as other disbursements.

(Hill, 1993), thus underlining the evolutionary nature of regional processes.

Given the imperative of an effective agenda with an integrationist outlook (Caetano, 2011, p. 69), the challenge of overcoming the shortcomings of the incomplete process of *communitarization* of that policy vector without resorting to schematic or automatic responses has already become unavoidable and may become key to facing the challenges characteristic of an international framework that is in itself changeable in a context of global crisis in the short and medium terms. Conversely, this critical context cannot be taken as a repeated excuse to play down the importance of the regional scheme and its joint trade policy any further. ◆

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Increasing the Trade Related Capacity of CARICOM Firms in a Post-Crisis Global Economy: The Role of Standards and Regulations

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The global economic crisis led to a downturn in most of CARICOM's export sectors resulting in contraction in economic growth of its countries. The region must now employ strategies that can facilitate quick recovery and stimulate growth. Export and market diversification are two strategies to achieve these objectives. Enhancing trade-related capacity of CARICOM firms in areas relating to standards and regulations can facilitate the realisation of these objectives.

Introduction

Caribbean Community (CARICOM) countries have experienced severe economic decline since 2008. While countries across the globe were impacted by the economic and financial meltdown, the intensity of its effects upon CARICOM states was so utterly devastating that by 2009 several member states[1] had approached the International Monetary Fund (IMF) for assistance to stabilise their economies. Declining commodity prices, travel receipts, remittances and external demand meant that virtually every CARICOM country was negatively impacted. By 2009, the more developed countries (MDCs) of CARICOM[2] had declined by 1.2%, while overall decline in the Eastern Caribbean Currency Union (ECCU)[3] countries was estimated at 7.3% (ECLAC, 2010b, p. v), a strong evidence that these were the most severely affected.

The effects of this global crisis highlighted in clear terms the untenable structure of CARICOM economies which make them so vulnerable to external shocks. The region's economies can be categorised into two broad groups: those that depend primarily on services for foreign revenue generation and those that depend on primary production of agriculture and minerals (ECLAC, 2010b, p. 4). Since tourism and related sectors such as construction, account for a sizeable proportion of revenues of several of this region's countries (CARICOM Secretariat, 2010, p. 26), it was not unexpected that

[1] Dominica, St. Kitts & Nevis, St. Lucia and St. Vincent & the Grenadines, Jamaica, Antigua & Barbuda, and Barbados.

[2] MDCs are: Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad & Tobago.

[3] Anguilla, Antigua & Barbuda, Dominica, Grenada, Montserrat, S. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines.

the fallout of declining tourist receipts would prove so debilitating. Similarly, the outlook for exports of primary commodities such as rice, sugar, rum and bauxite remained bleak due to softening demand and falling commodity prices globally.

In 2009, negative growth was projected for seven of thirteen English speaking countries while slow growth was projected for six countries, prompting a warning from the President of the Caribbean Development Bank (CDP) that *"we are not in ordinary times"* (Richards, 2009a). This sentiment was reflected in the Standards and Poors (S&P) ratings predictions for 2009 in which no Caribbean states had ratings with a positive outlook (Richards, 2009b).

While the growth forecast for the 2010-2011 period is slightly more optimistic for CARICOM countries, two factors must be noted. *Firstly*, the region's economic recovery is highly contingent on the pace of recovery in the global economy; and *secondly*, even if the prospects for an upswing are encouraging for the MDCs, the outlook for the ECCU countries remains uncertain.

Given this scenario, looming fears of another global recession must be cause for concern. Already markets in Asia and Europe are in "turmoil" as global investors responded to the largest decline the US stock market has recorded since the 2008 financial crisis. As of August 9, 2011, the dollar had declined significantly against Asian and European currencies (Keating, 2011) sparking fears that another economic recession was imminent.

For CARICOM countries, the implications of another downturn on the heels of one from which they are only now beginning to adjust, requires urgent and strategic interventions. Economic policies must now -out of necessity- focus on recovery and growth. Issues such as export and market diversification will be critical to achieving these objectives. Increasing the range of goods and services exports; as well as expanding markets either through enlargement: increased intraregional trade; or through new markets should be a priority.

Given the importance of trade competitiveness for the region's development prospects, identification and development of new growth sectors, restructuring of existing sectors and market expansion may be viewed as tools to facilitate increased exports. A key supporting mechanism will be the building of trade-related capacity in specific areas to increase export competitiveness. One critical area is the application of standards and regulations as an integral part of the region's export growth and diversification strategy.

Even as CARICOM States will need to aggressively pursue the diversification of their range of exports and also source new and additional markets to complement traditional export destinations in Europe and North America, there are several trade-related capacity constraints that negate their opportunities to grow in a highly competitive global trading environment. Technical Barriers to Trade (TBT) often expressed in the form of national standards and regulations is one such constraint. These often voluntary standards and mandatory regulations govern the sale and distribution of a vast array of goods in the international markets. They range from Sanitary and Phytosanitary Standards (SPS) applied primarily in the agriculture and food processing industries to TBT measures that apply to manufactures.

The World Trade Organization (WTO) admitted in its *Agreements on Technical Barriers to Trade* and *Sanitary and Phytosanitary Standards* that regulation, standard, testing and certification requirements can constitute trade barriers that seek to obstruct free trade. The WTO has thus encouraged its members to be transparent and non-discriminatory, as well as to be guided by international standards in their formulation of standards and regulations; yet technical barriers continue to be an obstacle to free trade and a debilitating challenge for developing countries' exporters.

CARICOM States like many developing countries often lack the necessary technical and capital resources needed to match the growing stringency of standards and regulations in today's highly competitive markets. At the regional level, the lack of standardization and harmonization of national standards and regulations not only presents challenges for increased intraregional trade, it also prevents the pooling of regional resources towards building the capacity to meet these growing requirements in national, regional and international markets.

While emphasizing the vulnerability and susceptibility of CARICOM economies to external shocks in a post-crisis global trading economy, the paper explores several export and market diversification strategies which CARICOM countries will need to employ in order to reignite economic growth and development. It also seeks to suggest that the export growth desired cannot and should not be pursued in isolation to dedicated efforts towards building the trade related capacity of CARICOM

States; particularly its Small and Medium Sized (SME) firms, to implement product related standards and regulations in markets they export to.

Economic Performance of CARICOM Countries 2008-2010 outlines the current state of CARICOM's trade. The market diversification strategies recommended to reduce the heavy dependence on few exportables and the broadening of the export market base are explored in *Issues Relating to Export and Market Diversification*. It also examines the state of intraregional trade and measures to increase trade competitiveness in the face of hidden barriers such as technical barriers to trade (TBTs). In *Standards and Regulations*, as technical barriers to trade are discussed as well as the process by which CARICOM States can improve their trade related capacity to meet these requirements.

Economic Performance of CARICOM Countries 2008-2010

CARICOM economies remain *"poorly positioned to make the leap to global competition"* (Hornbeck, 2008, p. 14). The region maintained its pattern of increasing imports and declining exports over the 2003 to 2008 period. Exports as a share of total world trade moved from 17.8% in 2003 to 16.3% in 2008; while imports as a percentage of total world trade increased from 12.8% to 13.3% over the same period (CARICOM Secretariat, 2010, p. 2). While the crisis negatively affected global trade as a whole, it is apparent from *Table 1* that the CARICOM region was the most severely impacted in the Americas.

The region's poor economic performance was due mainly to the negative impacts of the global economic downturn on its principal revenue generating sectors. With the exception of oil-rich Trinidad and Tobago, Caribbean countries, registered major deterioration of their economies. Jamaica for example, was projected to lose an estimated US$1.3 billion in revenue in 2009, a direct outcome of a plummeting bauxite market, declines in remittances, tourism and other sectors, particularly construction (Richards, 2009b).

Economic growth in the ECCU countries was projected to decline significantly over the 2009-2010 period, a reflection of their heavy reliance on tourism receipts and related service activities, prompting a warning from Dwight Venner, Governor of the Eastern Caribbean Central Bank that revenue of nine OECS governments would fall by an estimated 12.9% in 2009 (Richards, 2009b).

Table 1

Merchandise Trade by Selected Groups of Economies, 2008-2009

US$ billion

	2008	2009
Exports World	16,116.6	12,490.2
European Union (27)	5,920.9	4,587.6
NAFTA	2035.2	1,602.4
CACM	29.7	26.4
CARICOM	26.3	14.9
Imports World	16,513.1	12,682.4
European Union (27)	6,295.3	4,732.7
NAFTA	2,906.8	2,176.7
CACM	54.5	41.4
CARICOM	31.7	23.4

Source: WTO (2010), p. 179.

Intraregional imports as a percentage of total imports remained consistently low (11%-12%) over the last decade (Hornbeck, 2008, p. 15); a reflection not only of the region's heavy dependence on externally derived imported goods and services, but more importantly, *(1)* its inability to restructure existing sectors on the basis of low cost, high quality criteria to meet domestic and regional demand, and *(2)* its inability to effectively identify and develop new growth sectors.

This situation is exacerbated by the region's extreme vulnerability to external shocks as the impacts of the US -triggered global economic recession reveal. Heavily dependent on commodity exports and services, much of the region experienced *"rapid slowdown in economic activity"* in 2009 (ECLAC, 2010b, p. v) as a result of declining commodity prices, external demand, remittances and travel receipts, which negatively impacted related sectors such as construction, transportation, food and crafts.

The issue lies with the structural composition of CARICOM economies as well as their markets. Broadly speaking, CARICOM countries can be grouped into

two categories, agriculture and minerals producers or services providers. In the case of agriculture, notwithstanding falling prices, the production and export of primary products such as sugar, rice, rum and bananas remain significant contributors to gross domestic product (GDP) and to employment generation. Similarly, in the case of minerals production, the oil and gas sector in Trinidad and Tobago continues to be the main catalyst of the economy; while bauxite exports constitute the major economic stimulus in both Suriname and Jamaica. Exports of primarily raw timber constitute the bulk forestry's contribution to the GDP of both Guyana and Suriname; while buoyancy in the price of gold improved the foreign earning capacity of this sector for Guyana, and is expected to outpace oil and bauxite as the major revenue generator for Suriname within the next year[4] (Dompig, 2011).

The pattern is similar in the case of services exports where tourism, and related services, mainly construction, underpin the economies of MDCs particularly Barbados (64% of GDP) and the Bahamas; and LDCs such as Antigua, St. Lucia and Grenada. Noteworthy is the trend across the goods sectors to concentrate on activities at the primary end of the value chains which then become extremely susceptible to fluctuations in global commodity pricing, the outcome translating into growth or decline for these economies, given their dependence on these sectors.

Internal competitiveness challenges (relating to market and resource size, financial and technical capacity and per unit labour costs) are compounded by trade openness which intensify the region's vulnerability to external shocks. Most of these economies either *"contracted or experienced lower rates of growth in 2009 when compared to 2008"* (Ministry of Finance T&T, 2010, p. 14), owing to declining tourism receipts, dwindling remittances and foreign investments as a consequence of the downturn in the global economy. As a result, several CARICOM[5] countries sought assistance from the IMF to stabilise their economies.

The relationship between the economic performance of CARICOM countries and the external environment is quite striking. The Jamaican economy for instance, contracted by 2.7% in 2009 from 0.9% in 2008 (Ministry of Finance T&T, 2010, p. 16). While contraction occurred across a number of sectors, mining and quarrying was the most severely affected, contracting by 50.2% in 2009 as compared to a decline of 2.5% in the previous year (Ministry of Finance T&T, 2010, p. 18). Low international demand accounted for significant declines in bauxite and alumina production and resulted in the closure of two of the three alumina companies operation in Jamaica.

In the case of Barbados, declining tourist receipts precipitated contraction of that sector by 8.7% in 2009 from 1.2% in 2008, triggering stagnation of various related construction projects and pushing unemployment up to 10%. Shortfalls in tax revenues from a waning tourism sector resulted in an almost doubling of the fiscal deficit (Ministry of Finance T&T, 2010, p. 18).

The ECCU[6] countries were the most severely affected by the global economic downturn mainly due to the decline in tourist arrivals which along with construction, account for a sizeable proportion of GDP. Reduced investment opportunities for financing construction projects as a consequence of a contraction in international investments; and an underperforming tourism sector resulted in significant deterioration in their current account positions. The debt position of the ECCU countries increased from 88.4% of GDP in 2008 to 95.9% of GDP in 2009. Noteworthy, the debt-to GDP *ratio* for St. Kitts and Nevis was 179.9% and 113.9% for Grenada (Ministry of Finance T&T, 2010, p. 17).

Interestingly Guyana and Suriname registered positive growth in 2009, despite being heavily dependent on the export of agricultural and mining products. Although percentage growth rates for these countries were small, 2.3% in 2009, compared to 3.1% in 2008 for Guyana; and 2.2% in 2009, compared to 4.3% in 2008 for Suriname, (ECLAC, 2010b, p. 5); the positive performance in the case of Guyana was a result of growth of the agriculture sector (2.8%) which contributed significantly to total GDP (21.2%) (ECLAC, 2010b, pp. 5-6). Further, an upswing in the price of gold and diamonds enabled the mining

4 Based on a personal interview with Gerold Dompig, Head of the Suriname Department of Mining.

5 Jamaica US$1.27b, St. Vincent and the Grenadines US$5.7m , St. Lucia US$10.7m, Antigua & Barbuda US$117.8m and Grenada US$13.3m (Ministry of Finance T&T, 2010, p. 17).

6 Anguilla, Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines.

sector to rebound, despite a fall in bauxite production occasioned by softening global demand.

Likewise, Suriname's agriculture sector registered positive growth of 5.2% from -5% in 2008, which helped boost overall growth. The poor performance of the mining sector in 2009 (-12.3%) after almost 5% growth in 2008, can be explained by *(1)* downward trending prices for bauxite, and *(2)* by inability of the government to capture gains from high gold prices due to the disorganised state of the gold mining sector.[7]

With respect to manufacturing, the region recorded negative growth, with the exception of Trinidad (2.8%) and Belize (6.9%) for 2009 (ECLAC, 2010b, p. 6). The sluggish performance of Trinidad's manufacturing sector in 2008 and 2009 can be attributed to *"relatively flat or declining consumer demand in traditional domestic and CARICOM markets which are yet to recover from the severe economic hardships of 2008 and 2009"* (Ministry of Finance T&T, 2010, p. 28). Exports to CARICOM countries recorded the largest decline (55.3%) as a percentage of total manufacturing exports. This is not unexpected since the CARICOM market accounts for over 60% of this country's manufactured exports.

Most CARICOM countries experienced negative balance of trade positions over the period 2004 to 2009, evidence of the lack of competitiveness of exports and the high dependence on imports. Trinidad and Tobago which recorded favourable balance of trade positions over the last 8 years also exhibited this competitiveness gap, as revealed by the disaggregated data. Available data for 2003 to 2009 reveal that the country experienced persistence balance of trade deficits when mineral fuels exports were excluded, suggesting that non-energy exports remained subdued and uncompetitive.

The region's recent economic performance illustrates quite starkly that despite the shift away from agriculture into services (ECCB countries); or attempts at modernization and diversification of the agricultural sector[8] (Jamaica, Belize and Guyana), the production structures of CARICOM countries remain heavily concentrated in primary activities. High production costs associated with these activities are further impacted by inadequate infrastructural and technological support as well as financing facilities.

At the macro level, policies must be developed to create linkages along the value chain of existing productive sectors. Although governments have recognised the need to diversify their economies, identification of new growth sectors and polices aimed at their development and promotion should be an integral component of national and regional policy initiatives.

CARICOM's heavy dependence on external markets for most of its trade, coupled with the challenges it faces to quickly restructure and diversify its economies make the issue of increasing trade related capacity an urgent imperative.

In light of projected low global growth and renewed tenancies toward protectionism, it is highly probable that *"strategies based on pure export promotion will be unsuccessful at least in the medium term"* (ECLAC, 2010b, p. vii). Current global trading patterns provide this region with an indisputable basis for accelerating the pace of CSME implementation, particularly with a view to boosting intraregional trade which continues to show *"no discernible trend of an increase"* as a percentage of CARICOM's total trade (CARICOM Secretariat, 2010, p. 1).

Issues Relating to Export and Market Diversification

In terms of the trade competitiveness of CARICOM countries several issues emerge. A number of CARICOM countries are classified as exporters of primary products. With global demand and commodity prices expected to further soften as markets respond to intensifying financial market instability, the prognosis for this region's commodity exports is not very reassuring. In the case of a China-driven surge in demand, this too, seems unsustainable for the region at this point, as the

[7] In early 2011, the Bouterse government implemented an action plan to register all gold miners in an effort to generate revenue from mining and retail activities. According to Gerold Dompig, Head of the Department of Mining, this move is expected to provide the country with significant revenues and will replace Petroleum as the major revenue earner by year end.

[8] Belize aims to modernize and diversify its agricultural sector through the development of farm-raised white shrimps, while Jamaica will focus on production of raw sugar, molasses, and ethanol.

Chinese economy overheats and domestic inflationary pressure forces a reduction in overall demand.

China's commodity focus, as it relates to CARICOM's resources, appears to be in certain specific areas- forestry, oil, gold and to a lesser extent, bauxite. This suggests that Guyana and Suriname will be the two countries for which the export potential of these commodities is very positive. This is further supported by the fact that China has invested US$100 million in the mining and forestry sectors of Guyana, while investments in various projects valued at US$1 billion are expected to commence shortly (Kaieteur News, 2011); while Chinese companies[9] are financing major infrastructural projects in Suriname involving housing units, a deep sea harbour and a railroad to Brazil in the amount of US$6 billion. The China Railway Resources Group is expected to invest significantly in Suriname's gold mining sector (Dompig, 2011).

For those CARICOM states whose economies are still dependant on export of agricultural and other primary products, the picture is not as encouraging, yet as *Table 2* reveals, export of primary commodities still account for a sizeable proportion of total exports.

Table 2

CARICOM: Exports of Primary Products as Percentage of Total Exports

Percentages of the total value of fob exports of goods

Countries and Regions	2007	2008	2009
Barbados	52.6	52.0	29.2
Belize	91.6	98.6	...
Guyana	79.6	90.4	92.3
Haiti	...	...	...
Jamaica	41.9	37.7	48.3
Trinidad and Tobago	71.5	74.9	79.7

Source: ECLAC (2010a).

The volatility in global prices for commodities such as sugar, bananas and rice suggests that certain strategies should be considered in order for the region to maintain production and employment levels in these sectors. Boosting intraregional demand can provide a ready market for these products while at the same time serving to strengthen the CSME. Increasing market share through market diversification should also be pursued with initiatives targeting emerging economies in Asia and Latin America. These strategies must be accompanied by measures designed to boost production while minimising production costs. Here, the application of research and development to existing exportable sectors, as well as technical assistance to expand the range of products from existing exportable sectors, could generate significant employment and stimulate spin off activities.

Discussions with trade department officials in the ECCU countries revealed that while diversification is considered a necessary survival strategy, realistically, initiatives will, in the short to medium term, focus on developing new product lines from existing industries. Banana and palm oil were cited as examples of this industry-specific diversification strategy. Already, downstream products such as banana ketchup, oils and essences are produced from bananas and some governments are hoping to attract foreign investment and technical cooperation to develop fabric and other by products of the banana plant.

Similarly, several ministries of trade as well as private sector organisations within the LDCs noted the potential of available resources such as coconut and other palms as inputs into higher end beauty and wellness products. While the raw materials of these plants are often used in jewellery and craft, their versatility is also being investigated as potential energy sources.

Further, it was noted by several stakeholders[10] in the smaller economies that services exports remain a major contributor to GDP. Indeed, the heavy reliance on services exports in many CARICOM countries and the poor performance of goods exports underscore the predicament of much of the region. The region's trade pattern is succinctly captured in *Table 3* below. What

[9] On December 6, 2010 Suriname signed a Memorandum of Understanding with two Chinese companies Cheng Don International and China Harbour. Data based on personal interviews conducted with Patrick Pique (2001).

[10] Data based on interviews conducted from June to August 2011 with key government and private sector stakeholders in Suriname, Trinidad, Jamaica, St. Lucia, Belize, Guyana, Barbados and St. Lucia/OECS.

the data suggest is that heavy concentration in, and reliance on services or a few primary exports provides little space to manoeuvre in the event of disruptions, whether internally or externally driven.

Some government departments indicated that the development of specific niches within areas relating to cultural services, wellness tourism and real estate-tourism could be a way forward.

While outlining potential areas for diversification, several stakeholders recognised that there was little fiscal and policy space available to individual countries to effectively focus on diversification, especially as their immediate goal is stabilising their economies in the aftermath of the global economic crisis. It was noted that a regional approach was necessary for assisting countries in this diversification effort particularly in areas such as technical support to improve areas of deficiency such as: manufacturing processes with respect to standards; packaging and labelling of products in conformity with internationally recognised specifications; and rigorous product inspection and monitoring to ensure internationally accepted standards, particularly in the food and health sectors.

This will be an important asset for the region as it is anticipated that revitalisation and diversification of agriculture will be high on the policy agenda of CARICOM states as they seek to reduce food imports and create downstream opportunities in related and supporting industries.

Trinidad and Tobago for example, has initiated a more aggressive agricultural revitalisation and diversification programme, the aim of which is to increase this sector's contribution to GDP in the areas of domestic supply and export of products. This sector's contribution (excluding sugar) to GDP has remained consistent at 0.4% for the period 2006-2010 (Ministry of Finance T&T, 2010, p. 54). However, ongoing initiatives were projected to increase output in Domestic Agriculture sector by

Table 3

CARICOM: Export of Services and Goods, 2008-2009

US$ million

Countries and Regions	2008	2009	2008	2009
US$ millions	Services Exports		Goods Exports	
Antigua and Barbuda	563.6	523.3	78.2	71.5
Bahamas	2,543.3	2,271.5	955.8	665.8
Barbados	1,600.8	1,431.7	487.8	378.6
Belize	386.5	344.9	480.1	381.9
Dominica	108.2	104.3	43.9	37.8
Grenada	152.7	140.3	40.5	38.7
Guyana	212.0	170.0	802	768
Haiti	342.8	381.8	490.2	551
Jamaica	2,776.6	2,736.3	2,761.1	1,386.1
Saint Kitts and Nevis	160.3	131.2	69	57.6
Saint Vincent and the Grenadines	152.5	145.4	57.2	54.8
Saint Lucia	363.6	347.0	165.7	183
Suriname	284.6	286.7	1,708.1	1,404.3
Trinidad and Tobago	...	...	18,686.4	9,175.2
The Caribbean	*9,304.7*	*8,632.6*	*26,335.8*	*14,603.3*

Source: ECLAC (2010a).

0.9% in 2010 after a contraction of 7.1%[11] in 2009. Emphasis has been directed at expanding production of root crops, vegetables and fruits to address the issue of headline inflation which reached a high of 15.4% in 2008, declining to 1.3% by December 2009 and then spiralling to 14.1% by July 2010 as a result of a drought-induced spike in food prices (Ministry of Finance T&T, 2010, p. 33).

Since a key component for the exportability and viability of these products, especially those classified as food and health related products will be the application of standards and regulations to ensure internationally acceptable quality, CARICOM institutions such as the Caribbean Agricultural Research and Development Institute (CARDI), the Caribbean Industrial Research Institute (CARIRI) and the CARICOM Regional Organisation for Standards and Quality (CROSQ) could play a more substantial role through the provision of training and technical assistance, and in a more targeted coordination and harmonisation of trade-related standards, procedures and practices.

This is particularly critical for food and beverage producing by small and medium enterprises. The food and beverage industry remains the lynchpin of the manufacturing base of many CARICOM states -particularly as they seek to diversify their economies, moving away from exports of traditional commodities into more value-added production lines. The industry also employs significant portions of these countries' workforce and contributes in reducing their food import bills. The range of goods produced in this industry range from alcohol and spirits including whiskey and rum, to soft drinks and fruit juices given the regions' rich plantation history and tropical climate. Beverages (non-alcoholic and alcoholic) are the top products exported in the industry. This is followed by snacks, cereals (including biscuits) and food preparation materials.

The need to focus on the food and beverage industry as a dominant part of the manufacturing base comes also as a result of progressive increase in severity of technical trade requirements demanded for such products by public and private bodies in both regional and international markets. The necessity of compliance to these requirements for market penetration is also noted. Indeed, this industry is critical to the economic diversification strategy of CARICOM economies and can be an effective tool for development and growth of their economies.

The recent Inter-Governmental Agreement establishing the Caribbean Agricultural Health and Food Safety Agency (CAHFSA)[12] which was signed by CARICOM heads of government at their 21st Meeting on March 12, 2011, provides a tangible mechanism to assist with the harmonisation of imports of agriculture and food products in the region.

If increasing intraregional trade is one of the ways of revitalising the region's productive sectors, the issue of production cost, along with improved standards and quality must be addressed. Stakeholders interviewed in both MDC and LDC countries noted that the resurgence of volatility in global financial markets and the real fears of a return to protectionism made it imperative that CARICOM states should aim to increase the share of intraregional trade as a percentage of total trade. This, many suggest, could be facilitated by the CSM, particularly the free movement of industry-related persons to reduce labour costs, and the availability of technical competencies, particularly as these relate to industry certifications, quality and other standards.

Capacity building in the areas of standards, quality and certification will be necessary components of diversification initiatives. As a long term strategy, newer products will need to be developed to complement existing traditional exportables. Export diversification strategies must therefore be viewed as one component of a broader industrial policy that not only tracks global market trends and identifies niche segments which the country/region can develop and promote, but also provide the necessary technical support to ensure that products and services can compete on the basis of quality and consistency.

In this regard, the role of standards and regulations in ensuring industry and WTO -compliance for regional products will be vital for building regional and global export competitiveness.

11 This contraction was due mainly to severe drought conditions and by flooding at different intervals.

12 The new CARICOM institution is located in Suriname.

Standards and Regulations

As an integral component of the broader strategy to diversify their economies and improve their export competitiveness, CARICOM States must pay adequate attention to improving the trade related capacity of their firms to implement standards and regulations in export markets which often present as technical barriers to trade. The problems associated with measuring technical barriers compared to conventional tariff barriers have been well documented in the literature (Sykes, 1995 and Hufbauer, 1996).

According to Sykes, the effects assumed from traditional actual tariff rate and estimates of quantitative restrictions such as quotas in markets are equally predictable. However, the same cannot be said of technical barriers which are more difficult to measure. They are problematic for exporters because they are often hidden in firm-specific costs of modifying products to meet required standards or regulations; in the costs of testing and certifying products, as well as in ways that non-compliance with a regulation or standard affects consumer purchasing decisions. Despite the inherent challenges in measuring standards, most scholars agree that they can obstruct free trade and can be detrimental to developing countries exports (Lupien, 2002).

Of major concern is the fact that CARICOM States, like many developing countries, lack the inherent technical and financial resources needed to build their resilience in this area. A more alarming concern is the lack of a strong and dedicated regional approach to build this much needed capacity. Countries have individually sought to run national programs and policies further stretching limited resources instead of devising a means to collate regional resources and competencies towards building their trade related capacity to implement standards and regulations for the goods they produce and export.

Tariffs have not been much of a problem for CARICOM States largely due to the many preferential trade arrangements operational between CARICOM and major trading partners. However, stringent technical barriers applied to traditional manufactures (mainly food based goods) are increasingly undermining the progress that SMEs in CARICOM states are making in these markets. There is growing empirical evidence of the negative impact of these technical regulations and other NTBs to trade particularly with regards to phytosanitary and food safety rules (Wilson and Abiola, 2003).

The European Partnership Agreement (EPA) is supposed to present better market access opportunities for CARICOM States. The Agreement replaces the unilateral preferential trade arrangement between the European Union (EU) and the African, Caribbean and Pacific (ACP) States (its former colonies); with a 'substantially all trade' and WTO compatible reciprocal agreement. In addition to presenting opportunities for CARICOM producers to tap into new markets in the EU and to diversify the range of products that they export, it does not come without its challenges.

With the third anniversary of the signing of the EPA between the European Union and CARIFORUM in sight, the question remains about the capacity of firms in the region to take advantage of these new market access possibilities given issues of capacity both in implementing the agreement, but also in meeting associated standards and regulations which are justified by law. The Agreement provides regional exporters duty free access and quota free access to European markets for almost all product lines although rice and sugar are excluded. Some of those product lines cover food and beverage products which are expected to enjoy greater market access in the Community.

Article 15 states that *"products originating in the CARIFORUM States shall be imported into the EC Party free of customs duties except for the products indicated, and under conditions defined in Annex II"*. However, one cannot help but wonder if indeed market access translates to market presence given that chapters 6 and 7 of the Agreement reaffirm parties commitment to the rights and obligations provided for in the WTO Agreement on TBT and SPS measures respectively. More so, that the WTO permits countries to take additional steps necessary to protect its resources.

While the Agreement makes several provisions under Chapters 6 and 7 to ensure transparency and cooperation in the application of technical regulations and SPS measures, the fact is that regional governments do not have the required trade related capacity to implement many of these provisions and subsequently are unable to challenge barriers within that scope despite the fact that development cooperation is an integral part of the Agreement. The implementation of standards and

regulations among firms across the region is generally weak (CROSQ, 2010) and implications can be more severe for SMEs that export abroad.

This is one of the major factors that affect the ability of regional SMEs to take advantage of the opportunities that the EPA provides unlike firms in the EU which are more able to take advantage of the broadened market access opportunity. Most SMEs in CARICOM are generally not concerned about meeting ISO (CROSQ, 2010) and HACCP requirements as it is cost prohibitive for them but usually test their products once a year to ensure satisfaction of regulatory requirements although this was not sufficient in many cases and did not ensure product quality (Babwah, 2005). While the lack of required trade related capacity is largely responsible, there is also a severe ignorance of the importance of technical regulations and standards as critical components in producing internationally competitive products and accessing sophisticated overseas markets such as those in the European Union, North America and the BRICS.

In an examination of trade barriers posed by technical regulations on a survey of 17 developing countries, Wilson and Otsuki found that a large percentage of firms face technical regulations in export markets, including 76% of firms in Latin America and the Caribbean (Otsuki *et al.*, 2001). In all countries, firms consider technical regulations in export markets as a barrier to trade expansion. Many of the firms facing technical regulations have additional compliance costs for each export market, which in total make up between 1% and 10% of investment costs.

With the exception of a few resource endowed countries, agricultural and food products such as banana, sugar and rum continue to be economic lifeblood of CARICOM States, so one can only imagine the gravity of impact technical barriers can have on their exports to the markets they export to. Moreover, part from the natural resource producing companies, most other firms in CARICOM are classified as SMEs, significantly adding to the combined regional GDP. Technical barriers that pose the greatest problems are SPS measures which are designed to ensure the protection of humans, animals and plants from injurious diseases, pests and other contaminants. Furthermore, a survey of developing countries shows that the market for which SPS requirements are considered to be the most significant impediment to trade is the EU (Henson *et al.*, 2000) with whom CARICOM has signed the EPA.

It must be noted that several regional food and beverage firms have enjoyed significant levels of export success. In Trinidad and Tobago, companies such as Bermudez (biscuits), Carib Brewery (alcohol), K.C. Candy (confectionery) and S.M. Jaleel (beverages) have become global exporters. In the case of Barbados, the Banks Barbados Brewery Ltd; and Mount Gay Distilleries Ltd. are among the indigenous firms that have a global export presence; while in the case of Jamaica, firms such as Grace Kennedy and J. Wray and Nephew Ltd. have established themselves in the international market. Guyana's Demerara Distillers Ltd and Trinidad's Angostura have also excelled internationally and their signature brands, the El Dorado Rum and Angostura 1919 are globally recognized brands for their quality and exquisite tastes.

In addition to sound business management practices, their success is also attributed to investments in quality production methods to ensure the suitability and adaptability of their products in some of the most sophisticated global markets in the Americas and Europe which they export to. They have been able to benefit from investments in research and development - training their staff in health and safety methods, facilitating staff training by sending them to conferences abroad, as well as contracting industry experts to train their staff in the latest food quality methods. Given their relatively solid capital base, they have also been able to invest in conformable testing laboratories which afford them the effectiveness and efficiency to meet labeling and content requirements for their products. Additionally, their ability to adapt to global supply and distribution chains make it easier to meet even more stringent product requirements.

Despite their relative success, they remain a very small and isolated group of medium and large companies. Indeed, it is arguable that CARICOM countries cannot realize sustained economic diversification by relying on a few large companies. For these economies to be properly diversified and for them to be able to take advantage of growing market access opportunities in both traditional and emerging markets, provided through the plethora of regional trade agreements that have been negotiated, they would need more manufacturers and exporters to come on board. Furthermore, globalization and trade liberalization necessitate an aggressive and sustained strategy for market penetration and competitiveness. There is therefore the need for a mechanism that will facilitate the growth and competitiveness of SMEs.

A Trade Related Capacity Building Approach (TRCBA) that best address the challenges of barriers in international markets and provide the scope for capacity building in regional SMEs must be implemented as an integral part of CARICOM's export diversification strategy. The success of the TRCBA which will be an SME driven approach is dependent on the political and economic context within which its main actors (firms and government) with spheres of influence collaborate effectively.

A number of food and beverage producing SMEs already export both regionally and internationally. However, the impact of the myriad of product- related requirements they face remains an ongoing concern and often prohibitive factor. Measuring the impact of these product-related standards is even more problematic because they are often hidden in firm-specific costs of modifying products to meet required standards or regulations. These are implied in the costs of testing and certifying products, as well as in ways that non-compliance with a requirement might affect the decision of the consumer to purchase.

The costs of re-testing and re-certifying products that have been previously tested for conformity are also known to make SME imports less competitive in comparison to domestic products. Given their relative smallness, the export competitiveness of food and beverage exporters in the region is further affected by economies of scale and critical mass requirements. Hence the argument for a sustained regional approach to trade related capacity building for SMEs to meet product related markets they export to.

On one level, the firm strategy of SMEs must successfully incorporate local partnerships with both similar sized and larger firms in the same industry sectors. An extension of those linkages to similar firms within the region is also essential due to critical mass and economies of scale requirements. While the TRCBA allocates responsibility to global value chains which through networking and international linkages increases access to distributors and buyers, this is less applicable to SMEs who are seeking market penetration at this stage and critical for large firms interested in market expansion. The SME driven nature of this approach necessitates that SMEs and their dedicated associations proactively work with the government towards policy formulation for issues critical to SME performance.

On the second level, while the paper advocates a stronger sphere of influence for firms than government,[13] the role of the government is however critical to the international competitiveness of SMEs. The success of the TRCBA is dependent on the government's ability to successful institutionalize and implement a regulatory framework for standards and regulations and also support the complete implementation of CSME towards greater market integration by lobbying other CARICOM governments towards advancing the integration process. Given national resource constraints, the government can also support regional collaborative strategies in product monitoring and evaluation to support private sector led product and market intelligence. The government must also be able to manage the matrix of relationships between its ministries and agencies especially those with implications for standards and firms.

It is not enough to say that capacity will be enhanced when access to information for SMEs is improved or when all CSME provisions are completely implemented nationally. Indeed, capacity building comes from what firms do with information available to them or what they do with market opportunities and regulatory frameworks provided by the government. By mapping out the trade related capacity building process, TRCBA shows SMEs how they can ensure that their products meet international standards through access to regionally and internationally accredited testing bodies which can only be possible if resources are invested towards establishing these.

It shows SMEs that they can have current access to product and market information through proactive investments in market intelligence as opposed to relying on the government particularly as many may not be satisfied with the level of government support and also unable to do it alone. The approach also shows that the best practices employed by SMEs will be in vain if the government is not on par in terms of meeting its own requirements given the collaborative nature of the approach.

It is important to mention that this approach does not presume that SMEs will willingly engage in these kinds of activities given the nature and culture of the business environment and firms which is traditionally secretive and cautions. Indeed, SMEs have to come out of their obscurity given that competitive advantage is

[13] Contrary to the traditional role of the government in these economies as the prime mover of economies.

informed by cultural norms in the business environment. However, the TRCBA makes the case that if indeed SMEs and firms in general genuinely want to improve their export performance, given their fiscal and resource constraints, they must cooperate especially in those precompetitive areas such as standards development and implementation, market intelligence, government lobbying, research and technology. This also includes improving regional networks with similar firms in the same sector especially where institutional frameworks have been provided through CSME and CARIFORUM.

As the main regional body for standards, the CROSQ has to be a bit more realistic in their approach and step away from paper work. As one regional trade expert asserted, *"they have to start scratching where it itches -yes you can do workshops and all- but more pushing and collaboration needs to be done"*. Indeed there is need for a regional center for enterprise development which will provide the platform for partnerships and collaboration between firms. It should also be able to provide an avenue by which smaller firms can be mentored by the larger firms. Perhaps a periodic pairing between large and small firms to help them develop their capabilities in quality production can help SMEs develop their products to acceptable standards in order to tap into international markets. This medium can also facilitate information sharing and reporting on best practices which can be transferred and adapted in SMEs.

Conclusion

CARICOM's ability to survive in a post-crisis trading environment will necessitate doing things differently. It calls for identifying new products and markets in order to sustain, if not increase its volume of trade. Key to the realization of these objectives will be the competiveness of national and regional firms. Since TBTs constitute a significant barrier for CARICOM products, a trade-related capacity building approach must be a key component of any export diversification thrust.

The process of building this capacity will be driven by SMEs with the state functioning as an active partner. It necessitates provision of a regional framework to manage SME collaboration as well as to facilitate backward and forward linkages and the gains therein. Indeed, the TRCBA will succeed if CARICOM sates can successfully institutionalize and implement a regulatory framework for standards and regulations and also support the complete implementation of CSME towards greater market integration. This will not only help in building trade-related capacity of firms to meet product standards, it will also serve to increase the share of intraregional trade as a percentage of the total CARICOM trade.

Given national resource constraints, the government can also support regional collaborative strategies in product monitoring and evaluation to support private sector led product and market intelligence. It can also facilitate information sharing exchange, reporting on best practices and sharing between SMEs. ◆

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Caribbean Integration: A Rules of Origin Perspective

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The Caribbean region has undergone several stages of integration, the latest being a customs union, the CARICOM Single Market and Economy (CSME). To date, the CSME has not been fully implemented. In addition, an analysis of trade data reveals trade continues to be in a limited range of food items and manufactured goods and dominated by the same member states as it was a decade ago. An examination of the rules of origin reveals some issues which may contribute, at least in part, to these trade patterns and might serve as a source of friction among members. Suspensions and safeguards, coupled with the outdated structural basis on which the Common External Tariff (CET) was built contribute to the erosion of intra-regional trade. A revision of the rules of origin and the provision of technical assistance to members would go a long way in providing equity to the system and to meet the objectives of development enshrined in the Revised Treaty.

Introduction

From the West Indian Federation in 1958 to the Caribbean Free Trade Area (CARIFTA) in 1968 to the Caribbean Community (CARICOM) in 1973 and finally to a CARICOM Single Market and Economy (CSME), the Caribbean has undergone substantial reforms of its integration efforts.

The West Indian Federation was created with the aim of establishing a political union among its ten members leading to eventual independence and self-government.

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Political will was the greatest obstacle to the success of the Federation and in 1962 collapsed with the withdrawal of Jamaica, the largest member.

The creation of a "Caribbean Community" was proposed by Trinidad and Tobago. Four years later a free trade area, CARIFTA, was established by Antigua, Barbados, Trinidad and Tobago and British Guiana. In 1968 more territories joined CARIFTA, some independent and some not yet having gained independence.

Recognising the shortcomings of CARIFTA, members established CARICOM in 1973; original signatories Barbados, Guyana, Jamaica and Trinidad and Tobago were joined by the other members of CARIFTA by July 1974. CARICOM's objectives are focused development ranging from improved living and working standards to economic development and convergence, international competitiveness and increased production and productivity.

Deeper integration was eventually to be achieved through the signing of the Revised Treaty of Chaguaramas in 1989 which led to the establishment of the CSME with full implementation expected by 1993, but until writing has not been fully realised.

In the words of Barbados's Prime Minister at the opening ceremony of the 32nd Heads of Government Conference July 1st 2011:

"…A dispassionate analysis of our recent history will in fact demonstrate that our struggle to become masters of our regional destiny has taken place against a constant backdrop of political, economic or social crisis, more often than not, at the intersection of all three. It was the punishing social conditions of the 1930's that gave rise to the Caribbean Trade Union Movement and propelled our founding fathers towards the short-lived dream of self-determination within a Federation. In the 1960's the Little Eight attempt, independence and CARIFTA, all took place in the shadow of the growing Cold War divide and the shifting focus of the colonial power…"

This paper examines the rules of origin enshrined in the Revised Treaty of Chaguaramas with a view to ascertaining how the rules have contributed to the development of intra-regional trade and integration and makes a few recommendations for changes.

The Rules of Origin

The Rules of Origin, as set out in the Revised Treaty of Chaguaramas establishing the CSME, are governed by:

- Article 84, which provides the basis under which goods can be treated as originating from the Community, and;
- Schedule 1, which contains:
  a. A "List of conditions to be complied with as provided for under Article 84", and;
  b. The Rules regarding Community Origin. These eleven rules provide in depth explanation of the provisions of Article 84.

Two basic rules facilitate the determination of origin status of goods. Goods should either be wholly produced within the Community or, produced within the Community wholly or partly by materials imported from outside the Community.

Wholly produced is defined by Rule 2 of "The Rules regarding Community Origin" in part (b) of Schedule 1 and includes, but is not limited to, animals born and raised within the Community, vegetable products harvested within the Community, products obtained by hunting and fishing conducted within the Community, etc. Between 1990 and 2000, CARICOM's intra-regional domestic exports of food and live animals chiefly for food (SITC Section 0) averaged 17.7% of total intra-regional domestic exports. The distribution of intra-regional imports was almost the same, valued at an average of 17.5% of total intra-regional. The yearly percentage distributions were stable ranging from a minimum of 17.4% to a maximum of 23% (CARICOM Secretariat, 2002).

When compared to the wholly produced criteria as defined in the Economic Partnership Agreement (EPA) between The European Community (EC) and CARICOM-Dominican Republic (CARIFORUM), additional conditions for example including fruits, used articles and products extracted from marine sources allow for easier qualifying status under the EPA than under the CSME rule.

If regional materials are inadequate or unavailable, extra-regional materials can be imported and the goods would qualify for origin status provided that the Secretary General issues the necessary certificate authorising its use.

In applying for suspension the competent authority in the country of manufacture investigates, then once satisfied, applies to the Secretary General for the certificate. The competent authority must also inform other member states of the *"…inability of the manufacturer to obtain the supplies of the required materials from within the Community…"* (CARICOM Secretariat, 2001, p. 51).

Notwithstanding, some competent authorities don't usually contact other member states. This notification is usually done by the Secretary General in an attempt to verify the inadequacy of supply. This problem is compounded with a lack of appropriate monitoring mechanisms to ensure that regional supply exist. Therefore the availability of supply for satisfying internal demand is grossly underestimated leading to a suspension of the CET, even where this may not have been desirable or necessary. For example the suspension of the tariff in respect of red kidney beans is a common occurrence despite high production levels in at least one member state. Also, in a request for suspension for white milled rice, despite two members informing of their capacity and ability to supply, the requesting member aired *"grave concerns over the stability and volumes of suppliers of rice in the Region."*[1]

Competent authorities should simultaneously inform member states when informing the Secretary General. Processing a request would be accelerated and the time required in ascertaining regional supply capacity would be greatly reduced. This may also remove the need to import extra-regionally due to slow response by member states, a reason stated for importing raw materials outside the region.

The second rule allows for the importation of extra-regional material in the production of "community" goods. However, the materials must satisfy a condition to be treated as inter-regional material either through a change in the tariff heading; or in the case of products in the "List", as governed by the specific conditions therein.

The first case of change of tariff heading as a measure for substantial transformation is extremely important. Schedule 1 part (b) explains the interpretative provisions of the rules. Simple operations such as sifting, packaging, preservation, welding, simple mixing, etc. (minimal processing) alone, do not confer origin status. The rules of origin under the EPA are more specific in determining insufficient working. Article 8 of Protocol 1 of the EPA contains a more extensive list of insufficient working. The minimal processing rule in the Revised Treaty should be revised not only to ensure sufficient working and processing taking place in the region, but also to ensure they are in line with other trade agreements negotiated with the region; a view recognised by the Council for Trade and Economic Development (COTED) when it concluded in 2008 that *"as a matter of urgency, the Region's Trade Policy should be revisited and the efficacy of Rules of Origin for intra-regional trade should be examined with the view to aligning those cases where the rules are more onerous in line with the rules contained in Trade Agreements negotiated with Third Parties..."* (CARICOM Secretariat, 2008).

In the second case, the rule requires that listed goods must satisfy specific criteria before origin status can be granted. The criteria range from the final good being wholly produced in the region, to specific processes being utilised to allow for origin status.

This list was created to protect products for which capacity exists, to protect regional producers and to encourage and ensure value added activities and sufficient working for the products therein. When the list was compiled, account was also taken of the varying levels of economic development in the region with the division into most developed countries (MDCs) and less developed countries (LDCs).

However due to technology infusion, changes in global and regional conditions, the structure and pattern of foreign direct investment (FDI), trading environment, in particular, the negotiation and implementation of World Trade Organization (WTO) compliant trade agreements in the region, economic

[1] The many suspensions of the tariff featuring prominently at the meetings of the Council for Trade and Economic Development are available from the Summary Decisions prepared by the CARICOM Secretariat.

conditions of member states including falling revenues, industrial structures; and other internal and external factors, the basis on which the CET was built needs to be revised. For example, clothing attracted different CET rates due to the FDI intensity of the apparel industry in the region. However, with Mexico joining the North American Free Trade Agreement (NAFTA), increased competition from low wage producers, exchange rate difficulties experienced by a major regional apparel exporter and the lack of economies of scale and scope in the region, the regional clothing industry has virtually disappeared.

Where the list requires goods to be "wholly produced", manufacturers still reserve the right to import extra-regional raw material subject to the conditions laid out in paragraph 3 of Article 84, in order to receive the necessary qualifying status. But for some of the other items in the list, the Caribbean does not produce the materials required for fulfillment of the condition; for example production of olive oil and leather shoes.

In the EPA (reflecting EU requirements), this is dealt with in a different way; for example, items classified under 17.04 - sugar confectionery not made of cocoa; the Revised Treaty has only one simple condition: it requires that such confectionery must be produced from regional materials of 17.01 (sugar), and as such, other materials can be imported. In this case the rule of origin under the EPA is stricter as there are two conditions to be satisfied; all the materials used must *not be* classified under 17.04 and the value of any used materials of Chapter 17 must not exceed 30% of the ex-works price of the product. The EPA's rule for qualification is therefore stricter as it requires more value added.

In addition, some products, like substitute raw materials which are not governed by the list and attract lower rates of duty, can be imported extra-regionally, attract lower CET rates but still qualify for CARICOM origin status. To correct these anomalies, the list should be reviewed to take into account substitute products. Article 84 paragraph 10 mandates continuous revision of the schedule and in particular the list, and allows amendments to the Schedule to ensure the objectives of the Community are met. It is noteworthy that to date, the Schedule and in particular the list have not been reviewed since the establishment of the CSME.

In the case of olive oil and other such product requirements, the items should simply be removed from the list and allow for origin status under the change of tariff rule.

For goods produced from materials of specific headings, the list specifies the raw materials, does not require them to be regional, and does not quantify value added content.

Production resulting from certain materials not included in a specific HS heading requires the final product not to be produced by a certain input whether regional or otherwise. This requirement was inserted to ensure the final product undergoes a minimum level of transformation before conveying origin status. Under the EPA, there is such a requirement however allowances are provided for. For example, medicaments (excluding goods of heading N° 3002, 3005 or 3006) obtained from amikacin of heading N° 2941 should be manufactured from goods classified within a heading other than that of the product. However, materials of heading N° 3003 or 3004 may be used provided that their total value does not exceed 20% of the ex-works price of the product. This language is absent in the rules of origin of the Revised Treaty.

The list also requires specific final products be produced by a particular process to qualify for origin status. Retreaded or remoulded tires, according to the condition in the list, must be produced by retreading or remoulding. The classification of the product already calls for retreaded tires. Therefore, this condition should be changed to ensure some minimal transformation.

The list requires that for most products therein, extra-regional inputs maybe used but must not exceed a certain percentage of the export price (the value added criteria). This percentage is, in many cases, lower for members with MDC status. The EPA refers to export price as ex-works price. Value-added is not so much an issue, unless the percentage value-added is either too low that it's negligible, or too high that it is unattainable. Value added in the list is measured by value of the extra-regional raw materials not exceeding a specific percentage of the export price of the finished product. For some products, the value added requirement includes packaging material.

The value added rule can be manipulated by reducing export prices if the percentage is not realised. If competent authorities are unable to, for whatever reason, monitor production or lack the capacity to ensure technical requirements are fulfilled, then

submitted declarations would have to be accepted. Labour cost in the region has been rising and is not consistent with productivity. The high wages also reflected in the value added is somewhat and to a lesser extent, a misleading indicator of value added, given the productivity issue. Unless the value added requirement truly adds value to the product, then is it really a facilitator of intra-regional trade? Most important is strengthening the capacity of competent authorities through training and audits to effectively measure and monitor compliance.

Compounded with the safeguards and suspensions, some of the value added criteria in the revised treaty is inadequate for cushioning and does not encourage full domestic production. Take for example the sugar confectionery example above.

Another fundamental difference between the EPA and the Revised Treaty is Cumulation.[2] The EPA allows for cumulation in CARIFORUM, ACP and other listed territories including some neighbouring developing countries of Latin America including Cuba. This was done according to Article 5 paragraph (1) of Protocol 1 at the request of CARIFORUM. This insertion is important and would go a long way in building sustainable relationships with Latin America. While the Revised Treaty mentions "regional material" it does not explicitly allow for culmination with neighbouring developing countries.

In the case of goods consigned for repair, renovation or improvement, the goods must be re-consigned directly to the member from which it was exported and the value of materials imported from outside the region used in the repair should not exceed 65% of the cost of repair if repaired in an MDC or 80% if repaired in an LDC. Again, do competent authorities have the resources required to ensure this condition is being fulfilled?

In 2001, petroleum, petroleum products and related materials occupied the top four places of intra-regional imports, with Trinidad and Tobago being the major exporter. Other commodities in the top 20 included white rice, cane sugar, flour, sweet biscuit, frozen snapper, grouper, aerated beverages and beer; other gas oils and other petroleum oils etc.; building cement, napkins and napkins liners for babies, cartons, etc.; line pipe or gas pipelines of iron or steel; and soaps and organic surface active products. The top intra-regional exports list wasn't much different with more energy based products and less food items. The raw materials for these items are imported extra-regionally and receive more suspensions.

According to World Bank/OAS (2008, p. 24), "*Intra-regional trade is very limited and skewed toward few countries and products...*" In 2005, intra-regional exports were valued at US$2.5 billion with Trinidad and Tobago dominating with 85% of total exports.

There is also a list of conditional duty exemptions which member states may or may not at their discretion exempt from duty under the CET when these goods are imported for uses specified in that list. List A allows indefinite suspension of the CET with rates individual member states must apply for almost 100 tariff lines.

List B provided for a suspension of the CET by LDCs and was applicable for 2 years with an exception granted to Dominica. Countries were allowed to apply a minimum (with no maximum) rate of duty to over 500 tariff lines. Only recently did some countries cease the application of the rates in List B.

List C allows individual members to apply specific rates to products even though a minimum CET rate was agreed. These rates apply to over 200 tariff lines and are different across members. List D part 1 allows only Belize to apply a zero rated duty to 10 tariff lines while the remaining members apply the 30% or 35%. Part II allows different rates to be applied by Belize, Saint Kitts and Nevis and the other OECS countries than the CET rate for about 28 tariff lines.

Given such divergences, including the fact that the CET is not applied uniformly by members, member states have discretion to change rates, and to not uphold the time limit imposed on the list. This is true in the case of List B. Restrictions should be placed on such actions. In addition, there is duplication between the list of conditional duty exemptions and the other lists, giving rise to confusion.

The above analysis illustrate that the rules of origin should be improved in order to allow uniform application within the countries of the integration movement.. This

[2] Cumulation refers to "*the system of rules of origin which permits the production or transformation of a product in two or more specified countries in order to satisfy the access rules of the importing country.*" Goode (2003).

is not to say that the rules are inherently flawed and adversely affect intra-regional trade. Notwithstanding, the rules need review and refining. Intra-regional trade has been a source of friction for members. One member publically remarked that its primary producers are at the mercy of a second member state's subsidised agro-processing sector. That sector was accused of *"using raw materials imported extra-regionally with unclear duty arrangements…"* and peanut farmers of the accusing member state are unable to compete for the demand of agro processors as peanuts from the second member state are imported extra-regionally, processed with subsidised energy and then sent to its country; driving farmers out of business (CANA, 2010).

Obviously, there are other factors which affect intra-regional trade, for example transport, fuel and phytosanitary measures.

Fuel cost has increased significantly, raising production costs for members. However, the region's leading intra-regional exporter produces energy, making the cost of energy and therefore manufacturing, much lower than other CARICOM members. According to CARICOM Secretariat (2003), the dominant commodities in intra-regional trade in 2001 were petroleum based contributing to 38.1% of imports.

Phytosanitary impediments also challenge the success of trade within the space. One member state complained publicly that another member state was using food-safety barriers to block the exportation of their patties into their country. An OECS country has been unable to export mangoes to a non-OECS member due to phytosanitary measures imposed by that non-OECS member.

An investigation of the top 20 commodities on the intra-regional trade list (both imports and exports) reveals that fruits and vegetables, of which many CARICOM countries are naturally endowed, are noticeably absent. The rules of origin should address phytosanitary issues to ensure trade in agricultural products across the region.

Conclusion

This paper discusses some issues in the rules of origin to the Revised Treaty of Chaguaramas which contribute to CARICOM member states still producing a very narrow range of products and intra-regional trade dominated by the MDCs. Market access issues also lead to friction among members, and this can hamper the speed at which full integration is being achieved.

Furthermore, the greatest obstacle to regional integration in the Caribbean appears to be the lack of political will, which is manifested by the incomplete implementation of the CSME after twenty-two years of signature. Time is not on the region's side. We can be united in approach and face the development challenges emanating from a rapidly changing and highly competitive international community. ◆

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Special Section

LATIN AMERICAN TRADING BLOCS:
BETWEEN REALITY AND UTOPIA

Foreword by the section editor

In a period of great economic uncertainty for much of the world Latin America is steadily on the rise (The Economist, 2010). Its economic growth and stability over the last five to ten years have been remarkable. Vast oil and mineral reserves, impressive food production capacity, and strategic proximity to the Asian markets make its economic future promising.

Latin America also has a consolidated tradition of pursuing regional unity and integration to favour trade expansion and its international insertion. However, several projects with purportedly the same objectives -regional unity and economic and social development- are in operation. MERCOSUR, the Andean Community, ALBA, UNASUR, SICA, CAFTA-DR, each with their political underpinning, constitute an intricate system of trade regimes and preferences with important implications for the region's cohesion and its ability to project itself internationally. One may wonder to what extent regional trade integration is actually taking place in Latin America and whether or not all these projects are complementary.

The Special Section that follows is largely the result of the event "Latin American Trading Blocs: between reality and utopia" *that was held in London in May 2011 by the Institute for the Studies of the Americas (ISA) with the generous support of the UK Foreign and Commonwealth Office.* * *The purpose of the event was to define and map Latin American trading blocs, to dissect their quite different political and economic rationales and to uncover the gap between political declarations or even agreements and the reality on the ground. The event established a fruitful dialogue between academia and practice, involving experts from a variety of geographic and thematic backgrounds. I trust that the main findings, questions, and challenges of this section will open the path to further debate among the qualified and varied readership of* Integration and Trade.

GIAN LUCA GARDINI
Bath, September 2011.

* I would like to thank Paulo Drinot for co-convening with me the London event that generated this Special Section. Thank you to Maxine Molyneux to make the event possible and to Olga Jimenez to make it happen. I am grateful to the Americas Research Group at the Foreign Office for their intellectual input and encouragement. Special thanks to HE Mauricio Rodríguez-Múnera, Ambassador of Colombia to the UK; HE Roberto Jaguaribe, Ambassador of Brazil to the UK; HE Maria Beatriz Souviron Crespo, Ambassador of Bolivia to the UK; and HE Pilar Soborio de Rocafort, Ambassador of Costa Rica to the UK for their precious contribution and diplomatic perspective. I am very grateful to José Raúl Perales for complementing our London debate with his piece on Central America that features in this Special Section.

Workshop

Trading Blocs in Latin America

IALS: 23 May, 2011

Description:

14.00-15.30 Trading or political blocs in Latin America?

Chair: *Paulo Drinot*

Gian Luca Gardini (University of Bath)
MERCOSUR - Mahrukh Doctor (University of Hull)
ALBA - Thomas Muhr (University of Bristol)
Central America (SICA, CAFTA) - Diego Sanchez-Ancochea (University of Oxford)
The United States and the FTAs Network - Ken Shadlen (LSE)
The Andean Community (CAN) - John Crabtree (University of Oxford)

16.00-17.00 Roundtable with Ambassadors (HE Roberto Jaguaribe, Ambassador of Brazil to the UK; HE María Beatriz Souviron Crespo, Ambassador of Bolivia to the UK; HE Pilar Soborio de Rocafort, Ambassador of Costa Rica to the UK; HE Mauricio Rodríguez-Múnera, Ambassador of Colombia to the UK)

Chair: *Gian Luca Gardini*

17.00 - 18:00 Dissecting Latin American Trading Blocs
Presentation of the book *Latin American Foreign Policies,* by Gian Luca Gardini and Peter Lambert (Eds.)

Chair: *Maxine Molyneux*

Venue:

Institute of Advanced Legal Studies (IALS)
Charles Clore House
17 Russell Square
London
WC1B 5DR

Latin American Trading Blocs: between reality and utopia

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Two-hundred years of independence and quest for unity have not provided Latin America with a single continental political or trade project. In a continent where hyperbolic rhetoric about integration prevails at the discourse level, in practice heterogeneity and fragmentation rather than convergence characterise Latin America's trade and integration policies. This is reflected in a variety of trading blocs, or would-be so. A gap between stated objective and practical achievements is a prominent feature of these supposed blocs, and so is overlapping membership and rules. Reality and utopia seem to coexist. This calls for a systematic unpacking of the definitional concepts we use. The very notions of "Latin American", "trading bloc", and "reality and utopia" -that define this debate section- will first be discussed. Next, four issues that have a high impact on Latin American trade regimes and aggregations will be addressed. Finally, the three key questions informing this Special Section will be posited.

What is a "Latin American" trading bloc? The very concept of Latin America is currently under strain (Gardini, 2010). While attempts at regional integration continue, opposite tendencies emerge too. The increasing political and economic gravitation of Mexico, Central America and the Caribbean in the US orbit, the growing global and regional role of Brazil, the compelling quest of many South American administrations for a more autonomous and multipolar international order seem to tear North, Central and South America apart, and to define South America as a possible new region of its own (Instituto Rio Branco *et. al*, 2000). Furthermore, where does Mexico fit? It is a member of the North American Free Trade Agreement (NAFTA) with the admittedly non-Latin American US and Canada and a promoter of the newly formed and very Latin American and trade-oriented Pacific Alliance with Peru, Colombia and Chile. Also, if the US is involved in a trade agreement with one or several Latin American countries, can that agreement be considered as Latin American? In either case, what is the discriminant: Exclusiveness? Relevance? Finally, are issue-based trading alliances involving some Latin American countries such as the Cairns Groups of agricultural powers or the G20 of developing countries at the World Trade Organization (WTO) to be considered as some forms of Latin American trading blocs? For the purpose of this section, a Latin American trading bloc has to: *(a)* be geographically circumscribed to the Americas (which excludes for instance aggregations within the WTO) and *(b)* have at least 50% of its membership composed of Latin American states (which excludes the North American Free Trade Agreement - NAFTA but includes other Free Trade Agreements - FTAs).

What do we mean by "trading bloc"? While projects such as MERCOSUR and the Andean Community have a clear trade dimension, more recent Latin American aggregations, such as ALBA, UNASUR or the forthcoming Community of Latin American and Caribbean States (*Comunidad de Estados Latinoamericanos y Caribeños* - CELAC) have privileged the political dimension over the economic (and trade) one, thus configuring themselves as post-neoliberal regionalism (Sanahuja, 2009). In this section the focus is on groupings with an operational trade dimension, which includes for instance ALBA and its People's Trade Agreement but excludes for the time being UNASUR where the trade dimension is still to come.

What do we mean by "reality and utopia"? Over the years, regionalism and more specifically trade agreements in Latin America have been characterised by a double gap between words and deeds (Vaillant, 2010). There is a first gap between what is declared by politicians or reported in the media and what is actually being discussed and agreed upon at the technical level. There is a second gap too between what has been agreed upon at the technical level and what is in fact applied or into force in practice. This peculiarity extends beyond the domain of trade. It is therefore important to distinguish between what is the reality on the ground and what are aspirations or declamatory statements.

Four issues majorly affect trade in today's Latin America: policy divergence, fragmentation of integration projects, the limits of regionalism, and the return of politics to centre stage. *Firstly*, Latin American countries are unable to reach a minimum common denominator of policy convergence on three fundamental points that highly affect trade strategies: the relationship with the US, the role of Brazil, and the development model to pursue (Gardini, 2011a). *Secondly*, regional

integration projects that should underpin unity of intent in the area of trade in fact reproduce the heterogeneity of the current Latin American political and economic panorama, thus generating fragmentation of efforts, dispersion of resources, overlapping membership and conflictive norms and goals. The "spaghetti bowl" effect is a real possibility (Bhagwati, 1995). *Thirdly*, intra-regional trade may have reached a point beyond which it will be difficult to progress. Extra-regional political and economic partners (China), aggregations (BRIC, G20), and multilateral forums (WTO) are becoming increasingly important to regional trade; emerging powers and China in particular seem to have a preference for bilateralism; structural asymmetries such as the presence of giant countries with ambiguous regional leadership credentials seem to hamper more than encourage regional cooperation. Overall, the rest of the world is more interested in what individual Latin American countries have to sell rather than what Latin America as a whole has to offer. *Fourth*, the resurgent emphasis on ideology of some Latin American administrations, the return of politics to centre stage almost in opposition to rather than complementarity with economics, and the use of regional integration and its trade dimension as a fluctuating government tactic rather than a stable country strategy have politicised the issue of trade and made consensus about it even more problematic.

Three key questions inform this Special Section and its contributions on specific trade blocs or regimes:

1. What are the political and economic underpinnings of the trade blocs currently operating in Latin America?

2. To what extent discrepancies between intents and realisation characterise Latin American trading blocs and affect their results and achievements?

3. Is it possible to evaluate the real benefits for their respective constituencies of the Latin American trading blocs?

The aim of this Special Section is to link theory with practice, politics with policy, and to offer a political science and international relations perspective on *integration and trade*, a crucial nexus for Latin America.

Southern Common Market (MERCOSUR)

Mahrukh Doctor
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The objective of MERCOSUR as stated in the constitutive 1991 Treaty of Asunción was "economic development with social justice". In the eyes of its founders, the crucial policy motivation was to lock in the economic liberalisation processes underway in each signatory country, but also implicitly to support the underlying political and security issues relevant at the time (i.e. democratisation and reducing military competition in the region). From its inception, it was a heavily state-led process and relied on presidential diplomacy to define its priorities and agenda (Malamud, 2005). In 2011, MERCOSUR celebrated its twentieth anniversary, highlighting a number of achievements including a sizeable increase in intra-regional trade from US$5 billion in 1991 to US$40 billion in 2010, record levels of foreign direct investment (both intra- and extra-regional) with over US$400 billion inflows in the past 20 years, and perhaps most importantly, the invaluable prize of living in a peaceful and democratic neighbourhood.

This contribution considers four issues: motivations and goals of each member; key challenges facing the region; discrepancies between formal agreements and actual practise; and some lessons from MERCOSUR integration.

The incremental economic integration project was ambitious in terms of scope when compared to other developing country integration projects and in temporal terms when compared to most other regionalism processes including the European. It posited to move from free trade area to customs union by 1995 and even to progress to a common market by 2006. Had it succeeded in substantively implementing this time schedule, it would have taken less than half the time it took the European Union to do the same. Instead, failure to meet these deadlines has become the target of much criticism. Realistically, it was unsurprising, given MERCOSUR's long-standing structural asymmetries and the impact of periodic internal and external shocks.

Each member had a number of specific motives and goals to join the project. Brazil, the largest member with

75% of MERCOSUR Gross Domestic Product (GDP), increasingly emphasised the political over the economic benefits. It sees MERCOSUR as an opportunity to gain recognition for its regional leadership and, more importantly, as a tool to manage its complex relations with Argentina. Brazil's longer term vision of itself as a 'global player' means MERCOSUR is seen as a stepping stone to increase its international clout. Argentina mainly sees regionalism's short- and medium-term benefits in terms of greater access to the Brazilian market, but more recently as a means of ensuring that it is not left behind (or ignored) in Brazil's global rise. In the early years, Paraguay considered MERCOSUR of greatest value as a support for its new and fragile democracy. More generally, Uruguay and Paraguay have been most focused on market access to the blocs' two larger members and see regionalism as an opportunity to attract investment via the development of regional production integration. The mismatch between Brazil's political objectives and global outlook and the three smaller members more economic objectives inevitably led to disappointment.

A combination of changing priorities, misguided expectations, and regional asymmetries has led to numerous deficits in the regionalism process. Asymmetries relate to size, level of development and dependency, competitiveness, capabilities and economic policy regimes (Blyde *et al.*, 2008; SIA, 2009). The deficits of the regionalism process arise from frequent periods of poor growth and economic volatility, weak regional institutions (mainly for settlement of disputes) and insistence (mainly by Brazil) on retaining purely inter-governmental regional governance. Together these issues have increased regional policy tensions, exacerbated business uncertainty and reduced policy credibility.

The above issues contributed to the many gaps in the rhetoric and practise of regionalism in the Southern Cone (Cason 2011; Gardini 2011b). Thus, in 2009, over 50% of MERCOSUR agreements were not yet transposed into national legislation creating much legal uncertainty. More notoriously, although MERCOSUR styles itself a customs union since 1995, it was only at the San Juan Summit in 2010 that it agreed on a unified customs clearance procedure and an end to double taxation of imports when crossing intra-regional borders. Implementation of these agreements is set to begin in 2012, but if past lack of compliance with regional commitments is any indication, it is still too early to celebrate prompt untroubled implementation. Institutional short-falls or weaknesses see repeated recourse to politicisation of issues (e.g. the difficulties related to the finalisation of Venezuelan membership stalled for years in the Paraguayan Congress and the so-called paper mills dispute between Argentina and Uruguay are cases in point). *Ad Hoc* reactions to conjunctural factors are another problem (e.g. the recent trade spats and mutual accusations between Argentina and Brazil over non-automatic import licenses), which jeopardises the prospects for deepening regional integration. Since 2005, its smaller members have become increasingly frustrated with MERCOSUR.

These considerations may raise the question of whether it is worth pursuing regionalism in MERCOSUR. While it might have reached the limits of intra-regional trade, there is still much scope for greater production integration as well as cross-border investment (ABDI 2010). Most importantly, however, the political gains from regionalism are far from exhausted. Developments in the international arena suggest that new areas of security cooperation could benefit from collective regional disciplines (e.g. narco-trafficking, organised crime, terrorism, nuclear proliferation, climate change, energy security). Moreover, regional cooperation could offer protection from potential adverse impacts from the on-going global rebalancing process. Of course, cooperation need not imply formal structures of regionalism. Another related question is whether MERCOSUR is a sufficiently wide concept of regionalism to address these challenges. Might a larger South American spatial concept, as manifested in the recently launched Union of South American Nations (*Unión de Naciones Suramericanas* - UNASUR), be a more fitting approach to achieve regional infrastructure integration, defence cooperation as well as greater regional trade and investment flows?

MERCOSUR's experiences hold a number of lessons for other developing countries and for the bloc itself in going forward. *First*, the importance of implementing agreed rules and ensuring adequate dispute settlement processes. Entrenching a rules-based integration project requires attention to the quality and enforcement of rules. *Second*, longer-term prospects of integration cannot rely on state centric processes led by presidential priorities alone. A consistent effort must be made to include business and labour, to institutionalise the conditions of cross-border interaction, and to support development of a regional identity. Given the way things have developed among MERCOSUR's citizens in

recent years (Spanish-language classes in Brazil, *samba* and *capoeira* schools in Argentina, *maquiladora*-style investments in Paraguay, tourism in Uruguay) regionalism's survival and institutionalisation may come down to societal pull rather than government push.

The Andean Community (CAN)

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The Andean Community has a relatively long history, dating from 1969, and a supposedly high level of institutionalisation. However, it is a project that over the years has been bedevilled by internal splits and disagreements. Of the original six members, only four -Bolivia, Colombia, Ecuador and Peru- remain as full members. Chile abandoned the Andean Pact in 1976 (although it has since been readmitted as an associate member) owing to profound differences over trade liberalisation. Venezuela, which joined in 1973, did likewise in 2006 in opposition to trade liberalisation agreements between member countries and the United States.

In its original design, the Andean Pact formed part and parcel of the Import Substitutive Industrialisation (ISI) models of the 1960s and 1970s (Casas Gragea, 2001). It sought to erect a high external tariff to protect industrialisation from foreign competition and introduced limits on foreign investment and profit repatriation. The abandoning of ISI in the 1980s brought about a comprehensive 're-think'. The 1987 Quito Protocol removed impediments to foreign investment, and in 1989 members agreed to remove barriers to trade liberalisation. These measures paralleled policies already being adopted by member states domestically. The 1991 Caracas Declaration went further in eliminating the legacy of economic nationalism, allowing for the free repatriation of profit by foreign investors and allowing for equality of taxation between foreign and domestic firms. The idea was to enhance the Andean region as a free trade area, with a view to building a customs union and eventually a common market (Salgado Peñaherrera, 1995).

The process of regional trade liberalisation, however, was dogged by conflicts between member states, specifically over the speed at which external tariffs should be lowered and the creation of lists of exceptions for sensitive industries/markets. Individual countries pursued trade liberalisation policies with different degrees of intensity. Disagreements over this and other matters led to a temporary hiatus after Peru announced in April 1997 its decision to abandon the CAN altogether. Although this threat was never carried out, it -coupled with the individual countries' inability to meet deadlines set by the CAN- led to a growing problem of credibility in the institutions of the regional grouping. Even the establishment of a common external tariff proved an elusive goal.

The achievement of greater regional integration and policy co-ordination was, in itself, continually dogged by regional realpolitik and conflict between member states on unrelated issues. In the mid-1970s Peru and Chile came close to armed conflict over border disputes. In 1996, also Peru and Ecuador experienced a brief bout of fighting over their common frontier. Relations between Colombia and Venezuela came under significant strain during the presidencies of Alvaro Uribe and Hugo Chávez. In 2008, relations between Ecuador and Colombia became fraught following Colombia's armed intervention on Ecuador's northern border and recriminations about Quito's alleged support for the FARC. Relations between Peru and Bolivia have also come under stress recently, not least because of differences between Presidents García of Peru and Morales of Bolivia about the desirability of free trade.

Perhaps the biggest test for the CAN has been how to orchestrate a united position between members on trade liberalisation with outsiders, especially the United States (US) and European Union (EU). This has proved to be a major stumbling block, especially in the last five years, with deep disagreements arising about the effects of trade and investment liberalisation on individual countries. Ecuador and Bolivia have been far more reluctant to pursue liberalisation and abandon autonomy in a globalised world than Peru and Colombia, for which such goals became an article of faith. Bolivia and Ecuador voiced strong opposition to the negotiation by member states of free trade agreements with the United States (Sanahuja, 2007).

In the end, Peru and Colombia negotiated their own bilateral agreements with Washington, irrespective of objections from other members, prompting Venezuela's withdrawal from the CAN. The FTA between Peru and the United States was ratified by both countries in 2007, while the FTA with Colombia had yet to be ratified by the United States at the time of writing.

Negotiations between CAN members and the EU have provoked similar tensions, albeit without Venezuela being a party to them. Colombia and Peru, under Uribe and García respectively, were both wedded to free market policies and export-led growth and agreed on liberalising trade and investment with the EU. Bolivia opposed trade liberalisation generally, though intellectual property rights were a key objection. Ecuador, meanwhile, took a more ambivalent position, finally deciding to opt out of negotiations with the EU. Both Bolivia and Ecuador criticised the EU for seeking to undermine the unity of the CAN by agreeing to negotiate directly with Peru and Colombia. For its part, the EU argued that it tried to negotiate a common agreement but failed owing to seemingly irreconcilable divergences between CAN member states.

Negotiations between the CAN and the rest of South America on trade integration follow on from the failure of the Free Trade Area of the Americas project and mirror Brazil's foreign policy aims in the region (Cienfuegos, 2006). A framework for negotiations was set up in 1998 and re-launched in 2000, with an economic complementarity agreement reached in 2003. However, attempts to integrate the CAN and MERCOSUR have proved highly problematic in practice, given the complexity of the interests involved, the lack of clarity about desired outcomes (particularly in the CAN countries), concerns that trade liberalisation with Brazil would kill off local industries, the lack of a clear negotiating mandate within the CAN, and the differing foreign policy priorities among the countries involved.

Where does the CAN go from here? More than 40 years on, it is still in existence, despite the withdrawal of some member states and disputes between others. It has given rise to some important institutions for Latin America as a whole, such as the *Corporación Andina de Fomento* (CAF) and the *Fondo Andino* (now *Latinoamericano*) *de Reservas* (FLAR). There has been an important increase in intra-regional trade (Adkisson, 2003), and the CAN has successfully contributed to push an agenda of improved physical infrastructure in a geographically fragmented region (Acosta *et al*., 2006). Preferential markets have given a lifeline for specific producers (e.g. soya farmers in Bolivia who export to Peru and Colombia). However, the CAN has repeatedly failed to meet the perhaps exaggerated expectations vested in it, thereby diminishing its credibility. It has also failed to acquire the institutional power to ensure that its own priorities are respected and implemented by member states. When push comes to shove, the rulings of the CAN have been repeatedly ignored.

Central America: the MCCA and CAFTA-DR

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In spite of a regional common market whose institutional underpinnings and legal foundations once were among the most ambitious in the Hemisphere, Central America's contemporary economic history has been marked by fragmentation. Like much of Latin America, it has been incapable of overcoming political obstacles in order to create a true economic region, with members opting out of common market (*Mercado Común Centroamericano* - MCCA) protocols that were meant to streamline rules and create economies of scale. National interests usually prevail over regional ones, even if the region has managed to succeed in engaging the global economy through free trade agreements with key partners. As countries diversify their economies and are better able to develop and specialize in productive niches, advances have only served to pronounce intra-regional divisions.

Yet to think about the state of Central American integration solely through the MCCA would be a mistake. Central America's relatively small size and economic openness has meant that, in a globalized economy of multiple regions competing for investments and resources, "integration" has moved through non-traditional instruments. Some of these are located outside the classic Latin American system of regional institutions; in fact, they may not even be "regional" *per*

se, as in the case of the US-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). The new instruments and spaces for the pursuit of integration are less institutional in the organizational sense of the term (meaning the regional bureaucracies that have saddled most Latin American integration efforts, including Central America's own MCCA) and more institutional in the "rules of the game" sense (meaning clear rules with credible commitments that lead to better coordination.) The nature of these developments in Central America is evidence of new "minimalist" tendencies in Latin American integration, focused on the attainment of specific objectives (IDB, 2011).

In Central America the most significant form of new integration is the CAFTA-DR. Opening markets through a single regime means opening a new channel for attracting investment from the region's biggest trading partner, as companies in key sectors like textiles and consumer products make business plans on the basis of regional rather than national designs, leading to faster, region-wide economies of scale. Such investments, of course, can only take place with adequate trade infrastructure, including ports, roads, and swift customs procedures. In this sense, CAFTA-DR is accompanied by a trade facilitation initiative designed to strengthen commercial infrastructure in the region. It is the first such initiative in any Latin American trade agreement whose goal is to overcome traditional infrastructure bottlenecks by facilitating the movement of merchandises and services throughout the region and in connection with key trade partners, thus supporting economic regionalization. Together with *Proyecto Mesoamérica*, a major infrastructure development initiative in Central America, they are effectively creating Central American public goods and thus a new form of integration in this region.

In this sense the CAFTA-DR should be considered as a Latin American instrument of regional integration, even if the juridical foundation of the agreement involves a country located "outside" the region. The challenge for Latin American integration at a time of globalized markets is that certain definitions of region are changing or becoming outright outdated. For Central American economies whose fortunes are so intertwined with the United States -including the millions of Central American migrants whose remittances constitute the largest source of foreign earnings in countries like El Salvador- the notion of regional integration is almost unthinkable without a legal framework that capitalizes and dynamizes the potential of its interdependence with the United States. Central American countries have pursued the CAFTA-DR with this objective in mind (World Bank, 2006; Perales, 2010).

Moreover, in a legal sense the CAFTA-DR fits the mold of a Latin American regional integration scheme. The agreement involves a multilateralized set of obligations that admit no exceptions. In other words, as well as freeing up trade with the United States, the CAFTA-DR also liberalizes trade among Central American countries and the Dominican Republic for all existing tariff lines, in effect completing the free movement of goods and services of the MCCA. The political will behind the CAFTA-DR in turn created an opportunity within the MCCA to strengthen and consolidate the customs union, a project that still faces formidable obstacles.

The multilateralized set of obligations under the CAFTA-DR includes a sanctioning mechanism that expands and strengthens the MCCA's provisions for noncompliance with the free movement of goods. In the past, most trade disputes among Central American countries were solved through ad hoc meetings among country executives, which led either to compromises or opt-outs. Under the CAFTA-DR regional enforcement mechanisms are institutionalized through a strong set of rules that binds countries together with the regional hegemon. The recent case of labour violations in Guatemala -the first time the United States employs the dispute resolution mechanism of an FTA- is a prime example of the new enforcement and sanctioning context of regional integration in Central America. Strangely enough, by bringing sanctions against Guatemala, the United States might be providing one of the most important tools for achieving successful regionalization: leadership to provide public goods (rule enforcement) which the Central American project, like so many others in Latin America, never fully achieved.

While regional integration efforts usually move through positive incentives, oftentimes dilemmas of common aversion may constitute just as strong a force for regional convergence. The strength of organized crime in Central America and the tools required to combat the scourge require a new level of cooperation -in fact, coordination- among Central American countries, in a way that transcends economic avenues of regional integration.

In this sense, a dilemma of common aversion might be pulling Central American countries together into

new initiatives inspired in the integration process, while trying to overcome some of the collective action problems and atomized policy making that have stalled Central American integration. One such initiative is to pool together intelligence, police resources, and other national security instruments to address transnational crime in a *quasi-NATO* regional entity (SICA, 2011). An unprecedented collective security initiative such as this one is a test of how fast Central American regional institutions can reform and address urgent common problems. Yet in spite of pledges to support regionalized security efforts, it is still quite far from becoming the kind of integrated effort that the regional institutions envisage. Moreover, the weight of polarized domestic politics and corrupted government and law enforcement officials limit the extent to which such initiatives can propel Central American integration.

The ALBA-TCP

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The Bolivarian Alliance for the Peoples of Our America - Peoples' Trade Agreement (*Alianza Bolivariana para los Pueblos de nuestra América - Tratado de Comercio de los Pueblos* - ALBA-TCP) was founded by Cuba and Venezuela in 2004, and has since been joined by Antigua and Barbuda, Bolivia, Dominica, Ecuador, Nicaragua, and St. Vincent and the Grenadines. A number of countries, including Haiti, Paraguay, Grenada, and the Dominican Republic are observers. The bloc's composition shows that to date the initiative has attracted less developed economies that seek structural transformation towards a production-based, value adding economy in strategic sectors. This occurs within the objective of a "21st century socialism" governed by the principles of solidarity, cooperation, complementarity, reciprocity and sustainability.

These principles are distinctly different from market exchange, and the ALBA-TCP recognises international asymmetries, thus replacing the orthodox comparative (locational) advantage by the "cooperative advantage" in the revitalisation of the idea of a New International Economic Order (Muhr, 2010; Al Attar & Miller, 2010). The socialist ambitions are reflected in ALBA's organisational structure, which establishes a two-pillar governance regime in which institutions of liberal representative democracy co-exist with the institutionalisation of Marxist direct democracy: *on the one hand* the state, headed by the Council of Presidents, and subordinate ministerial councils (Political; Social; Economic), commissions and working groups; and *on the other hand* the Council of Social Movements whose competences include developing and monitoring the implementation of socio-economic policies and the creation of national chapters in the ALBA-TCP member states, to integrate the politically and economically "organised societies" (ALBA-TCP, 2009). While the Council of Social Movements is in direct dialogue with the Council of Presidents, the latter is the highest decision-making instance.

The ALBA-TCP dimensions -culture; education and knowledge; energy; environment; finance; industry and trade; the legal; military; politico-ideological; social-humanitarian- operate in an integral and holistic fashion. The economy is understood as being at the service of human and regional development with the objective of evening out the asymmetries produced by traditional development. Ideologically drawing on Bolívar's *patria grande*, bi- and multi-state "Grandnational Enterprises" (GNEs) (regional production and distribution chains and networks) and "Grandnational Projects" (GNPs) (action programmes) operate in and across all the stated development dimensions. GNEs and GNPs, that may also integrate private enterprises and organisations, are counter-institutions to multi- and transnational corporations and may also operate outside the ALBA-TCP de jure region, i.e. the entire Latin America and Caribbean (LAC) (Muhr, 2011).

A key integration area is energy. Through the Petroamérica strategy, composed of Petrocaribe, Petroandina, and Petrosur, the Bolivarian Republic of Venezuela redistributes its petroleum resources by: *firstly*, the elimination of intermediaries along the value chain as participation is restricted to state companies that are created in countries where no adequate state infrastructure exists; *secondly*, the possibility of payment in kind and services; and, thirdly, a financing scheme that includes a two-year grace period, an

annual interest rate of 1% or 2%, and a mechanism for deferred payment of between 5% and 70% of the invoice over 17 or 25 years, depending on the world market price of oil. For example, at a per barrel price of US$100.00-149.99, 60% of a country's entire oil bill qualifies for payment over 25 years (Muhr, 2010). With respect to the 18-member Petrocaribe, founded in 2005, out of US$6.9 thousand million of oil supply by June 2009, US$1.4 thousand million were tangible savings to the partners, and US$2.9 thousand million deferred payments (Ramírez, 2009). By 2010, the ALBA-TCP Caribe Fund had allocated US$179 million to 85 social and socio-productive projects in 12 Central American and Caribbean states (Petrocaribe, 2010).

The first observable trade effects of the ALBA-TCP are encouraging although need to be evaluated with caution. Intra-ALBA-TCP (the 8-member bloc) trade exports grew from US$5 billion in the period 2000-2004 (pre-ALBA) to US$9 billion in 2005-2009; Venezuelan imports from the ALBA-TCP countries have risen by 90.7% between 2006 and 2009. However, in total they represented only 4.9% of the country's imports in the first semester of 2010, compared to imports from the US (28%), China (11%), Brazil (10%), Colombia (6%) and Mexico (4.7%) (Aponte-Garcia, 2011). Despite the current structural limitations (i.e. the principal articles of ALBA-TCP merchandise being primary commodities and low-tech products, such as food and beverages), fuels and lubricants appear to be less dominant than is often assumed (Aponte-García, 2011).

Cooperation and integration within the ALBA-TCP are likely to intensify as the geographies of trade, investment, and development cooperation within LAC and globally are undergoing a process of reconfiguration. In LAC, this is partly the result of both the active Venezuela/ALBA-TCP policy and the global financial and economic crisis. The case of Nicaragua exemplifies this point: between 2008 and 2009, Nicaraguan exports to all world areas declined by between 6.6 and 37.5%, while exports to Venezuela increased by almost 300% (BCN, 2010). Although the trade volume is relatively small in absolute terms (US$249 million as compared with US$566 million to the US in 2010) (BCN, 2011a), this reorientation has to be evaluated in relation to the Venezuela/ALBA-TCP official development cooperation, which in 2010 amounted to US$500 million (41.9% of the total financial inflows to Nicaragua) (BCN, 2011b). This cooperation has effected the reinstitution of free health care and basic education, as well as food, housing and other social and income-generating programmes, through which extreme poverty was reduced by 7.5% and extreme rural poverty by 12.3% between 2005 and 2009 (FIDEG, 2010).

The ALBA-TCP constructs a regional developmentalist political economy governed by solidarity and cooperation rather than competition and profit-maximisation. The objective is to increase LAC independence, within the rationale of South-South cooperation generally, which is underscored by the creation of the common currency unit SUCRE in 2010. The emergent alternative economy links the social with the economic, which underlies the notions of direct and participatory democracy in the ALBA-TCP governance model. Despite structural limitations, both with respect to the types of economies (natural resource and agro-export dependencies) and the open question of how the "organised society" will directly exercise power in the ALBA-TCP structure, the available social and economic indicators point to real social gains for the constituencies, i.e. the majorities rather than traditional economic elites. As the case of Nicaragua suggests, within the context of the global financial and economic crisis, the significance of the ALBA-TCP for small and underdeveloped economies is likely to increase.

US-Latin America Trade Agreements

Kenneth C. Shadlen
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Since the NAFTA came into effect in 1994, the US has negotiated and signed Regional and Bilateral Trade Agreements (RBTAs) with Chile; five countries of Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua) and the Dominican Republic (CAFTA-DR); Panama; Colombia, and Peru.

An important characteristic of RBTAs is that they are only partially about trade. That is, in addition to creating new disciplines on policy instruments that affect market

access, such as tariffs and subsidies, these agreements also include chapters on a wide range of "trade-related" policy areas, including investment regulations, services, intellectual property, and government procurement. RBTAs, thus, are not just about coordinating national policies that affect the cross-border flow of goods, but also about coordinating regulatory policies that are at the heart of national economies (Haggard, 1995). The reason why this distinction is important is that the inclusion of additional obligations in trade-related areas -the move toward regulatory harmonization- means that the market access RBTAs comes at no small cost (Shadlen, 2005). What, then, accounts for the pattern of RBTA formation in the Americas?

I address this question by focusing on the preferences of LAC countries. Given that the US expressed a willingness to negotiate RBTAs with any countries in the region prepared to undertake the extensive economic reforms that such agreements entail (Zoellick, 2002), the question is why some LAC countries seize the opportunity and others do not. Any explanation of the RBTA phenomenon needs to satisfy two criteria. *First*, the explanation needs to be able to account not just for the spread of RTBAs, but also for the limits to their spread. After all, while the proliferation of these agreements has been notable, it has not been inexorable; a number of countries have demonstrated little if any interest. *Second*, the explanation needs to be dynamic in the sense of accounting for changes in countries' preferences. After all, some countries that showed little interest in negotiating RBTAs with the US later became enthusiastic advocates of such agreements.

I put forward an explanation based on two factors: the structure of existing trade relations and the dynamics of neighbourhood competition.

The Structure of Existing Trade Relations

LAC countries already benefit from preferential access to the US market through the Generalized System of Preferences (GSP) and GSP-related programs such as the Caribbean Basin Trade Preferences Act (CBTPA) and the Andean Trade Preferences Act (ATPA). The limitation of this market access, however, is that it lacks stability. These preferential schemes are unilateral concessions that the US makes available. They are extended -and can be withdrawn- at the discretion of the preference-granting country. Not only do these programs have a multitude of eligibility criteria and conditions attached, but they feature ambiguous and politicized processes for determining eligibility and whether countries are complying with conditions.

RBTAs, in contrast, are not concessions but reciprocal agreements. They cannot be altered at the whim and discretion of one party. Of course these agreements can be altered unilaterally, but the key distinction is that while unilaterally altering the design and application of GSP programs is entirely legal and within the framework of the programs, unilaterally altering the design and application of an RBTAs is in violation of the agreement. Thus, RBTAs introduce stability, they allow developing countries to substitute market access that depends on the vagaries of GSP politics in the US with market access that is secure and stable. RBTAs do not necessarily improve market access in the sense of granting countries lower tariffs on more goods, but they lock in and stabilize preferential market access that countries already enjoy - and that they might otherwise lose.

To assess countries' vulnerability to GSP politics and their likely desire to secure preferential market access with an RBTA, I examine "Political Trade Dependence" (PTD), which I define as a share of a country's total global exports constituted by the exports that enter the US under preferential programs that are concessionary, discretionary, and removable. The relationship between levels of PTD and levels of enthusiasm for RBTAs is suggestive: countries with higher PTD scores appear most eager to establish RBTAs with the US (Shadlen, 2008; Manger & Shadlen, 2011).

Competition

The decision to enter or not enter into an RBTA with the US is not made in isolation. To the contrary, one country's decision is made in the context of other countries' decisions. It might be the case that policymakers in country *X* would prefer to abstain from entering into an RBTA with the US, but *X*'s neighbors -countries that *X* competes with for foreign investment and market share- may enter into such agreements. The choice for officials in *X*, then, is not merely between agreeing or not agreeing an RBTA with the US, but rather between *(a)* agreeing or *(b)* not agreeing while knowing that its neighbors may go ahead. This possibility changes the incentives, for the costs of *not* participating may be excessive when

neighbouring countries are negotiating preferential market access. Officials know they are not choosing between agreeing an RBTA or retaining the *status quo*, but that there is a strong likelihood that neighbouring countries will agree RBTAs with the US and they will be left out (Gruber, 2000).

Developments in the region illustrate this dynamic of "fear of exclusion" altering countries' preferences. When Colombia agreed to negotiate an RBTA with the US, the *status quo* for Peru ceased to exist. The Peruvian government had shown little interest in an RBTA with the US, but with the pending expiration of the Andean Trade and Preferences Act meaning that Peru would lose its preferential access to US market while Colombia would not, the costs of not engaging the US were suddenly higher than they had been before the Colombian announcement. Not surprisingly, Peru's preferred policy 'choice' changed and Peru, like Colombia, completed an RBTA with the US. Similarly, the Dominican Republic had little interest in an RBTA, but was propelled into action by the initiation of the CAFTA negotiations, which threatened to leave the DR's access to the US market dependent on the Caribbean Basin Initiative thus vulnerable to the uncertainties of US politics. Suddenly joining CAFTA or negotiating a separate agreement became a high priority, a change in priorities reflected by the decision to appoint the country's chief trade negotiator as Ambassador to the US (Financial Times, 2006).

In conclusion, two factors that affect LAC countries' preferences with regard to negotiating RBTAs with the US were assessed: the structure of the existing trade relations and the neighbour competition. Obviously not all of the variation in the region can be accounted for with the PTD and competition: Chile sought an RBTA in the 1990s when its PTD level was unexceptional and none of its neighbors or competitors were negotiating; Ecuador terminated negotiations despite its neighbors negotiating; Uruguay flirted with a RBTA despite low PTD. Yet, while exceptions always exist, PTD and competition serve as useful instruments for understanding the spread -and non-spread- of RBTAs in the Americas.

Conclusions

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The mission of this Special Section was to give food for thought to academia and policy-makers dealing with trade issues and trading blocs in Latin America. This discussion has not aimed to provide final answers or recipes but rather to raise questions and debate about three critical issues for trading groups in Latin America, namely the variety in their underpinning objectives and philosophies, the gap between rhetoric and practice, and the benefit for the constituencies these blocs aim to represent. An academic debate, with empirical evidence and analysis, is always useful for the definition of the most beneficial policies in any country. In these concluding remarks I will try to link the theoretical debate with its practical implications, taking my own country, Colombia, as an example epitomising the most significant issues at stake.

The key findings of this debate show that indeed the variety of trading options and blocs available to Latin American countries make their compatibility at times difficult and the pursuit of Latin American unit even more challenging. It is not evident that trade interests and regional integration, as traditionally understood, coincide. The variety of trading blocs tends to reflect a variety of approaches and national positions to trade issues on the one hand and to integration projects on the other. The FTAs with the US, or Europe add complexity to the picture. The gap between intentions and reality on the ground is evident in all blocs analysed, which provides a good indication of an area of possible action to policy makers: the reduction of such gap. The benefits that the existing trading blocs have brought to their communities are not to be underestimated and go well beyond trade. However, these achievements have often been downplayed, either because of excessive expectations and rhetoric surrounding the possibilities and benefits of trade and integration or because trade and integration did not appear to tackle or even less solve long-standing problems of marginalisation, poverty or inequality. But should trade as such do so? Or is it rather an instrument to generate the resources for such tasks?

I am convinced of the benefits of trade. I believe that free trade is good for the social and economic development of any country. I know this is a controversial point, and I have full respect for those who have other views. However, I believe that free trade has a net positive impact in terms of growth and income distribution, in the generation of employment and in increasing tax revenues to invest in social priorities. That is why, for instance, we are linking Colombia to the rest of the world, sometimes through blocs, sometimes through individual agreements; we are doing that, I do believe, with good results. Yet, this confirms that the trade interests of a country and the allegiance to one or more regional trading blocs may or may not coincide. This may require a revision of the mental categories we employ to think about trade, trading blocs, trade and development, and regional integration.

I also believe that trade, either through blocs or not, ought not to be ideological. Colombia has not been ideological or political about it. We want to be pragmatic. We want to have as many trading partners as possible, with the highest volumes of exports and imports. We believe that by exploiting our competitive advantages, both natural and built, our country will benefit from trade. Our first trading partner is the United States, and Venezuela the second. They have completely different economic and political models. China is growing very fast and five years from now will be our second trading partner. As our Minister of Economy and Finance Juan Carlos Echeverry (2011a) recently said, "*Monogamy is good for marriage, but not for commerce*". Celso Amorim (2011), former Minister of Foreign Relations of Brazil also asserted that "*In international trade monogamy is not a virtue; one must have as many partners as possible; the more diversified, the better*". The evolution of trade in Colombia during the past twenty years proves that this pragmatic, non-ideological approach, is working well. This is, I believe, a widely applicable lesson: pragmatism in trade -and international politics more generally- is a virtue. Academia and practice agree on this (Gardini & Lambert, 2011c).

Pragmatism also seem to be indispensable to pursue regional integration, with reference to trade and more broadly. Colombia wants to strengthen ties with its neighbours. It has not been easy at times, but we are moving in that direction. My hope is that one day Latin America will operate as a single bloc. This is an idealist way of thinking, but I am hopeful that we all will become more pragmatic and put aside some of our political and ideological differences; those are differences that I fully respect, and I invite others to respect any country's and my own country's decisions on how to deal with political, economic and social variables. Negotiating as a bloc is much better than negotiating as an individual country. Latin America's position would be much stronger, and our ability to get a better deal would increase. I believe that UNASUR, born as an essentially political project, could become the engine of economic integration in Latin America too.

While I believe that free trade is positive, one also needs to be careful in the way trade agreements and blocs are negotiated. One must make sure to get a fair deal, to benefit from it. Also, the rights of our countries' populations have to be protected and Latin American governments, once engaged in the negotiations, have to make sure that all communities, companies or economic sectors at risk, those who might suffer from opening the trade, will have a chance to increase their competitiveness or move into other economic activities. It is not to just leave them to open market forces. Governments have an obligation in preparing them for the full implementation of the agreements. This is why we need to take care of the asymmetries, of the timings, and many other matters. As Minister Echeverry remarked, Adam Smith's doctrine of the "wealth of nations" was accompanied by the philosophical imperative of the "morality of nations" (Echeverry, 2011b). This connection must be kept clearly in mind when assessing, joining or operationalising trade agreements and trading blocs. ◆

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INTERVIEWS

Patrick Low*
(WTO)

Chief Economist at the World Trade Organization (WTO) and PhD in economics from Sussex University, United Kingdom. He has worked for the WTO since its foundation in 1995. He was appointed Chief Economist in 1997 and served as Director-General Mike Moore's Chief of Staff from 1999-2000, after which he returned to his previous post. He worked in the World Bank's research complex (International Trade Division) from 1990-1994. Prior to that, he taught at El Colegio de México *in Mexico City from 1987-1990 and worked as a consultant for a range of governments and inter-governmental institutions. From 1980-1987, he worked at the GATT secretariat in Geneva. He is also an Adjunct Professor of International Economics at the Graduate Institute of International and Development Studies, Geneva.*

- **How realistic are the aspirations for a process of deep integration and its related requirements of mutual commitments and institutions, considering the strong preference that countries are exhibiting for a presence in multiple agreements; not all of them converging?**

Preferential trade agreements (PTAs) have multiplied dramatically in the last two decades, and today some 300 of them are operational. On average, each of the 153 members of the WTO now belongs to 13 PTAs. It is difficult to imagine that this reflects policy coherence or that no gains are to be obtained by rationalizing this structure of trade cooperation.

The real question, to which we do not yet have an authoritative answer, is whether multiple overlapping agreements are merely increasing trade costs, or whether they are setting up regulatory incompatibilities that militate against deep integration and the promotion of trade opportunities across countries and regions.

If the issue is predominantly about reducing the costs of doing business through a process of rationalization, then we have less to worry about than if policy contradictions are becoming embedded in regulatory diversity. Even in the latter case, there is a distinction to be made between intentional and incidental divergence. The first reflects competition-driven market segmentation and would inhibit deep integration far more effectively that in a situation where protectionist intent did not drive any regulatory divergence that arises. In this case, a "clean up" and policy rationalization around deep integration aspirations would be easier to achieve. At the end of the day, these remain important research questions.

* The responses provided to the questions in this interview reflect Patrick Low's opinions, and not necessarily those of Members of the WTO or of the WTO Secretariat.

- **The latest *World Trade Report 2011* focuses on preferential trade agreements of the new era. In light of this report, how would you characterize the kind of regionalism that has been developed so far in Latin America and the Caribbean? How would you contrast with experiences of Regionalism in other parts of the world?**

In broad terms, the Report distinguishes between PTAs that promote deep integration and those that remain more focused on trade preferences. Deep integration PTAs, the Report argues, reflect a quest for a policy environment that caters for vertical integration, or international supply chain manufacturing arrangements. These PTAs seek to minimize trade costs by ensuring sufficient policy convergence, particularly in the field of regulation.

The Report tends to associate many recent PTAs, especially in the Asian region, with the desire to establish policy frameworks to support vertical integration. African agreements, by contrast, are often characterized by a more traditional focus on preference margins and shallower integration.

Latin America and the Caribbean fall somewhere in between. A tendency appears to be growing for a deep integration focus, but the region has yet to engage in vertical integration with the same degree of intensity of many Asian countries. Opportunities remain for further efficiency-enhancing integration built on production sharing arrangements.

- **How will the network of trade agreements evolve in the coming years? To which characteristics should Latin America pay special attention?**

Following on from the last question, we would expect to see an evolution of deeper integration arrangements in Latin America and the Caribbean in coming years. If this occurs in an environment where deep integration arrangements are minimally incompatible across the region, then the gains will be correspondingly greater.

- **The proliferation of trade agreements has been a subject of frequent concern in the WTO agenda. The Latin American foreign policy falls within this general trend and has led to multiple agreements of variable geometry. Is it feasible, and what would be the advantages, of promoting greater convergence between the agreements in force today?**

It is true that the proliferation of PTAs has been a source of concern at the WTO. But very little has been done historically to address the challenge because governments have not been interested in pursuing this particular agenda at the multilateral level. The rules have remained incomplete and undeveloped since they were written more than half a century ago. This is in sharp contrast to the development of more far-reaching and complete rules in many other policy areas. In addition, attempts to agree on the compatibility of PTAs with what rules there are have almost always ended inconclusively, and dispute settlement has rarely been brought to bear in this policy area.

This situation has begun to change. The only (provisional) result from the Doha Round negotiations so far is the establishment of a transparency mechanism for examining PTAs. The aspiration here is to foster better understanding regarding the nature of, and motivations for these kinds of arrangements. This shift away from a more litigious posture, towards a search for mutual understanding, carries the promise of a more cooperative approach to managing potentially conflicting or incompatible PTAs.

With time greater trust can be built, leading perhaps to agreement on best practices or even new rules. At the same time, as argued in the *World Trade Report 2011*, there may well be scope for "multilateralizing" regionalism. This would be a gradual process of fusion, possibly built on the eventual amalgamation of agreements, or at any rate on the gradual elimination of policy incompatibilities and contradictions among PTAs.

An approach of this kind at the multilateral level could form an important part of a future WTO work programme, irrespective of the eventual outcome of the Doha Round.

- **In a scenario of early resolution of the Doha Round, would you expect a reduction of the interest in preferential arrangements or an expansion of the motivations for Regionalism?**

This is a very interesting question. PTAs are here to stay. It is really a matter of what they seek to do. If they substitute for a malfunctioning multilateral trading system, there is a greater risk of PTA proliferation in directions that may not serve the best interests of global trade. On the other hand, commitment to a multilateral vision would not halt the development of PTAs, but it would increase the chances of avoiding policy conflict arising from competing rather than complementary PTAs.

ANABEL GONZÁLEZ (COMEX)

She has a law degree from the University of Costa Rica and a master of laws degree from Georgetown University. She was appointed Minister of Foreign Trade of Costa Rica on May 8, 2010. In such capacity, she oversees the country's international trade and investment portfolios. She began her involvement in the area of trade and investment in 1998 at the Ministry of Foreign Trade of Costa Rica, first as Director General (1990-1997) and then as Vice-Minister of Foreign Trade (1998-2001). She then became Director General of Costa Rica's Investment Promotion Agency (2001-2002), before returning to the Ministry of Foreign Trade to lead free trade negotiations with the United States as Chief Negotiator of CAFTA-DR (2002-2004). She then moved to the international arena, serving as Director of the Agriculture Division at the World Trade Organization (2006-2009); and then as Senior Consultant on trade and investment issues for the Inter-American Development Bank (2009-2010). In the course of her career, she has published and lectured extensively in more than 25 countries on trade and investment issues.

- **Which are the main challenges of Central American regional integration?**

Central American integration is a long-standing ambition for the region's countries. Very important achievements were accomplished throughout the last fifty years, in which nations have worked to build and deepen such integration. Economic integration has been especially successful in Central America and has resisted political differences, changes in the economic model and natural disasters, bringing about growth opportunities for the scheme's members and small and medium-sized enterprises, and helping to consolidate regional companies. In over five decades, trade has grown by 174 times in relative terms, with an annual average growth of 11%. Nowadays, intra-regional trade totals over US$5.9 billion, reaching out to a market of 38.4 million inhabitants.

Continuous building of this big project should be based on sound, stable foundations that provide sustainability throughout time. This is mainly related to having a shared framework of rules and principles that regulate the actions of countries in the region, and to respecting and ensuring respect for such framework.

This Central American institutionality -still very weak indeed- received a big blow a few months ago when some of the region's countries met to force out the Secretary of the Secretariat for Central American Economic Integration (SIECA), and appointed a new Secretary without the agreement of Costa Rica, and without following the procedure established to that effect in regional instruments.

This probably reveals one of the most recent and compelling challenges of the region: the urgent need to recover institutionality, and re-establish institutional order by appointing the head of SIECA by consensus.

On the other hand, increasing and strengthening intra-regional trade by implementing trade facilitation measures is another of the most significant challenges faced by the region, to thus maximize the benefits of regional integration and of the relationship with other trade partners. This entails accomplishing important improvements in infrastructure and speeding up customs paperwork to reduce the time and cost of transporting goods.

Finally, another challenge that lies ahead of us is to successfully incorporate Panama into the Central American Economic Integration scheme, since this country is a strategic partner that will undoubtedly contribute to increasing trade in the region.

- **Which are the main priorities on the domestic and external agenda? What is Costa Rica's position *vis-à-vis* the Central American integration scheme?**

Costa Rica participates actively in enhancing Central American economic integration by showing a proactive attitude, and setting forth specific proposals to obtain tangible outcomes. With a view to achieving this kind of results, a few months ago Costa Rica proposed to the Central American Foreign Trade Ministers, the adoption of a new working methodology based on the experience gained from the negotiation of several free trade agreements (FTAs), and the drafting of action plans with specific goals which would allow further progress in the economic integration process.

Guided by this vision, for over a year, six-month action plans have been adopted for each period, to promote trade in the Central American region, through the adoption of a series of specific measures to facilitate trade and have a positive impact on the competitiveness of productive sectors; to develop a programming, monitoring and evaluation methodology for conducting negotiations from a practical standpoint, with a view to achieving better outcomes in the short-run; to establish mechanisms to avoid the application of discretional, unilateral measures that unfairly affect trade; and to maintain consistency with World Trade Organization (WTO) rights and obligations.

- **What should be done to promote an increase in trade in Central America and in the rest of Latin America? How can greater regional integration be achieved? And with the rest of the world?**

Promoting an increase in intra-regional trade, as well as a greater integration of Central America with Latin America, is linked to firstly strengthening the Isthmus integration process. The starting point of this exercise presupposes the recovery of institutionality and the re-establishment of institutional order by legitimately appointing a SIECA Secretary-General, as well as the achievement of tangible outcomes to facilitate trade, eliminate non-tariff barriers, harmonize technical regulations and solve specific trade problems in the region. The successful accession of Panama to the economic subsystem is another essential element of this process.

Additionally, it entails the strengthening and tapping of the foreign trade platform that we have consolidated as a region, through free trade agreements signed and/or put into effect with several of our most important trade partners, including the USA and the European Union.

These instruments have provided new opportunities to diversify markets and consolidate and reinforce trade, based on clear, secure ground rules aimed at reducing trade barriers and improving the business atmosphere.

In order to continue promoting the insertion of the Central American region into the international economy, it is essential to explore the possibilities of a rapprochement to a few other trade partners, such as Korea and Colombia; to maintain a pragmatic and flexible approach in FTA negotiations so as to consider the international insertion strategy interests of each country; to strengthen, within each country, the mechanisms for enforcing FTAs that have been negotiated and are in force; and to ensure that each country in the region continues participating actively in the WTO.

- **How would you evaluate the trade agreement with the United States of America?**

The trade agreement with the United States (Dominican Republic-Central American Free Trade Agreement - CAFTA-DR) has turned out to be positive for Costa Rica in terms of trade growth and an increase in investment flows. According to the statistics of the United States International Trade Commission (USITC), after the entry into force of CAFTA-DR on 1 January 2009, total Costa Rican trade with the United States increased from US$9.85 billion in 2008 (year immediately before the entry into force of the treaty for Costa Rica) to US$14.1 billion in 2010. Costa Rican exports to the US market went up from US$5.8 billion in 2009 to US$8.9 billion in 2010, which represented a 54% growth. In 2010, 10% more companies exported to the United States -that continues to be the main Costa Rican trade partner- totaling 854 enterprises. Out of this total, 23% entered the US market for the first time.

Additionally, CAFTA-DR has brought about favourable results for all seven trade partners, promoting a significant increase in trade between the States Parties. According to statistics published by the USITC, total trade between the United States and Central America and the Dominican Republic grew from US$35 billion in 2005, before treaty enforcement, to US$48 billion in 2010. Furthermore, intra-regional trade between Central American countries and the Dominican Republic during that same period went up from US$4.2 billion to over US$6.3 billion.

- **What benefits has the above brought about?**

CAFTA-DR has been a key tool to promote and increase trade between Costa Rica and the United States, as well as to deepen integration with the region's countries. Exports of Costa Rican products to the United States amounted to 1920 goods in 2010, out of which 12.5% only goes to the US market. According to USITC statistics, Costa Rican products that recorded a greater growth in market share in 2010 with regard to 2009 were **prosthesis** -with a 14.4% increase; **pineapple**, 10%; **banana**, 60.1%; **tyres**, 18.5%; **tuna,** 24.5%; **orange juice**, 11.8%, among others.

Since it is a country with such a small domestic market and no willingness to exploit its natural resources, foreign investment has been reinforced by the possibility of entering the US market from Costa Rica under preferential conditions. This has led many foreign companies to settle in the country from where they can compete more efficiently on that market. Additionally, CAFTA-DR offers investors a sound legal framework that provides legal certainty in the long-term.

Evidence thereof is the fact that while in 2005-2010, US investment in the country recorded a cumulative growth of 51%; it amounted to US$801.1 million in 2010, equivalent to 54.7%, which turned this country into our main partner as regards investments.

CAFTA-DR has also been an important engine for developing the telecommunications and insurance sectors. Since its entry into force, a sound regulatory framework was enacted regarding services within the fields of telecommunications and insurance, besides the creation of the Superintendent's Office for Telecommunications (*Superintendencia de Telecomunicaciones* - SUTEL) and the General Superintendent's Office for Insurance (*Superintendencia General de Seguros* - SUGESE), respectively. These changes in the insurance and telecommunications market structure have rendered significant support to these sectors by providing greater opportunities in terms of investment and consumer options. To date, SUTEL has granted 106 authorizations to provide different telecommunications services. Furthermore, in 2010 the allocation of frequencies for mobile telephony was opened and, so far, two companies have been awarded such frequencies and are completing the paperwork to enter the domestic market.

While in 2006, revenue in the telecommunications sector amounted to US$732 million, in 2010, only two years after the effective opening of the sector, its revenue totaled US$1.02 billion. Given this growth, the telecommunications' contribution to country Gross Domestic Product (GDP) was 8.9 % in 2010 compared to 2.9% in 1999.

The insurance market has also been significantly promoted. SUGESE authorized 11 insurance companies to operate in the country, and the number of authorized insurance intermediaries (insurance agency associations, insurance agents, insurance broker associations and insurance brokers) increased drastically by 32% that year. To date, a total of 1,487 intermediaries have received due authorization to operate.

- **What are the challenges?**

CAFTA-DR offers broad opportunities which have not yet been fully tapped, such as those stemming from a greater diversification of exports, access to more demanding market niches, and a greater and more sophisticated participation in global value chains.

In the last two decades, the country was able to diversify exports to over four thousand products that were exported to 147 countries in 2010. However, with the entry into force of CAFTA-DR, it is necessary to continue with the efforts to optimize such exports.

It is of utmost importance to meet the region's needs in customs and trade facilitation; logistics and supply chains and technical standards, including issues related to sanitary and phytosanitary measures, to thus be able to tap existing opportunities even further. To meet these challenges, Costa Rica encouraged the Ministers of CAFTA-DR countries to promote an initiative to formulate and implement specific projects in each of these areas, which will include a process of private sector consultations.

- **Which are the expectations with regard to the Association Agreement with the European Union?**

The European Union-Central America Association Agreement (EU-CAAA) is of great importance for Central America. It not only regulates trade matters but also cooperation and political dialogue, which turns the agreement into an overarching and ambitious one.

Additionally, it represents a historical milestone since it is the first association agreement signed between these two regions.

We are very satisfied with the negotiations and balance achieved -which is deemed positive for regional interests. Firstly, we are convinced that the agreement will once again bring the European Union (EU) closer as a partner for the region's comprehensive development.

On the other hand, EU-CAAA will reinforce trade between Central America and one of its main partners. Indeed, in 2010, the EU (as a bloc) was ranked second among the main countries of destination of Central American exports, and fourth among the main countries of origin of the region's imports,[1] only surpassed by the United States in exports and by the USA, Mexico and China in imports.

The clear ground rules set forth in the agreement will lead to reinforcing such trade. Therefore, EU-CAAA is an important instrument for creating new opportunities, diversifying our markets even further, increasing the export offer and promoting trade in services.

Besides its relevance for trade, EU-CAAA is of utmost importance for attracting investments and thus for increasing European investment in the region. In the case of Costa Rica, the agreement supplements other country attractions for investments: strategic geographical location, ports on the Pacific Ocean and Caribbean Sea, skilled human resources and political and macroeconomic stability.

Finally, EU-CAAA will help to consolidate the process of Central American economic integration. In this regard, it is important to state that the Agreement includes a series of rules to promote the economic integration of the Parties, particularly as regards customs, sanitary and phytosanitary measures and technical barriers to trade.

The agreement has a pragmatic and effective approach since the negotiated rules take into account the peculiarities and needs of the Central American integration process, and build on the basis of the region's negotiations.

As regards this topic, one of the outcomes that must be highlighted is the inclusion of Panama in the Agreement's negotiations, which led this country to undertake the commitment of becoming a part of the Central American Economic Integration Sub-system.

We are making important efforts to have it signed and approved by the legislative branch as soon as possible, so that the region can benefit from its entry into force.

- **What aspects of public-private partnerships should be promoted to increase the competitiveness of Central American countries within the framework of integration agreements?**

Private sector participation in integration processes, whether at the multilateral or bilateral levels, is essential to ensure an adequate dissemination of the outcomes, provide dynamism, and guarantee the effective participation of the private sector in the opportunities arising therefrom.

1 In the period 2001-2010, trade (imports and exports) between Central America and EU increased from US$3.58 billion to US$7.74 billion.

Other significant aspects to be promoted are the attraction of foreign investment, the fostering of productive chains with local industry, the linkage of Costa Rican exports with global value chains, etc. Furthermore, it is necessary to open up to private investment in some infrastructure works, as well as to improve road infrastructure and bring down the cost of exports by simplifying paperwork and using technology, all of which will undoubtedly increase the region's competitiveness.

Ganeshan Wignaraja (ADB)

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- **What are the implications of the Asia economic rise for Latin American countries?**

Over the last two decades, the center of world economic gravity has increasingly shifted toward Asia, with the Peoples Republic of China (PRC), Korea and Japan playing a growing role. Slow growth and debt overhang in major industrial economies have stimulated South-South cooperation among fast growing emerging markets. Asia-Latin America trade increased seven-fold between 1995 and 2008 to reach $264 billion in 2008. Following a dip during the 2008 global financial crisis, this figure rebounded to $332 billion in 2010. Increased inward investment, particularly from Asia to Latin America, has followed suit. About 9% of Japan's overseas foreign direct investment (FDI) goes to a broad range of sectors in Latin America including manufacturing, finance, insurance and transport. PRC has also emerged as a major investor in Latin America's primary products like iron and copper.

Trade and investment led growth has brought rising prosperity and employment to both regions. This market-led process is just the beginning. Much more needs to be done to realize the full potential of Asia-Latin America economic ties. The future agenda includes increasing the number of participating economies, diversifying the sectoral coverage of economic ties, enhancing cross-regional policy cooperation, and accelerating structural reforms.

- **In what degree the economic relationship between Asia and Latin America is affected by the present regional trade agreements?**

Cross-regional policy cooperation, particularly though free trade agreements (FTAs), is at a relatively early stage. There are presently 17 FTAs in effect between Asia and Latin America and another 20 under consideration. By removing barriers to goods and services trade as well as promoting deep integration, FTAs have facilitated business activity between Asia and Latin

America. Most FTAs between Asia and Latin America eliminate tariffs on more than 90% of bilateral trade within a 10-year period and free up services trade. Several FTAs also support deeper integration between the two regions in difficult areas like investment, government procurement, competition policy, and intellectual property. The 2003 Korea-Chile FTA is often cited as an example of a comprehensive FTA eliminating 96.3% of Korea's tariffs within 10 years - equal to 99% of Chile imports in 2003. As a result, from 2004 to 2009, Korea's trade with Chile increased 22.5% annual on average, compared with an average 10.7% annual growth in trade elsewhere.

- **How a more integrated regional platform would benefit the trade and investment opportunities between the two regions?**

The Transpacific Partnership (TPP) agreement is currently the most ambitious proposal for formalizing integration between Asia and Latin America. The TPP is being negotiated between the United States and eight other parties from Asia and Latin America (Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam) and is an early step toward a larger APEC-wide trade agreement. The parties aim to agree various deep integration topics over the coming years. Mustering political will at national level for concluding negotiations and factoring in geopolitical considerations remain critical issues.

Closer integration between Asia and Latin America enhances market access for goods, services, skills and technology. It increases market size, permits specialization and realization of scale economies. For Asia, it has meant new sources of raw materials and markets for manufactures. For Latin America, it has resulted in increased inward investment flows and cheaper manufactured imports. Both regions would additionally benefit from the spread of global production networks and supply chains, leading to internationally competitive manufacturing. Finally, integration also offers insurance against rising protectionist sentiments amidst high unemployment and slow world growth.

- **Which are the areas of utmost cooperation between Asia and Latin America and which areas that have been left behind?**

Trade and investment will continue the primary driver of cooperation between the two regions for the next decade. Progress has been achieved in market-led integration and FTA-led policy cooperation. A few economies from both regions have pioneered the rapid growth of Asia-Latin American economic ties. Such ties have yet to pull in the potential of India-Latin America and Central Asia-Latin America trade; services trade and investment between the two regions; FDI and portfolio investment from Latin America to Asia; cooperation in energy and infrastructure projects; and Latin American parts and components exports to Asia.

Over time, Asia-Latin America cooperation will tap underutilized resources and skills as well as spread to new countries and sectors. More policy and business attention is needed in the following areas: *(i)* strengthening ties between chambers of commerce and fostering language links; *(ii)* improvement of shipping and air links, logistics, and communications links; *(iii)* further liberalization of non-tariff barriers and investment regulations and concluding the TPP; *(iv)* boosting business competitiveness through upgrading of technology and skills; and *(v)* promoting cultural exchanges (films, food, fashion, tourism, etc).

- **Which successful trade integration experiences (FTAs in particular or subregional agreements) from Asia could be applied to Latin America?**

Latin America was the pioneer in regional trade integration in the developing world and provides much food for thought. Frameworks - such as the North American Free Trade Agreement (NAFTA), the *Grupo de los Tres* (Mexico-Colombia-Venezuela FTA) and the Southern Common Market (*Mercado Común del Sur* - MERCOSUR) - have been flourishing in Latin America for decades. Asia is a relative latecomer but regionalism has rapidly progressed alongside multilateralism. Asia's open regionalism process offers three interesting lessons for Latin America and other developing regions:

First, foster production networks and supply chains as a means of engineering the global factory across the region. With rising factor costs, previously centralized production can be broken into discrete tasks and located in the least cost location with modern logistics. This process reduces core manufacturing costs and promotes innovation but requires a high degree of manufacturing capability, coordination and quality management. Outward-oriented development strategies, business-friendly regulations, investment in modern infrastructure, and upgrading of skills all support market-led integration.

Second, invest in economic corridors -centering on cross-border infrastructure and trade facilitation- to provide the underlying hardware and software for market-led integration. Better connectivity links goods and services markets and provides the foundation for realization of economies of scale. Public-private sector partnerships are vital for financing the development of economic corridors. The Greater Mekong (GMS) Sub-Region Program and the Central Asia Regional Economic Cooperation Program (CAREC) are widely regarded as examples of corridor development.

Third, support FTA consolidation leading to large region-wide FTAs. Harmonization of tariffs, standards and regulatory regimes under region-wide FTAs increase market size, regulatory coherence and attractiveness to FDI. Ensure that FTA rules and regulations incorporate regional best practices and Word Trade Organization (WTO) plus provisions. Provide adjustment assistance to compensate potential losers from liberalization under region-wide FTAs. There are two parallel FTA consolidation processes in Asia, one related to the Transpacific Partnership Agreement (TPP) and one linked to the Association of South East Asian Nations (ASEAN) and its neighbors. Over time, the two Asian-wide FTA consolidation processes are expected to converge.

- **In your perspective, how is the economic and trade relationships between Asia and Latin America going to evolve? How could these relationships be affected by the financial crisis?**

Emerging markets including Asia and Latin America have been relatively resilient during the global financial crisis and are likely to show higher growth than major industrial economies for the foreseeable future. Asia already accounts for over 20% of Latin America's trade and this share is expected to rise. Trade will gradually spur greater bilateral investment flows as well as services trade and other areas of economic relations. Policy cooperation through the TPP and bilateral FTAs will also intensify. Things seem bright for Asia-Latin American economic relations if business and government do the right things now. This means seeking out new opportunities, forging new partnerships, building infrastructure, ensuring regulatory coherence and, fostering new forms of policy cooperation.

Alejandro Krell (McKinsey)

He is a Partner at McKinsey, and Office Manager of the Santiago office where he has been working since 1998. He is a Commercial Engineer and holds a Master's in Financial Economics, Pontificia Universidad Católica de Chile, where he was awarded the Miguel Kast prize to the best average in his class. He then obtained an MBA at Harvard Business School. At McKinsey, he is a member of Strategy Practice in Latin America, where most of his work focuses on helping customers from several industrial sectors.

- **McKinsey is a leading company in management consulting at the global level that renders advice to the main companies and institutions so that they can achieve substantial and sustained improvements in their performance. What has been your experience in supporting the internationalization of Latin American companies?**

Personally I have worked quite a bit with companies which have followed internationalization strategies, above all within Latin America, since this has been the traditional path for expansion of the Chilean businesses in several sectors. I have worked less on the internationalization process of companies that go beyond this geographical environment, because few Chilean enterprises have given that leap. Since I have also advised multinational companies willing to enter Latin American markets, I supplement such experience with outlooks from the other side, that is to say, from the outside towards the region.

- **According to your experience with corporate customers: What are the main challenges for the internationalization of Latin American companies? Are there differences according to the main sectors of economic activity: primary, secondary and services? Are these factors similar for the so-called "short-haul" internationalization (South America or Latin America) and for "long-haul" internationalization (the global market)?**

Every internationalization process faces several challenges but, according to my experience, there seem to be two main ones. *The first* is related to the differences that may exist between what the company knows how to do in its country of origin, and what it needs to do in countries to which it wishes to expand. That is to say, the first challenge is to be able to adapt its products, services, value proposal -in brief- its offer to customers in the new markets. Depending on the type of company business, this offer can be more or less adaptable to how consumer preferences change from one country to another. These preferences are fostered by a series of factors, some of an economic nature (for instance, differences in income per inhabitant), and others of an idiosyncratic nature, such as tastes and habits. In certain sectors (e.g. clothing), there may be seasonal differences between the Northern and Southern

hemispheres (while some are living in summer, others are in the winter season and *vice-versa*). This kind of adaptation may be easy to identify but is not always easy to solve.

At this point there are differences between sectors. Overall, certain kinds of business "travel well" from one country to another because their consumption patterns are similar, but in others, they differ. For instance, supermarkets travel well since there may be different local tastes but they have many elements in common. On the other hand, fashion-related businesses are based mostly on local tastes, unless it is a matter of disseminating specific brands. This helps to explain why international retailers are mainly supermarkets (Wal-Mart and Carrefour, among others). As regards retailers in other areas, they have not been successful in settling and prospering in another country (in the case of Chile, Home Depot, JCPenney's, and others). Bank services tend to travel relatively well since several products and services are quite similar, save for regulatory differences and the way of relating to customers. Customers require similar things although the way of providing services can vary from one country to another.

The purchase of local companies as a strategy to adapt quicker to a new market entails a certain trade off between benefits and costs. The main benefits are that the strategy can facilitate adaptation to local consumers given the knowledge of the market that such companies have, and the possibility they also provide of launching business on a critical scale to operate efficiently. Anyhow, it can also be expensive because they generally have to pay a premium to seek future income. Another important cost can stem from the potential difficulties to integrate the company into the culture of the home office. It is somehow a different problem: in order to facilitate adaptation between markets, it is necessary to overcome difficulties in the business culture.

The second big challenge is how to set up powerful national teams. In the case of their own market, companies have networks to access different segments, among them, the talent market (for instance, local head hunters). When the company expands to another country, the above becomes a difficult issue. It is thus necessary to look for collaborators who, on the one hand, are knowledgeable about the local market which is the main deficiency of the newcomer companies and, on the other hand, understand the business of the purchasing company to adapt to their culture and value scale. Achieving both objectives is not simple but it is a key to ensuring the success of moving into a new market.

Another topic related to talent is the need to set up multi-national management teams. Although many Chilean enterprises have been able to set up successful local teams in other Latin American countries, they have not necessarily become a part of the central management teams in Chile. This is especially important when a very significant percentage of the company's growth opportunities are outside the country of origin. In such cases, it is not only necessary to have connoisseurs of the local environment to facilitate settlement of the new company, but also managers that can help outline strategies to grow in such new, important markets.

Still *a third challenge* that in my opinion is less important when weighted is the capability to adapt to the local regulatory and political environment. This ranges from something relatively easy to very complex cases. Besides instability in this field in several countries, the degree of informality is a determining factor. This issue is particularly critical in the services sectors that must obtain licenses to operate (telecommunications), or work within a framework of regulated rates (water, gas and electricity), and they must sometimes have the State as a significant customer. In all these cases, the capacity to carry out good regulatory management becomes a critical competency.

Significant differences exist with regard to short-haul *vs.* long-haul internationalization strategies. In principle, companies can expand to neighbouring countries because they may be similar in more than one regard. Anyhow, if the company has a strong vocation (or need) to expand, it should penetrate into other more far away markets that are more dissimilar and, therefore, more difficult. In such cases, the merger and acquisition issue becomes important. LAN is an interesting case to highlight: during a first stage, it expanded to several neighbouring countries, through relatively small acquisitions, but enough to obtain control; after entering the Brazilian market as an operator, it had to partner with TAM and also allow the latter to own part of LAN's assets; a future partnership could be the basis of a strategy to play a more important global role. Nevertheless, this strategy of becoming the champion of a certain business sector should always be compared to the strategy of horizontal diversification in the country and -sometimes- in neighouring countries. In the case of Chile, this second strategy tends to prevail in several business groups (for instance, the Luksic Group has recently expanded into other activities such as television, fuel and maritime transport).

Besides these alternative strategies, there are certain barriers that were difficult to overcome in the previous stages. One of them is undoubtedly, language. For instance, if a Chilean company expands to Argentina, Bolivia, Colombia or Peru, it will not only come across markets that are similar to its own, but will also do business in the same language. If it then expands to Brazil or Latino communities in the USA, it will come across more hindrances which should not be that difficult to overcome. However, difficulties would increase if it tried to expand to the rest of the world because it would face greater changes in consumer preferences, would have to ensure production of a greater quality and at a larger scale, and conduct business in different languages. Indeed, this is more inherent in end-user activities. In the case of productive businesses, several of these problems are more easily solved.

- **As regards trade and integration policies: Which are the main elements that have an impact on the competitiveness of Latin American companies? To what extent do trade and investment arrangements provide a suitable outlook for current and future business in the region? Are these arrangements mere facilitators or do they act as catalysts of business opportunities in the region?**

Trade and integration policies are undoubtedly important, but their incidence depends a lot on the sector and, particularly, if the sectors produce in the country to then export, or whether it is a matter of an investment made to produce in other markets. In the case of local production to sell abroad, access to markets is a critical issue not only as regards lower tariffs but also to ensure stability in the ground rules. In these cases, trade and integration policies play a crucial role that marks the difference. This has been Chile's experience given its early involvement in several Free Trade Agreements.

Another matter is direct investment in the country of destination that aims at serving customers locally. Despite the fact that most trade and integration agreements include chapters that can also be most relevant to these sectors (taxes, investments and others), political and economic stability is an essential factor. If a scenario is set up, in which local authorities offer minimum guarantees of fair treatment for foreign investors, free competition and lack of excessive control over market forces, the country will probably be able to attract foreign investments. If the prevailing scenario entails otherwise, it will act as a severe deterrent factor despite the elaborate trade and integration treaties. Thus political and economic stability becomes a decisive consideration to define the direction of expansion in this kind of sector.

To conclude, I would like to underscore another subject: the very important role of a country's government authorities to promote and facilitate the internationalization of companies to far away markets. We all know that most of world growth and the relative importance of the markets have shifted from the USA and Europe towards several emerging nations, particularly in Asia. Nonetheless, it is very simplistic to say that 50% of growth in a given industry will be generated by India and China, for instance, and that therefore one must tap that tremendous opportunity. Do we know, anyhow, which are the characteristics of such demands so as to adjust our products accordingly? Or what is the most appropriate trade proposal and business model to meet such demands?

Differences may be big when taking into account the above-mentioned factors, because such global demand is related to many consumers but with a considerably lower income *per capita* to the average developed markets for our exports. Examples to illustrate the problem are the portable battery-powered fridges, given their lower cost, mobility and capacity to work in the midst of frequent power cuts; and medical devices for simple E.C. at a cost equivalent to 10% of those used in the developed world. In both cases companies were able to accurately identify the features of the product capable of meeting such local demands.

But that identification task will normally be out of reach for Latin American companies, above all, for small and medium-sized businesses. Therefore, the role of government authorities becomes most relevant in establishing trade agreements to allow companies to enter into these markets but also to organize their trade representation offices, so that they can identify and outline potential markets and promote several forms of interaction that facilitate greater and better knowledge of local demands. This is undoubtedly an important government function that can mobilize private interests to benefit all.

STATISTICS

Trade and Regional Integration: Selected Indicators

This section will regularly review data measuring trade and integration dimensions in the region. The purpose is to provide a brief regional overview every six months.

NEWLY RELEASED DATA

Table 1

Exports by Integration Group, 2010
(Provisional Data, % change from 2009 to 2010)

Exporting Region	Destination								
	MERCOSUR	MERCOSUR + Chile + Bolivia	Andean Community	ALADI[1]	CACM	Latin America[2]	NAFTA	Hemisphere	*Total World*
MERCOSUR	35	33	31	31	7	31	26	29	*30*
Andean Community	54	45	34	15	9	15	31	23	*26*
ALADI[1]	39	37	27	28	14	28	27	27	*28*
CACM	34	21	65	28	16	16	17	17	*15*
Latin America[2]	39	37	28	28	15	27	27	26	*28*
NAFTA	39	35	34	29	21	28	25	25	*23*
Total Hemisphere	*38*	*35*	*29*	*28*	*18*	*27*	*24*	*25*	*24*

Table 1

Exports by Integration Group, 2010
(Provisional Data, US$ millions)

Exporting Region	Destination								
	MERCOSUR	MERCOSUR + Chile + Bolivia	Andean Community	ALADI[1]	CACM	Latin America[2]	NAFTA	Hemisphere	*Total World*
MERCOSUR	44,188	55,409	10,216	74,519	1,158	76,684	32,291	107,815	*281,682*
Andean Community	5,521	9,232	7,874	20,916	1,417	23,657	34,661	60,460	*99,335*
ALADI[1]	62,810	80,451	28,060	125,145	7,382	137,488	360,298	498,206	*812,701*
CACM	76	221	294	1,722	6,397	9,369	12,035	20,940	*26,937*
Latin America[2]	62,888	80,682	28,370	126,897	13,875	146,993	372,630	519,584	*840,362*
NAFTA	54,348	68,340	31,666	280,447	21,650	316,724	957,522	1,117,277	*1,964,587*
Total Hemisphere	*111,388*	*141,213*	*54,510*	*392,543*	*31,861*	*443,587*	*1,080,468*	*1,366,703*	*2,506,476*

Structure of Exports by Integration Group, 2010
(Provisional Data, % Distribution)

Exporting Region	Destination								
	MERCOSUR	MERCOSUR + Chile + Bolivia	Andean Community	ALADI[1]	CACM	Latin America[2]	NAFTA	Hemisphere	*Total World*
MERCOSUR	16	20	4	26	0	27	11	38	*100*
Andean Community	6	9	8	21	1	24	35	61	*100*
ALADI[1]	8	10	3	15	1	17	44	61	*100*
CACM	0	1	1	6	24	35	45	78	*100*
Latin America[2]	7	10	3	15	2	17	44	62	*100*
NAFTA	3	3	2	14	1	16	49	57	*100*
Total Hemisphere	*4*	*6*	*2*	*16*	*1*	*18*	*43*	*55*	*100*

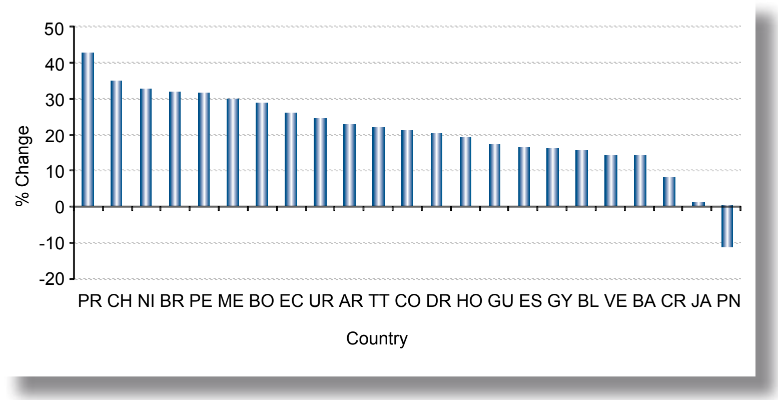
Notes: Estimates of Venezuela's exports use partner country import data.
[1] Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. Cuba is not included.
[2] Includes Panama and the countries of ALADI and the CACM.

Source: IDB, Integration and Trade Sector, based on INTradeBID, ALADI, SIECA, and official country data.

REGIONAL TRENDS

Figure 1

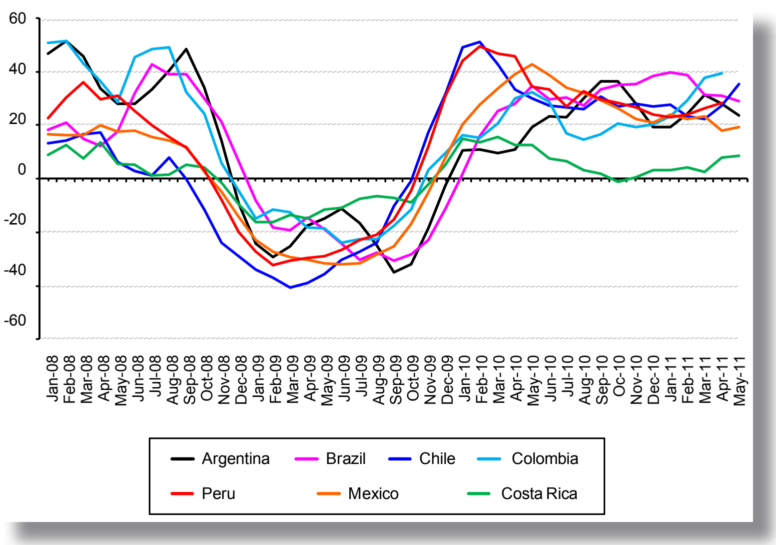
Change in Exports 2009-2010
(Provisional Data)



Source: IDB, Integration and Trade Sector, based on INTradeBID, ALADI, SIECA, and official country data.

Figure 2

Goods Exports: three-month moving average of the growth rate w.r.t. the same month of the previous year



Source: IDB, Integration and Trade Sector, based on INTradeBID database and official country data.

English

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Instrumentos Jurídicos de Integración
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Buscador

Instrumentos Jurídicos de Integración

Instrumentos Jurídicos de Integración es una compilación de textos normativos, comentarios y seguimiento de los compromisos jurídicos básicos de los distintos procesos de integración de América Latina y el Caribe.

Se ha organizado el acceso a esta información a través de distintas opciones ofrecidas por el **Menú** presentado en la parte superior derecha de la pantalla.

Se ofrecen además dos buscadores:

a) Por **palabras clave**: permite localizar distintas voces temáticas en los respectivos textos normativos.
b) A través de un **buscador genérico**: es posible localizar palabras utilizadas en las Novedades y la Cronología de los distintos esquemas y acuerdos.

Normalmente, **Instrumentos Jurídicos de Integración** se actualiza en paquetes trimestrales que incorporan la información de los respectivos períodos terminados en los meses de enero, abril, julio y octubre.

El INTAL procura satisfacer así una amplia gama de intereses, expresados por la sociedad civil en los países latinoamericanos y del Caribe, tendientes a promover una mayor participación y conocimiento de los procesos existentes y en la generación de nuevos vínculos de integración. Por ello, desde 1992, el Instituto ha facilitado el acceso a la información referida a los aspectos jurídicos de estos procesos. Ese año, publicó un libro que incluía el ordenamiento de los textos jurídicos básicos de la integración económica regional en América Latina. En 1998 comenzaron a proporcionarse actualizaciones de esos mismos materiales desde la página electrónica del Instituto, con sucesivas ampliaciones del material informativo.

La compilación y selección de textos así como la preparación del glosario ha estado a cargo de Marcelo Halperin, consultor del Instituto.

La renovación del formato de presentación de **Instrumentos Jurídicos de Integración**, efectuada a mediados de 2011, mejora su navegabilidad y por lo tanto las posibilidades de acceso a la información. Confiamos en que esta contribución resulte de utilidad para todos los que se interesan en el seguimiento de los procesos, acuerdos e iniciativas de la integración en América Latina y el Caribe.

Quedamos abiertos a las sugerencias de los lectores que pueden enviarlas a pubintal@iadb.org.

Ricardo Carciofi
Director

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Puentes y vacíos en la asociación MERCOSUR-México

Publication only in Spanish

Rosario Campos

Economist, Universidad de Buenos Aires *and MA in Economics from* Universidad de San Andrés. *Has held positions as economist for the private sector, the Institute for the Integration of Latin America and the Caribbean (IDB-INTAL) and the Central Bank of Argentina (BCRA). Currently working as consultant for the IDB-INTAL.*

Morales Fajardo, María Esther. 2011. *Puentes y vacíos en la asociación MERCOSUR-México.* México: Universidad Autónoma del Estado de México. 445 p.

La publicación hace un análisis histórico de la relación entre el Mercado Común del Sur (MERCOSUR) y México, señalando cuáles han sido los argumentos de fondo y los elementos que han guiado las negociaciones. Se destacan los logros y los temas pendientes en las agendas exteriores de los países para lograr una mejor vinculación entre las partes. El trabajo señala que la profundización del comercio y la inversión podría mejorar la vinculación, a través de la formación de cadenas productivas, la creación de fuentes de empleo y el mejoramiento de la relación bilateral.

En el primer Capítulo se enumeran tres enfoques teóricos sobre la globalización y la regionalización, por considerar que estos procesos influyen en la construcción de la toma de decisiones en materia de política exterior. El enfoque *escéptico* considera al Estado-Nación como único actor del sistema mundial, caracterizado por una integración selectiva, no homogénea mientras que la visión *globalista neoliberal* reduce el papel del Estado-Nación y resalta el rol de las multinacionales y las regiones económicas, delimitadas a partir de la operación productiva. De acuerdo a la autora, ambas visiones acotan la globalización al plano económico, mientras que la investigación que presenta adhiere al enfoque *transformacionalista*, que sostiene que el Estado participa junto a otros actores colectivos (regiones, empresas, sociedades) en el escenario mundial, caracterizado por tensiones y conflictos provocado por las turbulencias del sistema. En este contexto, la reorganización del trabajo permite a las empresas situar sus eslabones de producción en diferentes partes del mundo. Estas fuerzas obligan a la modernización de las economías y a sus gobiernos a adoptar estrategias que los incorporen al proceso económico mundial.

Luego se describe al regionalismo, entendido como una herramienta política que permite la inserción de los países en la economía mundial. De acuerdo a la investigación, el regionalismo forma parte del proceso para reforzar la liberalización unilateral y multilateral, que surge de la creciente interdependencia regional y se traduce en los denominados Acuerdos de Integración Regional (AIR).

El segundo Capítulo hace una revisión histórica de los diferentes esquemas de integración de América Latina, identificando dos etapas. La primera, denominada *regionalismo protector* -desde la finalización de la Segunda Guerra Mundial hasta la década de 1970- se desarrolló bajo el modelo de Industrialización por

Sustitución de Importaciones (ISI). El trabajo describe los límites de dicha estrategia, cerrada y contraria a la liberalización comercial que se estaba fundando en el marco del Acuerdo General sobre Aranceles Aduaneros y Comercio (*General Agreement on Tariffs and Trade* - GATT). Se analiza la evolución de la Asociación Latinoamericana de Integración (ALADI), el Mercado Común Centroamericano (MCCA) y el Pacto Andino, destacando sus logros, como la institucionalidad con la que se creó el mercado centroamericano y la diversidad de instituciones creadas por los países andinos.

La segunda etapa del regionalismo abierto comprende la década de 1980, llamada la "década perdida", y las medidas de apertura económica para salir de la crisis durante las últimas dos décadas del siglo XX. En este período resurgieron algunos mecanismos de integración como el MCCA y surgieron algunos otros como el Grupo de los Tres (México, Colombia, Venezuela) -debilitado luego por las diferencias a nivel de jefes de Estado-, la Comunidad Andina de Naciones (CAN) y el MERCOSUR. El trabajo sugiere que el regionalismo de los años 1990 tuvo como principal soporte la reinserción de las naciones en la economía global, acompañado de las nuevas tendencias comerciales determinadas en el marco de la Organización Mundial del Comercio (OMC), pero no ha alcanzado la consolidación de las uniones aduaneras. Se resalta el rol de la ALADI como facilitador del comercio intra-regional a través de los Acuerdos de Complementación Económica (ACE) y la Preferencia Arancelaria Regional.

El tercer Capítulo describe la estructura institucional del MERCOSUR y aborda el desempeño de los flujos comerciales y de inversión como determinantes del funcionamiento de dicha estructura. Recopila la opinión de algunos especialistas sobre la evolución institucional del bloque desde sus orígenes, en el marco de las dificultades y retrocesos producidos por la situación macroeconómica de los países: primero la devaluación del real brasileño en 1998 y luego la crisis 2001-2002 en Argentina y Uruguay. Se analiza la evolución macroeconómica posterior de los socios, señalando algunos avances en los perfiles de desendeudamiento público y el crecimiento de las reservas internacionales en el período 2003-2008.

La investigación destaca la creación del Fondo de Convergencia Estructural del MERCOSUR (FOCEM) como un paso para avanzar más allá de la dinámica comercial. No obstante, se muestran elementos que obstruyen la superación de asimetrías y la dificultad para construir entidades supranacionales. La autora concluye que el bloque aún no termina de consolidar su proyecto económico-comercial de unión aduanera y resalta que las desventajas para sus socios menores continúan siendo visibles.

El capítulo prosigue con la evolución de las relaciones externas del MERCOSUR, con Estados Unidos, la Unión Europea y con América Latina: Chile, Bolivia, la CAN y Venezuela, cuyo proceso de adhesión se describe detalladamente. Desde el punto de vista de la autora, el hecho de que el MERCOSUR no mantenga una relación comercial de exclusividad con otro país o bloque le otorga la posibilidad de establecer contactos con otros socios, pero también dificulta el proceso negociador porque las contrapartes no encuentran suficientes incentivos para entablar el proceso de relaciones. En la visión de la autora, el MERCOSUR como bloque económico no tiene una política exterior común, sino que mantiene un liderazgo de Argentina y Brasil, cuya falta de coordinación refleja el debilitamiento institucional del bloque.

En el Capítulo cuarto, el trabajo profundiza en la Asociación MERCOSUR-México. La opinión de la autora es que desde la entrada en vigor del Tratado de Libre Comercio con América del Norte (TLCAN) en 1994, el vínculo entre México y Estados Unidos se volvió el más importante de este país con el exterior, desaprovechando la relación con Canadá, como también dejando de lado la diversificación de las relaciones exteriores con otras regiones del mundo. Por su parte, el marco normativo de la relación comercial entre México y el MERCOSUR está circunscrito a la ALADI. El país no puede ser Estado parte del mecanismo de integración subregional MERCOSUR por el Artículo 1 del Tratado de Asunción, que señala el establecimiento de un Arancel Externo Común (AEC) y la adopción de una política comercial común en relación a terceros. México, al ser parte del TLCAN, sólo puede aspirar a ser Miembro Observador o Estado Asociado del MERCOSUR, debido a su lógica económico-comercial incompatible con el diseño del bloque.

La investigación propone cuatro fases históricas de la asociación MERCOSUR-México con diferentes resultados de las negociaciones: 1991-1997; 1997-2002; 2002-2006; 2006-2009.

En la primera etapa, a raíz de la constitución del TLCAN, México enfrentó conflictos con sus pares latinoamericanos por haber suscrito un acuerdo con

países no miembros de la ALADI. Para el MERCOSUR, existían tres factores que dificultaban el proceso de negociación con México: el bajo nivel de volumen comercial entre ambas partes, el diferente nivel de preferencias otorgadas por México a los socios del bloque, y la competencia existente de los productos mexicanos exportados a Estados Unidos contra los productos exportados a ese destino por los integrantes del MERCOSUR.

En el segundo período hubo una paralización de las negociaciones, determinada por la parálisis institucional derivada de las crisis financieras de Argentina y Uruguay, como de la proyección de Brasil en las negociaciones multilaterales desatendiendo sus intereses regionales.

El tercer período fue de una estabilidad económico-financiera mayor de México respecto de los países del bloque. En esta etapa entró en vigor el ACE N°53 entre México y Brasil, que fomentaba el intercambio comercial y los flujos de inversión entre ambos países. Por otra parte, se negociaron dos acuerdos entre el MERCOSUR y México: el ACE N°54 que contemplaba la creación de un área de libre comercio mediante desgravaciones arancelarias y el ACE N°55 enfocado en el libre comercio del sector automotor. También se firmó un tratado de libre comercio (TLC) entre México y Uruguay pero no se logró este tipo de acuerdo entre Argentina y México, a pesar de los esfuerzos de éste último. En 2004, la imposibilidad de llegar a un borrador del Área de Libre Comercio de las Américas (ALCA) determinó un fracaso para México, que mantenía una doble estrategia de fortalecimiento bilateral y la incorporación económico-política al mecanismo regional.

En el cuarto período, México tuvo una estrategia de política exterior distinta, a partir de la cual se evaluaron las condiciones y el tipo de participación que se tendría como Estado Asociado, privilegiando el fortalecimiento bilateral para el camino de negociación con el MERCOSUR.

Luego del análisis de las cuatro fases de la vinculación México-MERCOSUR, la publicación analiza los flujos de comercio e inversión entre las partes, destacando que las relaciones comerciales se concentran en los socios mayores del bloque y con productos de alto valor agregado, mientras que las economías menores aportan principalmente productos primarios. De acuerdo a la autora, las economías sudamericanas han diversificado de mejor forma sus mercados de exportación y los empresarios buscan optimizar sus beneficios a través de los diferentes instrumentos suscritos a nivel bilateral. En contraste, el mercado mexicano no se ha diversificado hacia las economías sudamericanas y los empresarios de este país no encuentran atractivos estos mercados. Los flujos de inversión extranjera directa (IED) constituyen un elemento de trascendencia entre el bloque y México, y se enmarcan en el fenómeno de *translatinización* de empresas, basado en la búsqueda y ampliación de mercados regionales.

El Capítulo quinto realiza un análisis bilateral de la política exterior de los países sudamericanos para entender las estrategias que los han llevado a tener un acercamiento o distanciamiento con México. En particular, se describe la visión pragmática de los distintos gobiernos de los países socios, considerando si su política exterior privilegió o relegó las relaciones con México.

El aporte de la obra reside no tanto en el análisis de los flujos de comercio e inversión del MERCOSUR y México, que de todos modos constituye una valiosa recopilación; sino en el análisis histórico y detallado de los acercamientos y distanciamientos en la asociación entre las partes, notando la importancia de los intereses de los distintos gobiernos en profundizar o no las relaciones. La autora es concluyente al afirmar que al ser el Poder Ejecutivo la institución encargada de la política exterior, la relación bilateral ha sido muy dependiente de los gobiernos de turno. Realiza un diagnóstico acerca del pragmatismo de los hombres de negocios de las dos economías mayores de América Latina -Argentina y Brasil-, señalando que éstos han superado en algunos casos las capacidades negociadoras gubernamentales. Para la autora, el hecho de que los intereses económico-comerciales de México estén situados en América del Norte, y que los países del MERCOSUR tengan una diversificación mayor de sus destinos de exportación ha dificultado los esfuerzos de vinculación.

De todos modos, la crisis financiera de Estados Unidos iniciada en 2008, y su impacto en las economías con mayores canales de vinculación, han generado un panorama diferente en la economía mundial. En este contexto, la crítica de la autora acerca de la falta de diversificación de las relaciones de México con el exterior, realizada para el momento de la firma del TLCAN en 1994, se torna muy relevante para el contexto actual. El mayor crecimiento económico de las economías emergentes y el debilitamiento de algunos países centrales tal vez sea propicio para impulsar mayores vinculaciones entre las primeras. ◆

Integración regional en América Latina: desafíos y oportunidades

Publication only in Spanish

Kathia Michalczewsky

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UNCTAD Virtual Institute. 2010. *Integración regional en América Latina: desafíos y oportunidades.* Nueva York y Ginebra: UNCTAD. 153 p.

El libro, resultado de un proyecto del Instituto Virtual (Vi) de la UNCTAD, está compuesto por seis artículos realizados por investigadores especializados en integración latinoamericana.[1] Por un lado, los autores caracterizan las consecuencias de los cambios en el contexto internacional sobre los procesos de integración en la región sudamericana: el nuevo rol de China, la crisis internacional y los desbalances globales, entre otros factores, generan desafíos y oportunidades que son analizados haciendo hincapié en los aspectos históricos, políticos y económicos. Por otro lado, dan cuenta de las características y dificultades de la dinámica interna de estos procesos durante los últimos años.

Después de más de dos décadas desde el relanzamiento del regionalismo, ciertos signos de estancamiento de los procesos de integración iniciados en aquella época hacen necesaria su revisión, ya que tanto la coyuntura internacional como regional difiere ampliamente de aquella de principios de 1990. El claro mejoramiento de la situación macroeconómica de los países bajo circunstancias más favorables y con políticas económicas -en general- más sólidas de los últimos años, se ha reflejado en un crecimiento del intercambio intrarregional. Al mismo tiempo se han profundizado los vínculos externos de las economías y se ha dado lugar a la expansión de la cooperación más allá del ámbito puramente comercial, en espacios como el social y el político.

El análisis de las distintas iniciativas de integración con cierto horizonte histórico y teniendo en cuenta el nuevo contexto político y económico, permite a los autores presentar algunas discusiones -sobre temas específicos como más generales- de los procesos que están en marcha en la región, proponiendo vías de salida para su superación y colaborando con su readaptación.

En el primer artículo, *La agenda de integración regional de la Argentina post-2001*, Delich y Peixoto analizan los vínculos entre algunos de los esquemas de integración más relevantes de la región desde

[1] El trabajo fue supervisado por Vlasta Macku y Piergiuseppe Fortunato del Virtual Institute, con aportes de Alejandro Ramos Martínez. Los autores, por orden de aparición de los artículos son: Valentina Delich, Juliana Peixoto, Alan Fairlie Reinoso, Pedro Moncarz, Marcelo Olarreaga, Marcel Vaillant, Carlos Aguiar de Medeiros, Ramón Torrent, Federico Lavopa y André Martin Biancareli.

una perspectiva histórica. En este marco, observan la evolución del papel que ha tenido la Argentina en el Mercado Común del Sur (MERCOSUR) considerando las circunstancias internas que afectaron el dinamismo del bloque y *viceversa*. En el estudio se tienen en cuenta los cambios positivos en el contexto macroeconómico, el acercamiento entre las tendencias políticas de los socios y demás factores que moldearon esa agenda entre 2003 y 2008. Este análisis se realiza desde la óptica comercial, institucional, política y social, argumentando que, a pesar de no identificar retrocesos, los avances en la integración no han sido relevantes.

El segundo artículo, *Integración regional y acuerdos Norte-Sur en los países andinos*, examina los efectos sobre la integración regional de los acuerdos que los miembros de la Comunidad Andina de Naciones (CAN) han firmado con Estados Unidos y, que en el momento de escribirse el trabajo, buscaban concretar con la Unión Europea. Los países de este bloque han mostrado diferencias importantes en las estrategias de inserción internacional, con algunos países enfocándose primordialmente en los mercados externos a la región. En este escenario, Fairlie Reinoso analiza cuáles son los desafíos adicionales que enfrenta la integración regional andina, las diferencias entre los acuerdos Norte-Sur y Sur-Sur y revisa las consecuencias que el acuerdo firmado entre Perú y Estados Unidos ha tenido sobre el desempeño de la CAN. Una de las conclusiones más relevantes es quizás que, a pesar de que el bloque muestra signos de fragmentación, la composición del comercio intrazona -mayormente bienes industriales y servicios- sigue justificando el esfuerzo hacia la integración regional como política de desarrollo.

En *Regionalismo y política industrial en los países en desarrollo: el caso del MERCOSUR*, Moncarz, Olarreaga y Vaillant estudian los efectos de las preferencias comerciales sobre la estructura de exportaciones y, en consecuencia, sobre la industrialización de los países. El trabajo adscribe a la hipótesis general de que los esquemas de integración regional entre países en desarrollo pueden utilizarse en función de objetivos de industrialización. Pero su objetivo específico es argumentar que los beneficios de esa estrategia están desigualmente distribuidos a favor de los países de mayor tamaño dentro del bloque; apunta, pues, a los problemas de asimetrías dentro del MERCOSUR. Los resultados del estudio muestran que los países más grandes, en este caso Brasil, y en menor medida Argentina, tienden a beneficiarse mayormente en sus objetivos de industrialización de los efectos estimulantes generados por la existencia de preferencias arancelarias.

En el cuarto estudio, *Modelos alternativos para la integración sudamericana*, Aguiar de Medeiros recurre a una visión histórica y comparativa para perfilar dos formas estilizadas de integración: la primera concentrada exclusivamente en el libre comercio y la segunda de componentes más complejos, como los económicos y sociales. El artículo es sugerente en términos de avanzar en una discusión de orden más conceptual en un momento en que los esquemas de integración en América Latina deben enfrentar una necesaria renovación de sus premisas ante la mutación del escenario internacional. El autor encuentra ciertos rasgos innovadores en las iniciativas que han surgido en Sudamérica en los tiempos más recientes, a pesar de la persistente preeminencia de los objetivos individuales de los países.

La producción del derecho de la integración en América Latina: un talón de Aquiles del MERCOSUR reproducido en la Unión de Naciones Sudamericanas es un texto de técnica jurídica en el que Torrent y Lavopa buscan establecer -en una rica comparación con la tradición jurídica de la integración europea- las dificultades inherentes al mecanismo de generación de normas en el MERCOSUR. Adicionalmente, muestran como ese problema está también presente en la Unión de Naciones Suramericanas (UNASUR). Según los autores, la debilidad de raíz que aqueja la forma de creación de derecho regional, específicamente la inexistencia de un mecanismo autónomo de producción de normas, está en general ausente en la lista de dificultades discutida en la literatura.

En el último artículo, *La dimensión financiera de la integración en América del Sur,* Martin Biancareli revisa aspectos conceptuales de esta temática y avanza en una tentativa de cuantificación del grado de cooperación financiera en la integración de América del Sur. El artículo aporta al conocimiento sobre un tópico raramente visitado pero de gran relevancia para la consecución de objetivos sociales y productivos así como para la protección de la región ante situaciones de crisis y contagios financieros. Los sistemas de cooperación regionales en este ámbito han cobrado cierto protagonismo en la agenda de algunos gobiernos y autoridades monetarias aunque es un tema que está lejos de agotar su potencial. El estallido de la última crisis global, sin duda, ha afirmado la importancia de contar con un diagnóstico preciso del nivel de integración

financiera y de las posibles vías de profundización de estos vínculos. Esquemas regionales -monetarios, fiscales, comerciales, etc.- surgen como instrumentos alternativos para hacer frente a las turbulencias de la economía global.

La revisión de las experiencias del MERCOSUR, la CAN y la UNASUR, da lugar a un aprendizaje que resulta en la identificación de fallas de los procesos, y por tanto en la propuesta de correcciones específicas por parte de los investigadores. Tanto los autores como los editores concluyen que el desarrollo institucional y conceptual de los esquemas de integración no parece acompañar con rapidez el mejor desempeño macroeconómico de los países de la región, aun cuando se detectan elementos de convergencia política en varios países.

Lo editores diagnostican, de manera muy general, la existencia de algunos obstáculos y cierta lentitud en la formación y desarrollo de los bloques en Latinoamérica; aunque, en rigor, los estudios se enfocan en los procesos en marcha en América del Sur.

El libro preparado por el Virtual Institute es un excelente aporte, documentado, actualizado y provocativo, que cubre una amplia gama de temáticas de interés para todos aquellos interesados por razones prácticas y de investigación en los procesos de integración regional. ◆

La inserción de América Latina en las Cadenas Globales de Valor

Publication only in Spanish

Gala Gómez Minujín

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Prochnik, Victor. 2010. *La inserción de América Latina en las Cadenas Globales de Valor.* Serie Red MERCOSUR 19. Montevideo: Red MERCOSUR. Septiembre. 275 p.

El proceso de globalización económica que se viene desarrollado con intensidad durante las últimas décadas ha impuesto nuevos desafíos y oportunidades para los países en desarrollo. El incremento del comercio internacional y la liberalización de los movimientos de capitales y servicios tienen un impacto significativo sobre el desarrollo económico de los países y el modo en que las empresas actúan dentro de ellos. La búsqueda por una mayor flexibilidad operacional y diferenciación de productos, y la mayor atención a los flujos de conocimiento e innovación han cambiado los patrones de organización empresarial e incentivado a las firmas a insertarse dentro de cadenas globales de valor (CGV).

En este contexto, el libro compilado por Victor Prochnik adquiere gran relevancia al analizar las características e impactos de este nuevo fenómeno en América Latina. El estudio de cómo la región se inserta en dichas cadenas resulta de gran importancia ya que éstas pueden impactar positivamente en las economías nacionales, estimulando el crecimiento económico y el perfeccionamiento de la tecnología. Sin embargo, también es necesario tener en cuenta sus potenciales efectos negativos ya que muchas veces las firmas líderes pueden impedir el mejoramiento tecnológico de empresas que se encuentran subordinadas a ellas en la cadena de valor, obstaculizando así al crecimiento de la economía en su conjunto. La comprensión de este fenómeno es significativa no sólo para el análisis del impacto de las CGV en la región sino también para la puesta en práctica de políticas e incentivos en el área. Estas cadenas pueden definirse como "sistemas internacionales organizados para optimizar la producción, *marketing* e innovación mediante la localización de productos, procesos y funciones en varios países con el fin de beneficiarse de las diferencias en costos, tecnología, marketing, logística y otras" (Prochnik, 2010, p. 14).

El objetivo central del trabajo es examinar la integración de las empresas latinoamericanas en el modelo de cadenas globales de valor, analizando el rol de las firmas de los países de América Latina y evaluando su impacto sobre el comercio, la inversión y la estructura industrial. Tanto los capítulos teóricos como los estudios de casos presentados buscan comprender el rol que juegan las CGV en el desarrollo económico latinoamericano. El libro, que presenta trabajos de diversos autores, se estructura de la siguiente manera. Un primer capítulo realiza un repaso de la literatura sobre cadenas de valor. Los siguientes dos capítulos analizan de manera general

la inserción en encadenamientos productivos globales de diferentes sub-regiones: México, América Central y el Caribe por un lado, y América del Sur por otro. Luego, los dos capítulos siguientes presentan trabajos específicos sobre la industria automovilística y la industria electrónica brasileña. En este punto se aclara al lector las dificultades intrínsecas de los estudios de casos frente a las dificultades para el relevamiento de datos y formas de medir a las cadenas. Se utilizan en estos trabajos métodos indirectos como cifras de comercio exterior, matrices de insumo -producto y datos microeconómicos aportados por las empresas involucradas.

El capítulo inicial introduce al lector en el concepto de CGV y su importancia para los países de la región. Los trabajos al respecto muestran que las inter-relaciones sociales y económicas entre los participantes de las cadenas dan forma a los proceso de producción, distribución y consumo. En general, estas cadenas responden a una gobernanza asimétrica por la cual una firma líder, generalmente proveniente de un país desarrollado, organiza la cadena y tiene una influencia preponderante en la forma de producción y grado de mejoramiento tecnológico e innovación de las empresas subordinadas a ella, localizadas en países en desarrollo. Las firmas de países desarrollados mantienen la coordinación y el gobierno de la cadena a través de su poder de compra y dominio de actividades estratégicas como investigación y desarrollo, diseño, logística y marketing. Las posibilidades de *upgrading* o mejoramiento productivo de las empresas de países en desarrollo están en gran medida determinadas por el mayor o menor interés de las firmas líderes en transferir conocimiento y tecnología.

El caso de América Central y México se examina en el segundo capítulo a cargo de Celso Garrido. El autor describe cómo las industrias textiles, automotriz y electrónica se insertaron en las CGV a partir de una llegada masiva de inversión extranjera directa durante la década de 1990 favorecida, a su vez, por diversos tipos de políticas públicas e incentivos fiscales. Esto ha tenido efectos contrapuestos ya que si bien, por un lado, ayudó a complementar la inversión general y generar empleo, por otro lado no incentivó el *upgrading* ni aportó mejoras significativas a la productividad de las empresas.

Respecto a América del Sur, Leonardo Stanley analiza, en el tercer capítulo, las cadenas de alimentos, textil y calzados y revela la importancia del trabajo conjunto de empresarios y gobiernos para avanzar en la cadena de valor y agregar conocimiento a la producción. En el caso de la cadena alimentaria, se señalan las nuevas oportunidades y desafíos que trajo aparejada la creciente importancia de los supermercados en la configuración de la cadena de alimentos. Por otra parte, el aumento de la competencia global muestra la importancia de avanzar en la cadena de valor de la industria textil para lo cual no existe una receta única. De manera similar, la industria de cueros y calzados, afectada fuertemente por la competencia de China e India, tiene la necesidad de diversificar los riesgos mediante la inserción en cadenas que respondan a diferentes mercados.

El trabajo de João Alberto de Negri, en el cuarto capítulo destaca los impactos de las CGV sobre la cadena automotriz de Brasil. Al respecto, el proceso de globalización más las reformas económicas llevadas a cabo durante la década de 1990 impulsaron a las empresas a adaptarse a nuevos contextos y circunstancias económicas e institucionales. La apertura comercial estimuló el mercado interno y aumentó la competitividad de la industria nacional debido a las ganancias de escala y el incremento en la productividad.

En cuanto a la inserción de la industria electrónica brasileña en las cadenas globales, el quinto capítulo desarrollado por Prochnik, señala que si bien las ventajas para el mercado externo y las exportaciones han crecido de manera importante, ciertos problemas estructurales atentan contra su competitividad a mediano plazo. Durante los últimos años la participación de las importaciones ha crecido más que las exportaciones en los diferentes sectores de la cadena de valor electrónica. Además, si bien se han puesto en marcha políticas para estimular la demanda no ha pasado lo mismo con la oferta.

En su conjunto la obra realiza un importante aporte a la literatura sobre desarrollo económico y organización de la producción al capturar la complejidad y relevancia de las CGV en América Latina y de cómo estas fueron estructuradas a partir del proceso de globalización y las reformas económicas de los años 1990. Su lectura plantea al lector interrogantes sobre cuál es la mejor estrategia a seguir para las empresas de países en desarrollo que buscan insertarse en la economía internacional, sus posibles impactos y las políticas más apropiadas para corregir los problemas presentados. ◆

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