

Woodrow Wilson International Center for Scholars

Latin America Program




**REGIONAL INTEGRATION IN
THE AMERICAS AND THE
ECONOMIC CRISIS:**

Policymakers and experts perspectives

Luz María de la Mora
LmmConsulting
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Questions

-  What have been the effects of the current economic and financial crises on Latin America?
-  How far has Latin America gone in regional integration?
-  Can regional integration help overcome this crisis?



What have been the effects of the current economic and financial crises on Latin America?



Latin America vis-à-vis the crisis

- Crisis: negative outlook BUT not catastrophic
- Resilience
- Learned from the past: solid macroeconomic fundamentals
- Nothing like 1980s or 1990s: no debt, banking or financial crisis



Economic and Financial Crises Effects

- **LAC GDP: -2.5%** in 2009
- **FDI: -33%**
- **Remittances: -11%**.
- **International commodity prices: -30%** average decline.
- **International trade contraction: -13%**
 - LAC exports: -13% (worse in 72 years)
 - LAC imports: -14% (worse in 27 years)
- **Tourism - revenue decline**
- Increased **unemployment** and informality
- Firms out of **business - SMEs**



LAC RESILIENCE: INTERNAL FACTORS

**2003-2007 best economic performance in 3 decades:
4.5% annual average growth**

Fiscal discipline and sound macroeconomic management allowed:

- Current account surplus;
- Flexible exchange rates;
- External debt reduction and improved debt profile
- Increased foreign exchange reserves.
- Sound financial and banking systems

GOVERNMENTS ADOPTED ANTICYCLICAL POLICIES



LAC RESILIENCE: EXTERNAL FACTORS

 High commodity prices

 Increased remittances

 Favorable conditions of external financing

Countries such as Chile, Brazil, Peru, Colombia and Uruguay were well prepared to overcome the effects of the crisis.



Against this backdrop of:

- International financial crisis
- Recession in developed economies
- Slowdown of world economic growth
- Slowdown of international trade
- WTO Doha Round stagnation
- Lack of international liquidity/credits

IS REGIONAL INTEGRATION AN ALTERNATIVE?



II. How far has Latin America gone in regional integration?



Regional Integration Mechanisms

Economic Integration

- LAFTA/LAIA -1960/1980
- Central American Common Market/SICA - 1960
- Andean Community - 1969
- CARICOM – 1973
- MERCOSUR -1991
- FTAA – 1994-2005

Political/Social Integration

- ALBA – 2004

After 50 years, LAC regional integration = 23%

LAC exports to the world, 2008 – US\$872 bn

LAC intraregion exports, 2008 - US\$203bn



Shallow regional integration?

1. No common integration project – lack of common view
2. No leadership – Brazil/Mexico?
3. Bilateral conflicts

- Regional integration – has evolved with *ad hoc* and weak mechanisms
- Institutional design of regional mechanisms preserve protection - limited in scope

Avoid the protectionist trap



Alternative integration routes

1. **Bilateral:** FTAs continue. An alternative but not regional integration

2. **Subregional:**

- Mexico-CAM: Convergence of FTAs (rules of origin). First attempt in 1991.
- ARCO – 11 countries in LAC. No negotiating mandate.

3. **Extraregional:**

- APEC
- Bilateral FTAs with Asian countries
- EU – Colombia and Peru/ MS



Investment Integration in the region

- LAC FDI in the region has promoted productive integration
- FDI regulated by BITs (≈ 500).
- LAC FDI outflows - **US\$63 bn** (2008) compared to **US\$144bn** FDI inflows
- Main sources of FDI in LAC: Argentina, Brazil, Chile, Colombia, Mexico, Venezuela
- **Crisis** - LAC outward FDI flows expected to fall around **20%** in 2009 **but** FDI - alternative financial source for LAM



III. Can regional integration help overcome this crisis?



THE REGION HAS CHANGED: MORE ATTRACTIVE

Opportunities

- Macro fundamentals and stability
- Logistics/Infrastructure
- Solid banking system
- Crisis sparks real change
 - ❖ Common positions in international economic fora
 - ❖ Coordination to promote reforms in the international economic architecture
 - ❖ Collaboration for innovation

What's missing?

- Vision: see each other as PARTNERS
- Rethink integration: 50 years
- Leadership of Mexico and Brazil – political will
 - ❖ Mexico: -7% GDP (2008)
 - ❖ Brazil: -0.7% GDP (2008)
- Think seriously about ourselves.
- Financial options - liquidity is needed



Lack of financial liquidity and higher credit cost = less trade


Crisis reduced credit availability and increased its cost.

Alternatives

- Bank of the ALBA and Bank of the South– fund regional cooperation and integration programs
- IADB/CAF – increase and expedite credit availability
- LAIA – Reciprocal Settlements and Loans Agreement (use local currency)
- SICA – analyzes creating a CAM currency
- MS – use local currency for international trade operations (Argentina and Brazil)

Brazil and Mexico need to lead the regional integration effort

Indicator (2008)		Mexico	Brazil
GDP	US\$ million	1,080,483	1,575,835
	% Total in LAM	25.7%	37.5%
Population	Million inhabitants	107,677	195,138
	As % of total in LAM	18.9%	34.3%
Per capita GDP	In US\$	10,034	8,075
	Difference with respect to LAM average	35.5%	9.1%
Exports	US\$ million	291,343	197,942
	As % of total in LAM	33.2%	22.5%
Imports	US\$ million	308,603	173,107
	As % of total in LAM	37.0%	20.8%
Cumulative FDI	Mexico in Brazil (US\$ billion)	17	-
	Brazil in Mexico (US\$ billion)	-	1,086
Trade opening: Total trade/ GDP		55.5%	23.5%
Average tariff (without trade agreements)		8.4%	11.5%



Crisis: Opportunity to Reinvent Regional Integration

- Consider RI **seriously**
- Bring **credibility** back to the process.
- See each other as **markets** and **partners**
- **Comprehensive integration**: trade in goods and services, investment, telecom, government procurement, infrastructure development, trade facilitation and dispute settlement.
- **Leadership**: Brazil and Mexico **MUST** be involved

REGIONAL INTEGRATION IS:

- No short term answer to this crisis
- Long term answer to:
 - ❖ Economic growth
 - ❖ Export diversification
 - ❖ Competitiveness