

Integration Challenges in Latin America

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The second wave of regional-integrationism¹ which has developed in much of the world since the mid-1980s has been particularly marked in Latin America. The last few years have seen the proclamation of multiple initiatives, several of which have stated an aim to achieve high degrees of integrative ambition in short periods of transition.

Here, as elsewhere, the question is posed as to how much more credible these initiatives may prove to be compared to the schemes pursued earlier, and what may be done to help make them more viable and durable. EIPA has indeed been entrusted by the European Commission and the countries of the Rio Group (Mexico and the ten Iberian states of South America) with the design and implementation of a multi-annual training programme (to be carried out through a Training Centre for Regional Integration (CEFIR) which has been established in Montevideo, in collaboration with other institutions in Latin America) intended precisely to support the development of Latin American capacities for the management of regional integration.

What are the integration schemes in question? There is a certain lack of clarity in some cases about which countries are really committed to doing what and with which other countries; or, where intentions are relatively clear in this respect, a lack of consensus as to what legal-institutional system is appropriate to help achieve the stated objectives. Something similar could of course be said about Europe at the moment! Integration in both regions appears a process of redefinition amid uncertainty², and it is perhaps the capacity to manage the broader process which may prove to be the most relevant topic of discussion in the longer term. The immediate contexts, however, pose different kinds of problem for the development of integration capacities, and even for the definition of objectives and frameworks.

The aim of this contribution is to give a brief overview of the integration situation in Latin America and indicate some of the questions raised as to the basic architecture.

Ten years ago, when Latin American integration seemed a dead letter, the panorama was relatively simple in terms of organizations envisaging market integration. (I exclude the Caribbean and the multiple cooperation arrangements in place around the continent).

The Central American Common Market maintained a formal existence amid the conflicts. Mexico and the South American countries were members of the loose and rather ineffectual Latin American Integration Association (ALADI). Five ALADI members (Bolivia, Colombia, Ecuador, Peru and Venezuela) formed the Andean Pact, which had pursued a much dearer scheme including a full common market, but was by the mid-1980s stagnant.

Since 1990, however, there has been a dramatic resurgence of integrationism. The background must be seen in the wave of economic reform and liberalization programmes sweeping the region, together with fear of international marginalization and perceptions of the formation of economic blocs elsewhere in the world. However, it has been shaped by new initiatives with strong political motivations, notably the Argentine-Brazilian *rapprochement* which led to the 1988 Treaty envisaging a common market by the end of the century; and the reversal of Mexico's policy *vis-à-vis* the GATT since 1986, its dramatic internal reforms and economic agreements with the United States.

In 1990, indeed, came the announcement of Mexico's negotiations for North American free trade - NAFTA - and of President Bush's Enterprise for the Americas' initiative, with its stated intention to pursue free trade from Alaska to Tierra del Fuego.

Almost simultaneously, Argentina and Brazil brought forward their deadline for a common market to 1995. Uruguay and Paraguay joined the programme (although Chile decided not to). The four countries signed the Treaty of Asunción on March 1991 which aims at a Common Market of the South - Mercosur - by the end of 1994, by means of complete trade liberalization through an automatic linear schedule; coordination of macroeconomic policies; a common external tariff; and sectorial agreements.

These developments clearly had an impact on the Andean Pact countries. One effect was to encourage a revival of the sub-regional common market. Negotiations about the future of the group had indeed been taking place since 1987 but, at first, in the direction of greater flexibility'. At the end of 1989, however, the five Presidents proclaimed their determination to consolidate a customs union by 1995. The next year they also brought forward the deadline for a free trade zone to the end of 1991 and announced various measures to strengthen the scheme institutionally. At the very same time, however, Colombia and Venezuela were beginning to formalize and expand the special relationship they had developed with Mexico, largely in relation to Central America. The Group of Three was thus born in 1990, at first restricted to the spheres of political and other forms of cooperation, but since 1991 including a programme to achieve complete trade liberalization in 1994.

On top of this proliferation of sub-regional commitments, the new enthusiasm for trade liberalization has prompted a series of bilateral agreements throughout the continent, including a full Free Trade Treaty between Chile and Mexico.

At the same time, Central America was emerging from its multiple crises and separately beginning to take new steps towards its own integration. To bring some order into the existing situation, in December 1991 it was agreed to revive the Organization of Central American States as the Central American Integration System (SICA). Progress has also been made in re-establishing free trade and reincorporating Honduras into the economic integration scheme. Within SICA, however, Guatemala, El Salvador and Honduras have recently created a more committed subsystem with the name of the Triangle of the North'.

Finally, one must mention the existence of trade and investment agreements between the member states of the Group of Three and Central America, envisaging free trade by 1996 in the case of Mexico, and by a date yet to be fixed with Colombia and Venezuela.

There is an undisputed lack of cohesion in the overall picture of Latin American integration. This is often characterized by terms such as fragmentation' with their implicit reference to a clearly delimited underlying unity' (in many cases explicitly identified as a Latin American Common Market or Latin American and Caribbean FreeTrade Zone). However, the most appropriate words might equally be the more general ones of change' and uncertainty' - not only in structures but also with regard to objectives and even natural boundaries.

The Bush hemispheric free trade initiative (even if Latin American hopes in this respect are probably misplaced) and what is a remarkable turn-about by Mexico, together with the rejection of former import-substituting strategies in favour of liberalizing reform, have challenged both the political and economic assumptions behind previous Latin American integration schemes.

The question of levels of integration objective, here in the sense of scope of membership, and even of identity, has been problematic from the start. One talks of regional integration', but what is the region' - the Americas or Latin America? For decades, there has been tension between the Inter-American system and Latin American integration, for which a large part of the rationale, both political and economic, has been the defence of Latin American interests in the face of US hegemony. The sub-regional schemes, in this perspective, have always been

presented as steps on the way to the ultimate objective of a Latin American Common Market.

There should be no surprise about the impact of the elusive temptation of hemispheric free trade (and cooperation in other key spheres for development) or simply of bilateral free trade with the largest single market in the world, although the results remain unclear. On the one hand, it may at first have served more as an impetus to Latin American integrationism - and the Bush initiative did explicitly state a preference for negotiations with sub-groupings - but it could equally serve to divide; on the other hand, it inevitably increases uncertainty. No longer is it a question of bilateralism versus multilateralism in the purely Latin American framework. Bilateral or sub-regional schemes are now cast as stepping stones on the path to an either/or' situation - hemispheric or Latin American - depending on (in the last resort) the United States.

And of course there is every reason to maintain doubts as to the likelihood of free trade with the US or any cohesive American' regionalism on a broader scale. Given also the multitude of instabilities in Latin American countries, it is not surprising that there should be a process of shifting alliances or multiple strategies largely as a policy of hedging bets.

The tendency to instability is accentuated by the fact that the integration processes are taking place, a) in a context of a general tendency among the Latin American countries towards unilateral tariff reductions, but with significant differences among remaining members of the sub-regional groups as to tariff levels, b) in the presence of a host of other obstacles to integration, and c) from a low level of reciprocal trade.

This not only creates a general danger of falling into a vicious rather than virtuous circle between integration, interdependence and macroeconomic cooperation. In addition, particularly where there is also a perception of possible immediate alternatives in a context of rapid and generalized economic opening, the effect may be to increase the natural tendency of states to resist losing autonomy, especially regarding external commercial policy. If the medium- to long-term benefits from integration seem doubtful or simply distant (and agreement is difficult as to the kind of commitments required to achieve such benefits), choices may be shaped by the short-term question as to whether or not the perceived advantages to be gained from increased bargaining power with third countries or blocs as a result of a genuine common commercial policy outweigh the perceived opportunity cost' of commitment to a particular integration scheme at the expense of possibly more favourable separate negotiation.

In the case of Chile, there is no real issue since it has opted for a unilateral policy without assuming contradictory commitments. Likewise, Mexico has been pursuing bilateral negotiations with at least nine different Latin American partners, which may well cause some administrative headaches but is not contrary to commitments (although NAFTA may be).

Most of the bilateral agreements to which Mercosur countries are party predate the Treaty of Asunción, and so far there has been no clash. In 1992, the four countries agreed that, once the common external tariff comes into force at the end of 1994, other ALADI countries will have to renegotiate the preferences with Mercosur as a group, and a framework agreement between Mercosur and the United States was reached in 1991 on a four-plus-one' basis.

In the case of the Andean Pact, however, the situation has already become critical. The Act of La Paz (November 1990) proclaims the creation of an Andean Common Market in 1995, including harmonization of instruments and economic policies connected with foreign trade'. Following serious difficulties in agreeing a common external tariff and the emergence of the Group of Three, the Act of Barahona (December 1991) then backtracks, referring in more general terms to Andean Commercial Integration through a Free Trade Zone and Common External Tariff. Moreover, the Presidents only agreed that the negotiation of tariff agreements

with other countries of the Latin American and the Caribbean should preferentially' be carried out at community level. Precisely how bilateral tariff agreements were to be compatible with a common external tariff has remained unclear!

Continued problems in agreeing a common tariff ended up in March 1992 with Venezuela and Colombia agreeing to apply a common tariff between themselves, with Peru and Bolivia continuing to apply their respective regimes and Ecuador insisting on incorporating the list of exceptions it wished. Political events in Peru led to a crisis in diplomatic relations, Peru's withdrawal of preferential treatment for the other member states, and then suspension of its participation in the customs union by this time apparently also for reasons of economic policy.

The result was thus a series of different bilateral arrangements between member countries, and a host of bilateral agreements between individual members and third countries (in the case of Central America, recently transformed into a joint agreement by Colombia and Venezuela). Agreements announced in March 1993 seem to confirm the reality of a customs union between Colombia and Venezuela with a transitional arrangement for Ecuador, while Bolivia's separate regime is to continue.

In the case of Central America, the problem derives from a mixture of unwillingness to accept constraints on external freedom and opposition to the political dimensions of the integration process, particularly on the part of Costa Rica. Guatemala, El Salvador and Honduras have therefore decided to press ahead with deeper integration between themselves within the sub-regional framework. *De facto*, the Central American Parliament is made up of representatives from these three countries only, with Nicaraguan observers. In May 1992 the three Presidents signed an agreement for a trilateral free-trade zone. Later in the year, they also proclaimed their intention to pursue the political as well as the economic union of Central America, meeting a flat rejection from Costa Rica and serious doubts in Nicaragua. Early this year, frustration with, in particular, Costa Rica's attitude towards joint negotiations with the members of the Group of Three, prompted the three Presidents to push further still. On 23 March, they announced the establishment of new measures even envisaging the elimination of border controls (although the details remain to be studied), while reaffirming their commitment to joint external negotiations. Nicaragua quickly expressed interest in joining. Costa Rica's reaction remains to be seen.

There is near consensus that the old institutional and legal frameworks of Latin American integration cannot cope with the new situation. However, it is far from clear what will be developed instead at either regional or sub-regional level.

There has been a general tendency recently against anything resembling supranational' institutions, in large part reflecting a feeling that previous (and perhaps current) experiences show that no degree of institutional strength and formal powers (with fingers pointed most often at the very *communautaire* system of the Andean Pact) can overcome underlying problems, whereas free trade agreements do not need any such system.

It remains to be seen how the Andean Pact system will be adapted, and what will be adopted in the case of Mercosur.

The Treaty of Asunción was drawn up very quickly. It did not establish a definitive institutional system (or even a provisional system for dispute settlement) and is for the most part only an extension to the quadripartite arrangement of the existing bilateral agreement between Argentina and Brazil - the institutions of which indeed continued to function. There has thus far been almost no discussion of the definitive institutional system which must be agreed and installed by the end of 1994. The transitional institutional system is a classic intergovernmental arrangement consisting of a Common Market Council, as the superior

organ, consisting of the Ministers of External Relations and Economic Affairs, meeting as often as necessary, once a year also with the Presidents; a Common Market Group, as the executive body, made up of representatives of the Ministries of External Relations and of Economic Affairs (or equivalent) and the Central Bank, supported by technical working subgroups and a purely administrative secretariat; and a joint parliamentary commission. Decisions are by consensus.

There has been some questioning of whether the provisional system will be sufficiently strong to ensure implementation of a very ambitious programme in what is a very short transition period, in the face of the predictable pressures and resistances which are already manifesting themselves; and whether it sufficiently took into account the implications of including two much smaller and economically weaker countries in such a scheme.

To summarize the relevant conclusions of a recent study by Pedro Motta da Veiga (*A evolução do Mercosul no período de transição: hipóteses alternativas e cenários*, *Texto para Discussão No. 269, marco 1992, Instituto de Pesquisa Económica Aplicada, 1992*), the creation of community institutions and the gradual transference of sovereignty to these bodies would have been a significant contribution to reducing uncertainties for many different reasons. In the face of such important asymmetries as exist, even between Argentina and Brazil (in the very size of the economies, in macroeconomic conditions and policies, and in key microeconomic policies such as taxation systems, export incentives, production subsidies, tariff structures), there is a strong tension between a sustained political motivation and a fragile economic-empresarial dynamic' which creates both instability and a real threat of reversibility: institutionalization of Mercosur and community policies in the industrial, technological and foreign-trade spheres are considered by Veiga to be the most appropriate instruments for managing the asymmetries. At the same time he argues that the creation of entities with a community vision could help reduce the dangers of a reduction in commitment to Mercosur either from opposition in Argentina as a result of the costs and a consequent redirection of its foreign policy, or from increased indifference on the part of Brazil, given the relatively low perceived utility of Mercosur in supporting stabilization.

The two small countries, Uruguay and Paraguay were granted preferential treatment concerning the schedule for liberalization and exceptions, and their particular problems may be addressed in the framework of the sectoral agreements. However, the complete omission in the Treaty of Asunción of any provision for future cohesion' arrangements is considered by some in the region to jeopardize the eventual stability of the process. Moreover, the lack both of such provisions and of a legal system perceived to guarantee compliance with commitments by the big powers, will certainly affect negotiations regarding voting procedures.

In short, the only dimension which is fixed is the trade liberalization programme. Almost everything else has yet to be agreed - but without a strong, definitive legal-institutional system. There may indeed have to be a new constitutive treaty. The immediate challenge is simply to get there. At the moment there is some concern in the area regarding even this.

The liberalization programme has been duly implemented, although as of March 1993 there continued to be difficulties in reaching agreement on a common external tariff, while macroeconomic coordination seemed more distant than ever. The differences between Argentina and Brazil not only raised some questions as to the viability of the scheme if there is not greater compatibility (and stability in Brazil), but helped create a significant imbalance in trade between the two countries in Brazil's favour. This prompted the Argentine Government in October 1992 to raise its statistical levy' on imports from 3% to 10% in an effort to stem the flow of Brazilian products and thus create the first major dispute in the process. The dispute was not with Brazil, however, whose exporters have not found this an insuperable obstacle

(while the measure does not apply to Uruguay because of a bilateral agreement), but with Paraguay, the least developed of the member countries, which claimed to have suffered a 10% drop in exports as a result and talked of seriously considering withdrawal from Mercosur if the levy is not reduced. A solution was only found by applying provisions of the ALADI Treaty on the principle of non-reciprocal treatment for relatively less developed countries. It was thus agreed that Argentina would temporarily suspend the extra 7% on a list of over 40 Paraguayan products. At the same time, progress has been somewhat complicated in the last few months as a result of Brazil's political upheavals and changes in the administration. The question is essentially whether the political impetus will remain sufficiently strong to overcome such problems and maintain the dynamic despite the short-term difficulties.

By way of conclusion, the integration panorama in Latin America today is rich both in possibilities and uncertainties. Rather than speculate as to the possible course of events in the next few years and whether deadlines will be met, it may be more appropriate to emphasize the importance of developing capacities to manage what will inevitably be a difficult process characterized by change and uncertainty. Failure to meet self-imposed deadlines can have adverse effects for credibility. But, with so many stones on the road, racing may be dangerous - as the song says, *no hay que llegar primero, hay que saber llegar*' (you don't have to get there first, you have to know how to get there).