

Economic integration in Latin America: where we stand

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November 2009

Red de Investigaciones
Económicas del Mercosur-
REDMERCOSUR

Outline

- **A brief history**
- **The state of the game**
- **A changing external environment**
- **Endogenous constraints to deeper integration**
- **Argentina and Brazil: a closer look**
- **Conclusions**

A brief history

- **The “Grand Design”:** regional integration as development policy
 - Big ambitions, modest results (LAFTA, AG, CACM, CARIFTA)
 - Reasons: a) cross-country heterogeneity; b) external economic environment; c) tensions between local interests and collective needs (Villanueva & Fuentes, 1989)
- **Crisis and transition:**
 - Pragmatism and defensive responses
 - Scaling down ambitions (LAIA, Protocolo Modificatorio AC, bilateralism)
- **Regional integration as structural reform**
 - Economic integration and trade liberalization (Mercosur, North-South FTAs)

The state of the game

- **Since 1965 the vast majority (83%) of bilateral trade relations shows higher trade intensity indexes**
- **A large share of tariff items and exports are traded tariff-free, and an even higher share will be traded tariff-free by 2015**
- **Modest progress in NTMs and non-border issues**
- **New regionalism has led to a spaghetti bowl**
- **FTAs *versus* CUs: no longer a policy relevant debate**

The state of the game I

83% of LAIA bilateral trade relations have increased their trade intensity indices, 1965-2005

	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Venezuela
Argentina	-	11,63	29,70	2,72	6,87	0,89	14,08	6,70	5,53
Brazil	7,07	-	7,42	5,26	5,89	1,01	18,70	4,92	8,83
Chile	0,53	3,30	-	3,49	7,73	1,52	2,70	14,38	4,12
Colombia	-0,59	0,88	4,70	-	63,21	1,31	-0,84	26,86	48,71
Ecuador	-1,39	1,29	7,09	5,61	-	0,14	-0,46	70,97	5,93
Mexico	0,09	-0,29	-2,33	1,47	0,23	-	-0,06	0,51	1,99
Paraguay	-13,40	27,34	12,33	0,60	3,17	0,09	-	10,75	Na
Peru	-2,79	3,42	21,10	9,87	21,15	0,43	0,01	-	9,05
Venezuela	-1,07	-1,68	2,83	9,27	3,29	0,41	-0,02	1,93	-

Source: Author's calculations based on COMTRADE

$$I_{ij} = (X_{ij}/X_i)/(M_j/M_w - M_i)$$

The state of the game II

Share of tariff-free trade (% of tariff items and % of exports), 2010

% of items		Concessions offered by												
		Arg	Brazil	Par	Uru	Chile	Bol	Col	Ecuador	Peru	Ven			
% of exports														
Concessions received by	Arg		93 89,7	93 89,7	93 89,7	98 72	91 59	15 21	25 13	11 12	18 25			
	Brazil	93 80		93 80	93 80	98 88	91 69	40 31	26 19	10 7	25 21			
	Par	93 98	93 98		93 98	97 68	91 18	35 6	19 2	9 0	25 56			
	Uru	93 95	93 95	93 95		97 72	91 63	40 22	22 11	60 27	21 8			
	Chile	98 93	98 93	98 92	98 92		0 0	97 98	96 97	95 93	99 99,7			
	Bol	97 93	97 93	97 97	96 93	99,9 99		100 100	100 100	100 100	100 100			
	Col	27 64	45 76	15 33	23 59	97 97	100 100		100 100	100 100	100 100			
	Ecuador	27 89	40 94	15 61	12 68	96 46	100 100	100 100		100 100	100 100			
	Peru	24 87	36 92	15 21	66 59	95 89	100 100	100 100	100 100		100 100			
	Ven	25 88	41 93	16 77	12 74	99 100	100 100	100 100	100 100	100 100				

Source: LAIA

The state of the game III

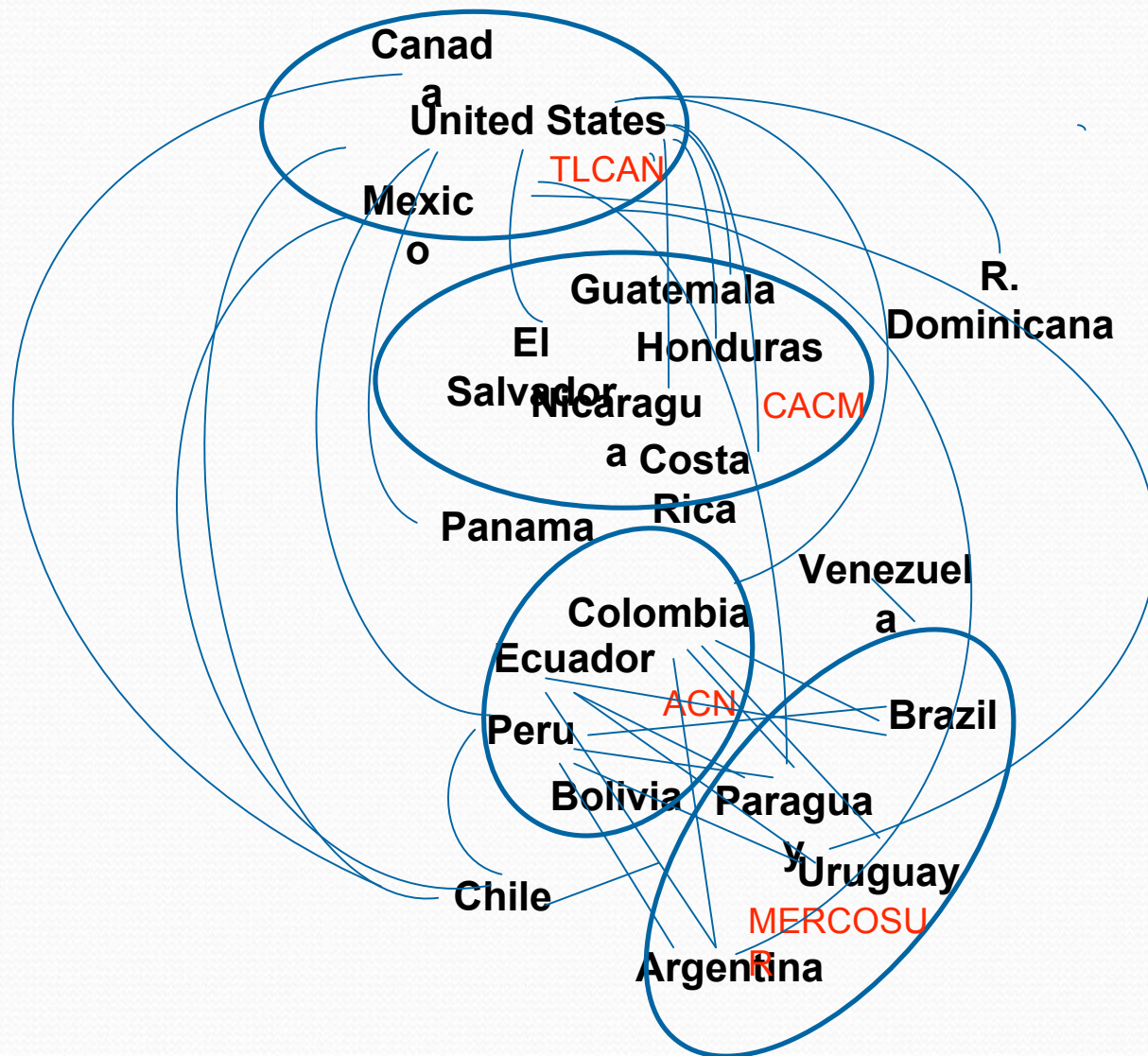
Share of tariff-free trade (% of tariff items and % of exports),
2014

% of items		Concessions offered by									
		Arg	Brazil	Par	Uru	Chile	Bol	Col	Ecuador	Peru	Ven
% of exports											
Concessions received by	Arg		93 90	93 90	93 90	99,95 96	99,9 100	96 88	94 85	96 79	90 89
	Brazil	93 80		93 80	93 80	99,95 99,8	99,9 100	84 81	95 84	96 78	92 85
	Par	93 98	93 98		93 98	99,95 98	99,9 100	97 94	94 80	99,8 99	97 99
	Uru	93 95	93 95	93 95		99,95 99,9	99,9 100	97 78	80 48	95 99	97 72
	Chile	99,95 100	99,95 100	99,95 100	99,95 100		0 0	100 100	96 97	99,9 100	100 100
	Bol	100 100	100 100	99,9 100	99,9 100	100 99		100 100	100 100	100 100	100 100
	Col	94 93	86 87	96 93	96 93	100 100	100 100		100 100	100 100	100 100
	Ecuador	94 98	95 98	89 96	80 95	96 46	100 100	100 100		100 100	100 100
	Peru	99,8 99,9	99,8 99,9	99,8 99,2	90 92	99,98 100	100 100	100 100	100 100		100 100
	Ven	92 99	94 99	97 99	97 99	100 100	100 100	100 100	100 100	100 100	

Source: LAIA

The state of the game IV

...but modest progress in NTMs and a spaghetti bowl



Plus:

- UNASUR
- ALBA
- PACIFIC ARC

...and the rest of the

The state of the game V

- **In the 1990s there was a strategic competition between “models” of trade discrimination**
- **But the FTAs *versus* CUs issue is no longer a policy relevant debate**
- **FTAs have become the dominant mode of discrimination**
- **Custom unions have not deepened. Indeed, they have disintegrated or are in the process of doing so**

A changing external environment

- **North-South PTAs (US-sponsored “competitive liberalization”)**
- **Ideological environment: end of “neo-liberal convergence” (both in emerging and developed economies)**
- **Emergence of China and the Pacific: a new natural resource boom**

Endogenous constraints to deeper integration

- **Constraints on the demand side: rising (trade) interdependence, but still low and asymmetric**
- **Constraints on the supply side (I): divergent interests and unsustainable trade-offs (heterogeneity)**
- **Constraints on the supply side (II): leadership gap (who supplies regional public goods?)**

Argentina and Brazil: a closer look I

Constraints on the demand side

Rising (trade) interdependence, but still low and asymmetric:

	1984-96	2005-07	Change
Argentina: exports to Brazil/Total exports	7,33	17,27	135,6%
Argentina: imports from Brazil/Total	16,27	34,14	109,8%
Brazil: exports to Argentina/Total exports	2,52	8,63	242,5%
Brazil: imports from Argentina/Total imports	4,00	8,65	116,3%

Source: Author's calculations based on BADACEL

A new fact: raising FDI by Brazilian firms

Argentina and Brazil: a closer look II

Constraints on the supply side I (heterogeneity)

- **Asymmetries have grown bigger (political economy)**
- **Brazil's more assertive offensive interests contrast with Argentina's predominantly "defensive" agenda**
- **"Paciencia estratégica" versus "compensation for the past"**
- **Strategic focus versus old style**

Argentina and Brazil: a closer look III

Constraints on the supply side II (leadership gap)

- **Brazil: “a leader without followers”?**
- **Brazil: Dragging or pulling?**
- **The private sector become the driver in agenda setting?**

Conclusions

- **Market integration healthier than institutions**
- **Institutions increasingly politicized (an umbrella for heterogeneous interests)**
- **The private sector will bend the agenda towards non-border issues, but tougher to deal with and more conflictive**
- **The key to start to disentangle the spaghetti bowl is a few blocks away**



Thank you!