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 Garbini
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-Múñera, 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
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Latin American Trading Blocs: between reality and utopia

Gian Luca Gardini
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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)

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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.

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**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-García, 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**

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Since the NAFTA came into effect in 1994, the US has negotiated and signed Regional and Bilateral Trade Agreements (RBTA) 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 RBTA 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 RBTAs 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 RBTAs 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 RBTAs, 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 RBTAs 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 RBTAs 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 RBTAs 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**

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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