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Regional integration in Latin America: the strategy of "convergence in diversity" and the relations between Mercosur and the Pacific Alliance.

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## **Abstract**

Convergence and confrontation are two different strategic options that have been evoked with respect to the relation between Mercosur and the Pacific Alliance. Choosing one or the other transcends the level of the economic and the commercial and deeply affects the political. Their impact is closely related with regional governance and the achievement of a climate of harmony functional to democracy and to the economic and social development of member countries.

The idea of convergence in diversity has been proposed as central to the development of a strategy for joint work among the member countries of both integration processes. The different agreements and measures eventually adopted by member countries of both schemes could contribute to the goal of achieving a reasonable degree of regional governance. Showing that this is possible might be a worthy goal to nourish the agenda of cooperation between all Latin American countries. Its effects would then transcend the regional scope.

## **From the founding moments to a sustainable integration process**

Reconciling different and even conflicting interests and views among nations of the same geographic region has never been an easy task. However, it is a necessary condition to develop sustainable strategies and policies for regional economic integration, including joint trade negotiations with third nations, particularly if they are embodied in agreements and institutions intended to be permanent.

In a way, the foundation is the easy stage of an integration process among nations of the same region. For example, in the case of Mercosur -and this could eventually be the case of the Pacific Alliance- the hardest part was not necessarily signing the founding agreement in 1991. The initial moment requires, of course, strategic vision and political skill; but it also requires luck. Many initiatives succumb or lose vitality in this first stage which, however, can last several years.

Calling the attention at the international level is a common occurrence in the founding moments of the integration processes between nations and, as a result, it generates great expectations. For example, it happened in 1969 with the signing of the Agreement of Cartagena, which was the result of a very strong involvement of the then presidents of Chile and Colombia. In its initial stage and for some years the so-called Andean Group managed to concentrate much international attention, especially when it adopted, in December 1970, its foreign investment regime known as Decision N° 24.

The high expectations that are normally generated by the launch of and international integration agreement between Latin American countries have usually led to frustrations, sometimes very

difficult to overcome. Something like this happened over fifty years ago with the launch of the Latin American Free Trade Association (LAFTA), then replaced in 1980 by the Latin American Integration Association (LAIA). Different regional integration experiences -and not only in Latin America- have taught us the difficulty of sustaining in the long run the reciprocity of interests that support the associative pact. Sooner or later what could be called the 'curve of disenchantment' starts to show, often caused by the fact that not all participating countries continue to view the corresponding agreement as a generator of mutual gains. At this point is where the loss of effectiveness, efficiency and legitimacy of the rules originating in the founding agreement begins, often through a trickle effect (Peña 2014a).

Particularly, changes in the realities at regional level -sometimes as a result of changes at the global level or even at the national level of member countries- mean a test for the effectiveness of the mechanisms for the conciliation of national interests among the members of an integration process. This may also have an impact on the effectiveness of the common rules that are agreed. An example of this is what happened in the evolution of the Andean Group and its main joint body - the Board of the Cartagena Agreement-, which lost efficacy and even legitimacy after a founding period with a favorable external context and affinity of values and interests between the member countries. Then, the decline began with the withdrawal of Chile and after the transformation into the Andean Community of Nations (CAN); the original enthusiasm was gradually eroded.

The situation may be more complicated when a founding moment characterized by the affinity of values and interests -a situation of like-minded countries- is later followed by periods of significant differences between the partners, even if temporary. It also becomes more difficult when no effective mechanism for the conciliation of interests is established to help achieve a dynamic balance between the different national interests, when these do not necessarily converge. In this regard, the role of the 'independent facilitator' in the decision-making process is critical and provides a guarantee for those participating countries with a smaller endowment of relative power. The relatively short history of Mercosur shows, at different moments, interesting examples of this. It is even possible to formulate the hypothesis that the absence or weakness of effective mechanisms to facilitate the coordination of national interests has been one of the reasons that would explain the recurring difficulties that Mercosur has had, and still has, to adapt to the effects of the dynamics of internal and contextual changes that have characterized the relations between its member countries -Argentina and Brazil in particular- since the integration process was launched.

### **Factors that could contribute to a sustainable integration process**

Which are then some of the factors that could help sustain over time the political will of a group of sovereign nations to work together within the scope of an integration process intended to be permanent? Without the concurrence of these factors it seems difficult for a voluntary process of integration -in the sense of systematic joint work between sovereign nations- to be sustainable in the long run.

From the different Latin American experiences it seems that three factors should be considered carefully.

The first one is the ability to adapt the original integration project to the frequent changes in the political and economic conditions of the member countries, but also in the external environment, both regional and global.

Another factor is the density and quality of the economic and, above all, production networks that are

developed as a result of the commitments made in the framework of the integration process.

And a third factor, strongly linked to the previous one, is the quality of the ground rules as measured by their effectiveness (ability to penetrate reality), their efficacy (ability to produce the results that originated them) and their social legitimacy (ability to take into account, through the process of rule-making, the social interests of all member countries, reflecting thus a dynamic picture of perception of mutual gains).

There are at least three relevant aspects that could be important to facilitate the practice of the difficult art of achieving sustainable equilibrium points in any institutional agreement among nations of a same geographic region, especially if they aspire to develop a permanent multidimensional cooperation process with strong emphasis on trade and productive integration, such as is the case of Mercosur and now of the Pacific Alliance.

The first aspect is the articulation between the strategies for development and international integration of a country with the requirements of the corresponding regional or multilateral agreement. Among many others, an example in this regard are the trade policies that are needed to be applied in view of the combination of offensive and defensive interests of the firms and social sectors of a country and the legal commitments relating, in particular, to the access to the respective domestic market and trade protection. In times of global economic crisis with a relative decline of international trade flows, the natural tendency of every country could be to protect the jobs of its population. Often this is done covertly and with such legal subtlety that it becomes difficult for those eventually affected by the policy of one of the partners to prove that the agreed rules have been violated. Other times, violations are done overtly and this affects the international credibility of the country applying the measures contrary to the agreement, and could eventually have a negative impact on the effectiveness of the integration process.

The second relevant aspect is the articulation between the different preferential agreements in which countries can participate, including the commitments made at the global-multilateral level. In fact, it is increasingly common for a country to participate simultaneously, or to aspire to do so, in different regional and preferential trade agreements concluded, at least formally, within the multilateral framework of the WTO. This may eventually trigger the need to achieve equilibrium points between the commitments made in the different agreements and the respective national interests. Achieving such balance also depends on what are the concessions and the rules agreed upon in each of the agreements. In particular, it depends on the actual goals and the political and strategic scope of each concrete regional preferential agreement.

Finally, the third aspect is the articulation between the requirements of the short and the long term, both in the national strategies and in the international commitments taken on by a country. What can be observed on this respect, at least in recent years, is an effect of growing erosion of the distinction between short and long term interests resulting, among other factors, from the close link between trade and productive investment, which is reflected in the new forms of organizing production at multinational level. In fact, the fragmentation of production in different modalities of transnational value chains is generating a great difficulty to distinguish between the short and long term effects when a country applies restrictive trade policies. Depending on how they are applied, even when theoretically such measures would impact only short term trade flows, they may also have a strong effect on investment decisions in the corresponding country as a result of the appraisal that is made on the convenience of operating from its market within the context of a transnational value chain. The uncertainty regarding trade flows can then affect productive investment decisions that, while aimed

for the long-term, also have a bearing on the short-term. In the automotive industry, for example, it can lead investors to prefer those countries within a region that, together with market size and level of industrial development, provide assurance of the fluidity of cross-border trade flows.

### **The relationship between Mercosur and the Pacific Alliance**

An issue to monitor closely is that of the relationships that are built between the two main Latin American preferential spaces: the Pacific Alliance and Mercosur (Foxley & Meller 2014). It is a matter of economic interest but also of strong geopolitical connotations. It should be noted that the relations of several countries of the Pacific Alliance with Mercosur countries, and particularly with Argentina and Brazil, are very close at all levels and transcend trade.

Hence, the importance of raising the question of whether these two regional preferential spaces will complement each other or if, on the contrary, conflicting views will prevail. It is a question that could take time to find an answer that is based on solid arguments and not only ideological or emotional ones. Among other reasons, time could be necessary in order to have a clearer picture of which are the effective commitments that are eventually manifested in the space of the Pacific Alliance and to appreciate the true scope of the present 'metamorphosis' of Mercosur, resulting especially from changes in its membership, the convenience of capitalizing on the experience gained since its creation, and its recommendable adaptation to national, regional and global realities different from those of the time of its creation (Boletín Techint 2014).

Until now, the Pacific Alliance could be the equivalent of a house to be built. The willingness to do so exists and the plans are being approved. But the actual construction will take time, which in turn may be impacted by the dynamics of change of the external environment. Mercosur is also the equivalent of a house under construction -the current experience of the EU shows that this is a constant reality of voluntary integration processes among sovereign nations (Friedmann 2015; Van Middelaar 2013)- but it already needs to be expanded and adjusted to the new realities of its owners and the environment in which they live.

Both constructions are developed within the broader institutional frameworks that exist in the region. All of them aim to ensure regional governance, in terms of peace and political stability, and not just in the economic aspect. These are, in particular, the frameworks of the LAIA and the UNASUR -and to some extent also that of the CELAC-. Additionally, there are also regional institutions such as the ECLAC and the CAF-Development Bank of Latin America that can play a very useful role in facilitating the articulation between both integration processes (Peña 2014b).

How to get both processes to complement each other, generating a convergence of development and trade policies and also achieving a growing number of transnational production networks? This is perhaps the central question on which to base the future articulation between Mercosur and the Pacific Alliance from now on, while maximizing the installed capacity within the scope of the regional institutions mentioned above.

### **The strategic idea of convergence in diversity**

In the above perspective, one can reflect on the latest initiative that has been raised in terms of Latin American regional integration (Peña 2014b). It comes at a time when the multilateral trading system is still unable to offer interesting negotiating perspectives, beyond the efforts at the WTO Ministerial Conference in Bali and, most recently, the launch of the negotiating process aimed at concluding a

plurilateral agreement on environmental assets.

But even if the outlook of such perspectives became more optimistic, the initiative that has arisen within the scope of the Pacific Alliance is opportune, as it can lead to a renewal of the methods for the enhancement of the regional space in terms of the productive development of each country and of their insertion in global economic competition.

This initiative was proposed on June 20, 2014, in Punta Mita, Mexico, where the Ninth Summit of the Pacific Alliance (Chile, Colombia, Peru and Mexico) took place (Peña 2014c). Among other things, it was agreed "to hold an informative ministerial meeting on the Pacific Alliance with countries members of Mercosur." Moreover, "with the same informative spirit", the Presidents agreed to "conduct a seminar of academics, businessmen, entrepreneurs and senior officials of the Pacific Alliance, Mercosur and other countries of the region, including Central America and the Caribbean."

The initiative of Punta Mita opens a window of opportunity for the discussion of the strategic idea of "convergence in diversity", presented by the new government of Chile.

We must keep in mind that convergence and confrontation were, until Punta Mita, the two main alternatives evoked by the relation between Mercosur and the Pacific Alliance. It is clear that choosing one or the other transcends the economic and the commercial and deeply affects the political, as their impact is closely related with regional governance and the predominance of a climate of harmony functional to democracy and to the economic and social development of the member countries.

It is important to have accurate data on the reality of the relations between the countries of both regional spaces. Hence the relevance of the publication of the ECLAC report entitled "The Pacific Alliance and Mercosur. Towards convergence in diversity" (only in Spanish) (CEPAL 2014), which provides the necessary information for an approach based on the reality of the relations between Mercosur and the Pacific Alliance.

The report was specially prepared to be presented at the Seminar on "Dialogue on Regional Integration: Pacific Alliance and Mercosur", which was held on November 24, 2014 in Santiago de Chile (Peña 2014d), according to what was agreed in the Punta Mita Summit. The seminar was held with the presence of the public and journalism. It was opened by the President of Chile. In her opening remarks she urged for dialogue and to "dream out loud". The initial presentation was made by the Chancellor of Chile. He suggested the main outlines for the strategic idea of convergence in diversity and the objectives of the dialogue that was to take place at the Seminar. In this regard, it should be noted that the Ministers of Foreign Affairs of the member countries of both schemes had had a working meeting two weeks earlier, in Cartagena de Indias, Colombia, in which the central theme of the seminar was addressed.

The abovementioned ECLAC report helps verify the density of the network of agreements and existing relations between the countries from the Alliance and Mercosur. It is a network that has intensified in recent decades, especially in some of its connections, such as those in the bilateral trade between Chile, Peru and Colombia, on the one hand, and Brazil and Argentina, on the other. For example, the partial agreements signed between these countries, within the framework of the LAIA, and the relations between Mercosur and the Andean Community of Nations, have already produced a complete tariff reduction between Chile and Mercosur countries (100%). The percentages are also high in the cases of Peru (88%) and Colombia (90%). Another relevant fact is that in 2013 intra-

Mercosur trade represented 14% of the global trade of its member countries, while intra-Alliance trade represented only 3.5%. In the first case, the percentages are much more significant if one considers the trade of manufactures. In turn, exports of the countries of the Alliance to Mercosur are higher than intra-Alliance (in 2013, intra-Alliance exports were US\$19,500 million whereas those destined to Mercosur totaled US\$23,700 million). Chile, Colombia and Mexico exported more to Mercosur than to the Alliance countries. Additionally, data on the trade of services and investments - even if incomplete- reveals the intensity of the relations between the Pacific Alliance and Mercosur countries, especially with Argentina and Brazil.

As a result of the rich dialogue generated at the Seminar of Santiago de Chile it became clear that participants value the idea of "convergence in diversity". They view it as the most appropriate strategy in the current global economic and political context and as a reflection of how much has been gained in the relations between its member countries after more than fifty years of regional integration efforts.

As was pointed out from the beginning of the Seminar, first by President Bachelet and later by Chancellor Muñoz, convergence does not imply unifying the two integration schemes nor engaging in tariff negotiations (without prejudice to strengthening the existing ones within the scope of the LAIA). It does imply, however, recognizing and respecting the differences between the objectives and the methods of both schemes, and even between the trade and development strategies and policies of its member countries.

Various issues were identified as deserving priority action. These were mentioned by several participants of the Dialogue of Santiago and also in the ECLAC report. Among others, the main ones were: physical connectivity; trade facilitation; production linkages and SME participation in them; student exchanges, including reciprocal internships between companies; the development of tourism; diagnostic capabilities on global economic competition; innovation and scientific and technological development, and monitoring and participation in international trade negotiations, both at the global multilateral level and at the interregional level.

With regard to the relations with other regions, the need to coordinate positions on events of importance for Latin America (for example with China and the EU) was pointed out. In some of these cases the Community of Latin American and Caribbean States (CELAC) has a central role in coordinating the positions of the countries of the region. The coordination of positions in relation to meetings of the G20 and the Conference on Climate Change (COP21), to be held in Paris in December of 2015, was also mentioned.

In our opinion, the meeting left positive results. The first of these was to place Mercosur and the Pacific Alliance, each with its own objectives and methodologies, in the broader context of the strong challenges that are emerging at the global level and of the opportunities that are opening up for a region that counts, as one of its main assets, the fact that it belongs both to the Pacific and to the Atlantic and that has a significant potential for developing products and services linked with agribusiness, energy and mining, among others (Lula & Lagos 2014). The second result was to identify those issues and sectors where it is feasible to have shared approaches between all or some of the countries of both schemes. And the third result was to show that the dialogue and the exchange of views with the participation of representatives from governments, production and labor sectors and the academia, is the most recommended way to expand the agenda for the construction of a region in which convergence in diversity predominates.

## Some conclusions

Perhaps the main challenge that was posed as a result of the Santiago de Chile Seminar is to devise and recognize the need to develop short agendas and road maps for the priority areas of future joint action between the members of the different integration schemes. It is a challenge that involves governments but also business, labor and academic institutions.

On that occasion it was also confirmed that the existing institutional framework of the region opens a wide range of possibilities in terms of the areas through which to harness the momentum and pursue the development of those joint actions identified, as well as of those that are favored in the future.

If inserted in common institutional and regulatory frameworks, such as the LAIA at the regional Latin American level, or a renewed and strengthened WTO at the global multilateral level, this would neutralize the systemic fragmentation trends observed today.

It is an idea that may be central so that the agreements that are being negotiated contribute to the goal of achieving reasonable guidelines for regional and global governance. It involves reconciling the partial scope approaches with a joint vision that is essential for promoting world trade in a favorable context for peace and political stability and, at the same time, for the economic and social development of all countries.

Showing that this is possible might be a worthy goal to nourish the agenda of cooperation between Latin American countries. Its effects would then transcend the regional scope. It will require, however, a good dose of perseverance, technical imagination and political will.

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