

Economic integration in Latin America: where do we go?

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Outline

- A historical overview
- State of the game
- A changing external environment
- Endogenous constraints to deeper integration
- Argentina and Brazil: a closer look
- Conclusions

A historical overview

- **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)

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 NTBs and non-border issues**
- **New regionalism has led to a spaghetti bowl**
- **FTAs *versus* CUs: no longer a policy relevant debate**

State of the game I

83% of LAIA bilateral trade relations have increased their trade intensity indexes, 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

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

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

Source: LAIA

State of the game III

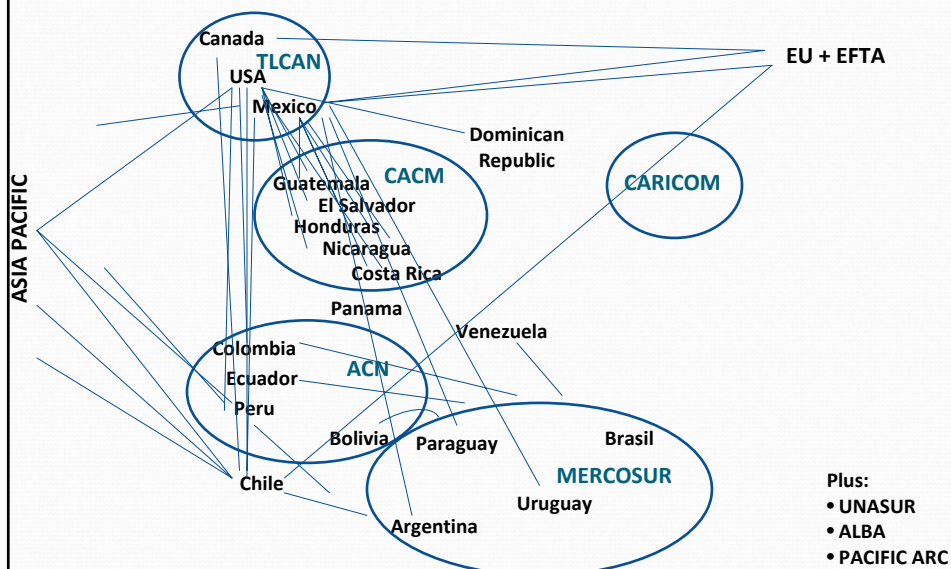
Share of tariff-free trade (% of tariff items and % of exports), 2014

% of items		Concessions offered by										
		Arg	Brazil	Par	Uru	Chile	Bol	Col	Ecuador	Peru	Ven	
Concessions received by	Arg		93	93	93	99,95	99,9	96	94	96	90	
	Brazil	93		93	93	99,95	99,9	84	95	96	92	
	Par	93	93		93	99,95	99,9	97	94	99,8	97	
	Uru	93	93	93		99,95	99,9	97	80	95	97	
	Chile	99,95	99,95	99,95	99,95		0	100	96	99,9	100	
	Bol	100	100	99,9	99,9	100		100	100	100	100	
	Col	94	86	96	96	100	100		100	100	100	
	Ecuador	94	95	89	80	96	100	100		100	100	
	Peru	99,8	99,8	99,8	90	99,98	100	100	100		100	
	Ven	92	94	97	97	100	100	100	100	100		

Source: LAIA

State of the game IV

The spaghetti bowl



A changing external environment

- **North-South PTAs (US-led “competitive liberalization”)**
- **A new ideological environment: the end of the “neo-liberal convergence”**
- **The emergence of China and the Pacific: a new natural resource boom**

Endogenous constraints to deeper integration

- **Constraints on the demand side: low and asymmetric interdependence**
- **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, but still low and asymmetric interdependence (trade):

	1984-96	2005-07	Change
Argentina: exports to Brazil/Total exports	7,33	17,27	135,6%
Argentina: imports from Brazil/Total imports	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)

- Economic asymmetries have grown bigger
- Brazil's more assertive offensive interests contrast with Argentina's predominantly "defensive" agenda
- "Paciencia estratégica" *versus* "tolerance for the past"
- Strategic focus *versus* old-style reindustrialization

Argentina and Brazil: a closer look III

Constraints on the supply side II (leadership gap)

- **Brazil: “a leader without followers”?**
- **Brazil: Dragging or pulling?**
- **Will the private sector become the driver?**

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**
- **The key to start to disentangle the spaghetti bowl is a few blocks away**



Thank you!