

IIRSA

Strategic Reflection Forum

The status of the regional integration

Sandra Polónia Rios

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Integration conditioners in the new millennium -1

International context and North American bilateralism

- ❖ Decade of '90: RU, open regionalism, extension of the thematic agenda ⇒ growing liberalization and regulatory convergence
- ❖ End of '90: systemic frictions (Ex.: MAI-OECD; OCDE, in Spanish)
- ❖ China's emergency: impacts on the labor market + concerns with "*race to the bottom*" in regulatory standards
- ❖ North American reaction: competitive liberalization ⇒ asymmetric bilateralism with destructuring effects on the ACN (CAN, in Spanish)

Integration conditioners in the new millennium -2

The new ideological environment in SA

- ❖ Change of epoch in SA: more cautious attitude regarding unilateral liberalization and worsening of the environment for private investment
- ❖ Development agenda X Liberalization agenda
- ❖ Developed countries: policies related to “globalization management”
- ❖ SA goes from the “liberal convergence” to “diverging strategies”
- ❖ Among the “heterodox”, there are also political divergences

Integration conditioners in the new millennium -3

Intra-regional trade

- ❖ Intra-regional trade: moderate importance
- ❖ Relative loss of importance – Mercosur as main factor
- ❖ USA losses participation
- ❖ China and other countries become more relevant
- ❖ Reduction of the weight of intra-regional trade: centrifugal trends

Integration conditioners in the new millennium -4

Exports in South America by destination region						
Bloc	Biennial Average					
	95-96		03-04		06-07	
	a	Part. %	b	Part. %	c	Part. %
South America	32.154	25	37.754	18	77.149	21
Mercosur	19.529	15	18.178	9	37.135	10
ANC (CAN)	7.031	5	9.456	5	17.623	5
Chile	3.520	3	6.962	3	11.256	3
Venezuela	2.074	2	3.158	2	11.135	3
United States	31.469	24	52.185	25	80.029	21
Mexico	1.356	1	6.618	3	9.797	3
European Union ¹	29.721	23	42.599	21	74.509	20
China	2.507	2	11.525	6	25.033	7
Other	32.954	25	56.963	27	106.757	29
world	130.162	100	207.644	100	373.274	100

Notes:

¹ European Union: 25 States

Integration conditioners in the new millennium -5

Intra-regional investment

- ❖ **Dynamism without precedent: Chile (services) and Brazil (several sectors)**
- ❖ **SA is the main destination of the investment by firms in the regions**
- ❖ **Motivations:**
 - ❖ More stable conditions to access markets
 - ❖ Access to natural resources
 - ❖ First steps to internationalization
- ❖ **Investment incorporates new sensitive topics in the regional agenda:**
 - ❖ Sectors intensive in natural resources or basic services – conflictive potential
 - ❖ Protection of investment
 - ❖ Opportunities and risks for the integration

Status of the regional integration

- ❖ Sub-regional schemes: trend to fragmentation
 - ❖ Mercosur: difficulties with the AEC, bilateral disputes, difficulties regarding the management of the common trade policy, admission of Venezuela
 - ❖ ACN (CAN, in Spanish): institutional progress, difficulties with the AEC, tensions related to the common trade policy
- ❖ South American integration
 - ❖ ALCSA proposal (1993)
 - ❖ Little income in the '90
 - ❖ Difficulties between the ACN (CAN) and Mercosur
 - ❖ Mercosur-Chile (1996) and Mercosur-Bolivia (1997)
 - ❖ Mercosur- ACN (2003): network of bilateral agreements

Recent initiatives: ELC, UNASUR and ALBA

- ❖ Endogenous drawbacks in the sub-regional projects
- ❖ New extra and intra-regional environments
 - ❖ IIRSA (2000): infrastructure as a conditioner for the integration
 - ❖ ELC of ALADI (2004): difficult consensus
 - ❖ UNASUR (2008): post-liberal regionalism in action
 - ❖ ALBA against poverty and social exclusion

ELC – ALADI: difficult consensus

- ❖ ALADI: network of agreements with low capacity for additional promotion of trade
 - ❖ Majority of trade flows covered by TLCs with important liberalization degrees
 - ❖ Lack and heterogeneity of rules and disciplines
 - ❖ Exceptions for regulated products: they reproduce the pattern in the international trade
 - ❖ Bilateral TLCs with USA

- ❖ ELC proposal (2004): without progress
 - ❖ Difficulties regarding minimum consensus
 - ❖ Abundance of studies and proposals
 - ❖ 3 visions on integration:
 - ❖ Liberalization limited to trade (Mercosur)
 - ❖ ELC with NAFTA model – countries with agreements with USA
 - ❖ No to trade liberalization – alternative agenda (ALBA)

UNASUR: post-liberal regionalism

- ❖ Treaty: May of 2008
- ❖ Wide and ambitious objectives
- ❖ Incorporation of topics (cultural, political, social ones) with dilution of trade topics
- ❖ 21 specific objectives
- ❖ Council of delegates must combine initiatives of the UNASUR with other regional and sub-regional processes
- ❖ **Loss of focus:** unlimited expansion of the agenda as a response to difficulties in the trade agenda

ALBA: against poverty and social exclusion

- ❖ Comparison to the ALCA
- ❖ Venezuela and Cuba + Bolivia, Nicaragua, Dominican Republic and Honduras
- ❖ New integration model: breaking-off with “the classic economicist vision...”
- ❖ Reconciliation of economic relations in the region: crash with the objectives of the ELC

Fragmentation and heterogeneity of strategies

- ❖ Opportunities for cooperation **X** divergence of visions
- ❖ Disappearance of “liberal convergence” ⇒ **adoption of several and divergent strategies**
 1. Revisionist countries: increase of protectionist and nationalist policies
 2. Liberal countries: search of international insertion
 3. Brazil at halfway: structural transformations + modernization of the agro business + IED of Brazilian firms
- ❖ Divergences also due to structural characteristics of the economies
- ❖ Result: segmentation of strategies

Challenges for SA: the role of the regional integration

- ❖ International financial crisis: demands of international coordination mechanisms
- ❖ Countries that chose international integration (Brazil and Chile) ⇒ **priorities outside the region**
- ❖ Trend to growth of polarization in the region
- ❖ What type of functionality is needed for a regional integration agenda in the current scenario?

Regional integration: the limits of what is possible

Conditioning factors:

- ❖ International insertion by the countries in SA is unequal and divergent
 - ❖ Varied production structures (comparative advantages)
 - ❖ Intra-regional trade of moderate relevance
 - ❖ Backward step in the sub-regional processes
- ⇒ **Opportunities to exploit complementarities in the supply of food, energy and manufactured products**

Regional integration: conclusions by the Brazilian Task Force in South America

4 Integration hubs:

1. Building of a free-trade area
2. Physical integration
3. Energy cooperation
4. Social cohesion

Regional Free-Trade Area

Trade: unavoidable component of the process

- ❖ Balance among interests / development character
- ❖ Harmonization of preferences and rules
- ❖ Services, investment, governmental purchases
- ❖ Special and specialized treatment with free and immediate access to the Brazilian market
- ❖ Progressive joining

Physical integration

Infrastructure: consolidation of the regional market + social cohesion

- ❖ Initiatives: IIRSA and FOCEM
- ❖ Problems:
 - ❖ Low priority in the national agendas (allocation of resources)
 - ❖ Regulatory problems (difficulties for the liberalization of the access of transportation and logistics operators to the national markets)
- ❖ To make progress:
 - ❖ Setting of priorities
 - ❖ Coordination for complementary investment
 - ❖ Long-term guarantee funds for financing
 - ❖ Simplification and harmonization of regulations

Energy integration

Energy: potential as a leverage for regional integration

- ❖ Relevant in some economies in the region
- ❖ Target of recent conflicts in the region ⇒ return to self-sufficient strategies
- ❖ Need of a regulatory framework for trade and investment in energy in the region (legal security)
- ❖ Energy letter (European model)
- ❖ Reduction / elimination of subsidies: market prices

Social cohesion

Critical by the revisionists: excessive emphasis on trade

- ❖ Mercosur: Temporary preferential treatment + FOCEM
- ❖ Structural and political asymmetries: sources of frequent conflicts
- ❖ The incorporation of the asymmetries topic is crucial to reduce resistance to the economic integration
 - ❖ Creation of development funds for the restructuring and training of workers
 - ❖ Development of infrastructure in the most affected areas
 - ❖ Specialized treatment regarding liberalization commitment
 - ❖ Effective access to the biggest markets in the region