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# Regional integration in Latin America: historical developments, current challenges, especially in Mercosur

## Integração Regional na América Latina: desenvolvimentos históricos, desafios atuais, especialmente no Mercosul

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### Abstract

Historical essay dealing with the regional processes of economic integration in Latin America, following the main phases of attraction and repulsion in those experiments; main challenges for the accomplishments of that integration have been industrialization efforts by countries, characterized by protectionist trade and industrial policies, defense of national sovereignty, and also rules presiding the multilateral trade system during the initial phase of Gatt; reforms in that system, allowing for some flexibility in the reciprocity clauses, started a new phase in that process, opening the way for a sub-regional approach in the integration agreements; Brazil and Argentina decided to create Mercosur, with a customs union framework to arrive at a common market objective; despite some progresses, the project is still unfinished.

### Resumo

Ensaio histórico sobre os processos de integração regional na América Latina, segundo as diferentes fases de atração e bloqueio nos experimentos; principais desafios ao cumprimento dos objetivos integracionistas foram os processos de industrialização substitutiva nos países da região, marcados pelo protecionismo comercial e dirigismo industrial, a defesa da soberania nacional, além das regras do sistema multilateral de comércio na fase inicial do Gatt; reformas nesse sistema permitindo alguma flexibilização nas cláusulas de reciprocidade deram a partida a uma nova fase no processo, mas caracterizada pela sub-regionalização dos acordos de integração; o Brasil e a Argentina decidiram criar o Mercosul segundo um modelo de união aduaneira, mas tendo como objetivo um mercado comum; a despeito de algumas realizações, o projeto permanece inacabado.

**Keywords:** Latin America; Mercosur; regional integration; trade; world economy.

**Palavras-chave:** América Latina; Mercosul; integração regional; comércio; economia mundial.

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## Historical context of previous attempts at integration

Regional integration in Latin America has a long history dating back the wars for independence in the 19<sup>th</sup> century. Notwithstanding, there is no need, for our purposes, to go back to the autonomist struggles of Simon Bolivar and other political and military leaders at the beginning of the 19<sup>th</sup> century, and to their premature attempts to forge an alliance between the many former Spanish colonies being liberated, because those efforts were most of a political nature and did not result in any institutional innovation at that time. The so-called “Amphictyonic Congress” of Panama (1826), and the various “inter-American” conferences held afterwards in some countries of the region, had very limited accomplishments, including because they were trying either to respond to external challenges – Holy Alliance attempts to “recolonize” their rebel offshoots, or the Monroe declaration, an unilateral American proclamation for the refusal of European interference in Hemispheric affairs – or settle differences among themselves, regarding State boundaries or international private law. By the end of that century, the United States even endeavored to unite the Latin American countries under a set of economic agreements that were perceived by them as favoring excessively the already gigantic economy of the northern neighbor, and refused to be bound by those economic arrangements. Nevertheless, a Bureau for Commercial Affairs was established in Washington in 1895, which served as a basis for the creation of a Pan-American Union in the 1920s, and was the trampoline for its transformation in the Organization of the American States (OAS), in 1948.

All those exercises were much more of a political than of an economic nature, which has to be the true pillar of any attempt at integration, starting by a gradual process of trade liberalization, going towards a progressive reciprocal economic opening and arriving at a common economic space that can even adopt a common currency and other legal dispositions touching social, political, defense and foreign policy issues, that are exemplified nowadays by the highly successful, none the less problematic, European experiment of political integration under the European Union. Without arriving at a similar result, Brazil and Argentina strive for something ambitious during the somber hours of the Second World War, having signed a customs union agreement in November 1941, open to neighboring countries, though which was rendered innocuous by the involvement of the Hemisphere in the war, after Pearl Harbor, and the differing postures assumed by Brazil and Argentina afterwards.

## Contemporary Latin America integration efforts: fragmentation?

Latin America has of course a very different story than that of European region, both at economic experiments pointing to regional integration, and on the side of political efforts for the coordination of sectorial policies among the various countries of the region, which are represented, in our days, by Andean Community, Mercosur, Pacific Alliance, Unasur, Celac and some other institutions at a sub-regional level. A lot has been achieved since the post II World War to bridge the geographical distances and different cultures within the region and bring our countries closer together. Yet much

still remains to be done. Let us summarize this evolving process, which was conducted according to the multilateral rules of the international trade systems, started under the GATT (1948), and continued in the framework of WTO (1995).

As the integration process in Europe started its long journey towards political union in the Fifties, some countries in South America started to think about their integration: combining Keynesian prescriptions for macroeconomic policies with recommendations for guided industrialization à la List, South American countries formulated the first integration schemes with an eye to the European progresses arising from the Treaty of Rome of 1957. After the six original member countries of the European Common Market signed the Rome treaties (1957), establishing a more comprehensive process of economic union than the former (1947) Benelux customs union or the coal and steel community created by the Paris treaty (1951), some South American also started negotiations under the banner of ECLAC (the United Nations Economic Commission for Latin America) for a similar move towards some kind of economic union. In 1950's, Brazil argued that greater continental solidarity and unity would be a consequence of overcoming poverty and destitution in the region: president Juscelino Kubitschek proposal for a kind of Marshall Plan for Latin America in 1958 resulted in the creation of the Inter-American Development Bank, in 1960, and, in the next year, in the American sponsored Alliance for Progress, under president Kennedy.

The integration drive of Latin American countries, though, was limited to the very shallow experience of the Latin American Free Trade Association (ALALC - Montevideo Treaty of 1960), which never delivered its promises for general trade liberalization among its South American members and Mexico. Frustrated by those limitations of this free trade model of integration, some Andean countries decided nine years later to establish a full-fledged European style of integration among themselves: the Andean Pact (1969), which promised not only a common market, but also a supranational mechanism for coordination (the Junta, in Lima), sectorial policies binding member countries under a whole set of common rules (for investments, for example) and a true Tribunal (in Bogota), emulating the Luxembourg court. Unnecessary to say that none of those reached completion, despite quite a lot of institutional building up and political coordination efforts. It is important to remark that the wave of military coups and authoritarian and nationalistic regimes of the Sixties and Seventies was not conducive to a solid degree of true liberalization and reciprocal opening, as each country pursued national programs of development, based in market reservations and "policy spaces" for their own industrial consolidation. For instance, Chile, after the 1973 Pinochet military coup, decide to leave the Andean Pact, and some years later started its own path towards integration into the world economic, opening its economy unilaterally and deciding to negotiate successive free trade agreements with like minded countries.

At the beginning of the Eighties, a new wave of democratization touched Latin America, with the return to civilian and elected regimes, particularly in Argentina (1983) and Brazil (1985), which signaled a new emphasis on economic integration. But the European model of a common market was too much ambitious for Latin American countries, which were in a de facto preferential trade area, with the signing, a few years earlier, of the second Montevideo Treaty (1980), performing a

flexible bilateral trade network among the members of the Latin American Integration Association (ALADI). The change from ALALC to ALADI was permitted by a decision under the Tokyo Round of multilateral trade negotiations (1979), which enabled developing contracting parties of the GATT system to exchange more limited trade liberalization than previously disciplined by Article 24 of GATT, which settled the rules for exceptions to the most-favored-nation clause, under the free trade or custom union formats. The resurgence of regional cooperation within the democratization process of the 1980s paved the way for a new generation of economic agreements, the so-called open regionalism promoted by ECLAC, which during the 1990s expressed greater social and political awareness.

Notwithstanding those regional initiatives, the different levels of political and economic development, and also differing characteristics of the industrialization process and related trade policies, from the mid-1980s onwards, were responsible for a new wave of sub-regional arrangements in South America, in the Caribbean and Central America, and especially in North America, with Mexico inclining towards the two big countries of the Northern Hemisphere, a process which resulted in the creation of the NAFTA, in 1994, the North American Free Trade Agreement. Towards the 2000s, centrifugal forces were at play in the region, and the trend was pointing to new factors of fragmentation and dispersion: some blocs stayed united (as in the case of Mercosur), others remained fragile (such as the Andean Community), and individual countries or even entire sub-regions (Central America, Caribbean) looked for new opportunities together with dominant partners (United States, EU, China). Let's look at this.

## Mercosur enters the scenario: high expectations, some accomplishments

Following the Single Act (1986) in the European Economic Community, and free trade negotiations between United States and Canada, at the same time, Argentina and Brazil decided to start a common economic program, also in 1986, followed, two years later, by the signing of more ambitious agreement, establishing a full common market within a ten- year period. At the beginning, the process was not exactly modeled after the free trade scheme of the two previous schemes, but structured around sectorial agreements, according to the managed trade vision and the State interventionist practice of the two countries, in line with traditional developmentalist policies prescribed by the old masters of the ECLAC since late 1940s and the 1950s, among them Raul Prebisch (the first Central banker in Argentina, in the 1930s, after Director of ECLAC, 1948-1964, then chosen as the first Director of UNCTAD, in Geneva).

The two Southern Cone countries signed a complete Integration Treaty (1988), based on an approach made by the sectorial protocols for progressive integration that were agreed for two dozen different branches of their economies starting in 1986. Notwithstanding, they preferred a 'Benelux-like' institutional format, made of intergovernmental schemes, instead of supranational structures such as those existing in the European model of integration. Shortly afterwards, under new, more liberal, governments in the two countries, Brazil and Argentina adopted a free-trade area model for

the speeding-up of the integration process: the time-frame approved in 1988 for the common market (ten years, up to 1998) was reduced to half by the Buenos Aires Act (July 1990), which also altered the gradual liberalization process for an automatic tariff elimination point to a free-trade area in four years, as the first stage towards a common market by 1995.

It is important to call attention for the new Brazil's Constitution of 1988, which in its Article 4 commanded Brazil "to seek the economic, political, social and cultural integration of the peoples of Latin-America, viewing the formation of a Latin-American community of nations" as not only a matter of policy, but also, and foremost, as a new constitutional prescription. A very important move, adopted at that stage, and the one that defined the start of the European cooperation with Mercosur, was the decision to enlarge the process, with the acceptance of Paraguay and Uruguay into the, up to then, bilateral process. The negotiations started in 1990 upon demands from Chile and Uruguay, and developed for some months until they agreed to a new agreement, the Asuncion treaty (March 26, 1991), rendering a quadrilateral what was, up to then, a bilateral decision to create a common market until 1995 (a very optimistic decision).

It is also necessary to register that, despite being part of negotiations with the other Southern Cone countries, Chile, in fact, did not adhere to the new integration scheme, because of its single tariff (adopted many years before, and already registered in the GATT), which clashed with the diversified tariff structure wanted by Brazil and Argentina. Paraguay, instead, decided to join after a military coup that ended a four decades-long dictatorship. So, with the Asunción Treaty, the integration process started in Mercosur: under its customs scheme, national tariffs of the member countries had to be replaced by a Common External Tariff, with a lower average than the preceding national lists (which was accomplished by the end of 1994). That was a reversion and a relief on a historically structural defensive behavior in the trade policies of the member countries (except Paraguay, that always had a very low protective barriers).

Despite a political approximation between European Union and Mercosur countries – a cooperation agreement signed from the start, pointing to a structured relationship in the process –, Asunción Treaty made no progress whatsoever towards a communitarian type of integration, modeled upon European institutions. The "Benelux scheme" – that is, an intergovernmental decision making process – was kept in place, even if a common market, to be inaugurated in January 1995, was always at the horizon. The Common External Tariff and a dispute settlement mechanism were agreed upon for the 'transitional' period (1991-94). Sectorial agreements (such as the automotive) kept being renewed each time, despite continuing promises of future free trade and complete liberalization (never accomplished, up to our days).

European Union cooperation, at that phase, limited itself to technical aspects of building a customs union. An inter-institutional cooperation agreement was signed, in 1992, between the European Commission and 'Mercosur institutions' with the objective of establishing the dialogue and technical cooperation between the two. At that stage, the Commission cooperated with the Administrative Secretariat of Mercosur in Montevideo, in the technical cooperation for the accomplishment of some studies focused on the tasks of the transition period.



Notwithstanding the formal agreements, and despite the strong support by the presidents themselves, the objectives established in the 1<sup>st</sup> article of the Asunción Treaty – common market, coordination of macroeconomic policies and so on – were not attained as expected. The four member countries truly advanced towards a free trade zone, but many exceptions were maintained, notably for sugar (restriction of Argentinian imports from Brazil) and automobiles (where a managed trade agreement was established between the two countries, leaving for an unforeseeable future for the free trade in the sector). Also, many national exceptions were substituted for the Common External Tariff, departing upwards or downwards from the official rate, and leaving ample margin for sectorial restrictions, intra and extra-bloc.

Despite those shortcomings of the transition phase, the four countries proceeded towards the establishment of the customs union, but without any substantive changes in the institutional architecture of Mercosur: the negotiation and signing of the Ouro Preto Protocol, in December 1994, confirmed Mercosur in the ‘Benelux model’. The same tools and mechanisms that were at work during the transition period were confirmed for the new stage of Mercosur, with the addition of a Trade Commission to the two main decision bodies of the bloc, Common Market Group (executives) and the Council of Ministers (the decision upper body). Chile and Bolivia (despite Bolivia’s membership of the Andean Community of Nations), not joining as full members, were accepted as Mercosur associates in 1996, taking part in the meetings, without voting powers.

From that moment onwards, Mercosur acquired its new status as an entity under international law, which allowed an upgrade in its relationship with European Union. After preparatory ministerial meetings all along 1995, the two integration schemes signed in Madrid, December 1995, a joint declaration solemnly establishing a framework agreement of inter-regional economic cooperation with the objective to pursue a political association and render possible trade liberalization among them. Negotiations started in 1999, at the same time that parallel discussion were taking place with all other Hemispheric countries – under the American project of a Free Trade of the Americas – and never reached, both processes, to any conclusion whatsoever. At that moment, the tide in international economy was turning again.

## New turbulent times, both for countries and trade blocs

The general trend of this phase can be described as such. Despite a favorable political situation among Mercosur member countries – except for political crises in Paraguay, provoking the establishment of a “democratic clause” as a new instrument in the bloc – the international environment, though, was not cooperative. The external shocks starting with Mexico’s insolvency, in December 1994, going through Asian financial crises, between 1997 and 1998, and culminating with Russia’s moratorium and a huge investment company (LTCM) crash in Wall Street, between July and August of this year, all those shocks impacted Mercosur countries very seriously, especially Brazil, which had accumulated huge imbalances in its current accounts. The next, and most dramatic stage was the deepening of

the crisis in Argentina, between 1999 and 2002, with direct impact in Mercosur's ability to sustain its pace.

The detailed scenario developed as follows. Since the inception of the customs union, in 1995, few substantive advances were accomplished in commercial integration, and perhaps more restrictions – both inwardly and outwards – were introduced than promises of trade liberalization were realized. The free trade zone among member countries works more or less on the same bases that were put in place during the 1991-1994 period and the customs union started in 1995 probably now covers fewer products than was the case at the beginning: there is no agreement among specialists, on how much of the imported items within Mercosur is traded under the official rates fixed in the Common External Tariffs, as the exceptions lists allowed to each member (at a variable number among them) keep changing by regular intervals.

After some years of liberalization policies and tariff reduction measures in trade, and already presented in GATT as a new “customs union” (at least in paper), Mercosur was confronted with a entire range of challenges, linked to the international financial crises of the second half of the 1990s, starting by Mexico (in 1994), followed by Brazil (in 1999), touching Argentina (in 2000 and 2001), and again Brazil (in 2001-2002), that were at the origin of some reversion in intra-regional trade flows, foreign investments, exchange volatility and fiscal imbalances. Total trade among its members declined to half of the high volumes attained just before the Brazilian currency crisis, in 1999, to be reversed only by the end of the first decade of the new millennium.

At the beginning of the 2000s, member countries refrained from adopting open protectionist policies only because there was a belief in, and a commitment to, the conclusion of the Doha Round of multilateral trade negotiations; there was also a certain sense of relief derived from various experiments in devaluation of national currencies, which assured, during some parte of the following decade, gains in the form of trade balance surpluses (not to mention the peaks in commodity prices, both agricultural and mineral, which was represented by the “Chinese bonanza years”). As soon as the WTO negotiations foundered, at the end of the 2000's, and the external competitiveness of Mercosur's products were slashed by a raise in domestic costs, the defensive posture of the political authorities and the protectionist instinct of the industrialists emerged again, as vibrant as in the old times of import substitution.

## Mercosur expands, somewhat erratically, in the region, but stays stalled

Peru became an associate member in 2004, and sometime after the other Andean countries signed bilateral commercial treaties with Mercosur countries, within the framework of ALADI (LAIA). All these schemes are limited in the tariff reductions and privileges accorded, and all have too many bilateral exceptions to effectively create new flows of trade among those countries. Other associations or full memberships were being negotiated with other countries in the regions, with this peculiar

feature that few of them require the adherence to the Common External Tariff, legally registered in the GATT, and supposedly the basis of its Customs Union.

The Venezuela admission into Mercosur is a case in itself, because it did not followed the normal procedures established by the Asunción Treaty. Under the leadership of controversial Hugo Chávez, Venezuela requested its admission, a decision adopted in 2006; at the same moment, though, Chávez openly said that Venezuela was entering Mercosur to profoundly change its nature, from a free-trade capitalist bloc to an integration system identified with his 'Socialism of the 21<sup>st</sup> century'. The process was a very troublesome, with the Paraguay Parliament refusing to accept the entrance of Venezuela in Mercosur, arguing for the non respect of non identified technical norms in the trade policies of the Andean and Caribbean country, or commercial barriers still pending against its exports; other arguments relied on the non democratic nature of the Bolivarian State of Venezuela.

Finally, taking opportunity of the quick impeachment of the Paraguayan president in 2012, the two big member of Mercosur agreed politically – and against the procedures of the Ushuaia agreement on the “democratic clause” within Mercosur – on the “suspension” of Paraguay from the bloc, adopting immediately a resolution in favor of the acceptance of Venezuela in it, even if this last country did not accept all the norms and requirements to become a full member. This generated a crisis that was at the origin of a downward trend in the political credibility crisis within Mercosur, only partially surmounted with the election of a new president in Paraguay, two years later.

During the whole period, EU maintained negotiations in order to conclude trade liberalization and association agreements. The bi-regional Free Trade Agreement between Mercosur and EU, devised to serve as a compensatory relationship in face of the hemispheric negotiations, was derailed as soon as the proposed FTAA, already opposed by Argentina, Brazil and Venezuela was dismissed at a hemispheric summit in Mar del Plata, Argentina, November 2005. The reluctance emerging from all trade partners in the two negotiating processes was probably due for the same reasons: divergences among the partners in connection with European and American farm protectionism, and resistance from Mercosur countries in industrial, services and intellectual property matters. Absent the bargain element in this complex relationship, the bi-regional project EU-Mercosur has been stalled since then, and has little chances of being concluded successfully, despite a political rhetoric in favor of it.

The true test within Mercosur – and not only for its democratic clause – is currently represented by Venezuela's status of full member status (albeit being suspended by the four original members). The decision taken in 2012 was completely political in nature, as Venezuela, under the peculiar economic policy of the Bolivarian regime, departs fundamentally from the capitalist rules that, in differing ways, govern the integration process in the Southern Cone. Of special relevance on the economic aspects of this problematic Venezuelan membership is the capacity of the current administration in Caracas not only to comply with the many internal requirements of an integration process, but also to follow and accept formal negotiations with prospective partners in liberalization trade agreements or in multilateral talks at large.

On the political side of this venture, many representatives of the legislature in Mercosur countries question whether Venezuela complies, in deeds, with the democratic clause of the bloc, either formally



or substantively. As it stands currently, the democratic clause of Mercosur has no power to exert, in its written form, any kind of pressure against the gradual erosion of the normal functioning of a democratic regime. Irrespective of the domestic evolution of politics in Venezuela, as well as the economic interests linked to its full membership in Mercosur, the participation of the Bolivarian regime in the bloc represents a direct challenge to its economic rationality and the democratic adherence that supposedly guide its construction.

Unasur is another case in point, because it also has a democratic clause, but has taken no initiative – conversely, it has been kept irresponsibly silent – in respect to the evident erosion of the democratic life in Venezuela in the last few years. For other matters, such as physical integration or the coordination of the many regulatory matters in order to facilitate real economic integration among its member countries, Unasur has not been as effective as one would expect from an “integration” organization. But this reality is inevitably connected to phases of “trial and error”, or “learning”, of any new institutions created by social and political initiatives. United Nations or Bretton Woods organizations also experienced similar evolution, towards socially responsible progress.

## What lies ahead for the integration process in Latin America and in Mercosur?

Universalism and regionalism are part of Brazilian foreign policy traditions. Brazil has been a leader in promoting multilateralism and its main pillar: the concept of the legal equality of states. Within the Western hemisphere, it has also contributed to make the concept of development the common denominator for integration.

Since the early 2000s, there have been new efforts in Latin America’s integration, towards enhanced political coordination and the proposal of new regional initiatives. Several institutions have been created, such as the Union of South American Nations (Unasur), the Community of Latin American and Caribbean States (Celac), and the Pacific Alliance. The coexistence of these diverse recent associations with previous projects such as the Common Market of the South (Mercosur) has been widely discussed from different perspectives.

Currently, from the Brazilian perspective, the challenge is to further advance regional integration, reinforcing and expanding Mercosur, while seeking common ground with other sub-regional schemes including the countries of the Pacific Alliance. The main objective is to strengthen common values, such as democracy, sustainable development, physical integration and social inclusion aiming at generating wealth and promoting the general well being of the Latin America society.

But what are the challenges ahead? Mercosur is a factor for the economic and technological modernization of its member countries, as well as for their insertion into the world economy. To these dimensions, one has to add another one, that is, the ultimately constitution of a common market in the Southern Cone, which is to form the basis for a free trade area in South America. Needless to say, all these should be based on the fundamental assumption of the continuity of democratic regimes everywhere (a condition which, in some countries at least, is far from assured).

Irrespective of the time frame for these developments, all this is dependent on two or three conditions. First of all, Mercosur countries must consolidate their integration process irreversibly, by accomplishing the objectives set forth in the first article of the Asuncion Treaty, that is, the constitution of a common market. After more than 25 years, Mercosur remains what it was at the beginning: a project for a future single market. Truly, this main goal, which is the very essence of Mercosur, depends also on the coordination of macroeconomic policies among the member countries and the harmonization of national policies in strategic sectors (this also is in the same 1<sup>st</sup> article of Asunción treaty). To advance towards these objectives, Mercosur has to strengthen its institutionalization. That is not so simple, as we are touching the very heart of the ‘sovereignty instincts’ of each one of the member countries. The retrenchment into national sovereignty still has a powerful attraction.

Secondly, to allow a smooth implementation of these objectives, Mercosur members have to continue and deepen the structural reforms that are indispensable to carry out the same objectives: tax reform, fiscal and exchange reforms (including currency convertibility), sectorial reforms (industrial and trade policies), labor and administrative reforms, and others. They are needed because otherwise there will be no macroeconomic convergence and exchange coordination: the constitution of a single market would be impossible without them. Some countries are undergoing some of these reforms, but they are taken on purely domestic bases, with no coordination with other member countries. And of course some countries, perhaps like Brazil (in tax reform) are reforming in a direction that is not convergent, if not contradictory, to Mercosur’s number one objective, namely the common market.

Thirdly, but not the least, these structural reforms have to be accomplished with another objective in mind: economic opening to the world, and continuity of trade and investments liberalization. Since the inception of the Common External Tariff – which required a prior domestic reform of national tariffs – in 1995, the overall evolution of trade policies in Mercosur and in each of the member countries has taken the road of closure, restriction, tariff escalation and many other restrictive devices, that is, making Mercosur more, not less, protectionist. The average rate of effective protection since 1995 has moved upwards and is slightly incremental as a whole, but is openly protectionist in some sectors (classified as sensitive, but in fact ransomed by lobbies and special interests). Mercosur has to engage, decisively, a new tariff reduction across the board.

Difficulties erected on the road to a common market – and the continuity of the reform process – in Mercosur could be classified into two groups: structural impediments and contingent factors. Among the later, are the natural limitations of the national processes of macroeconomic stabilization, which are not completely implemented, even after years – or decades, some would say – of hyperinflation, external crises associated with excessive foreign debt, volatility of capital flows, and currency debilitation, as well as low growth or even stagnation, with ensuing political and social crises.

On the structural side, asymmetries between countries are deemed relevant, not only in terms of the proper dimension of each country – with Brazil, for instance, representing some 70% of the ‘atomic mass’ of Mercosur, in GDP figures, external and internal trade, capital and investments flows, etc. – but also as a result of the level and intensity of the industrialization and technological

advancement (with big disparities going, again, in favor of Brazil). From those structural features derive differentials in competitiveness and in attractiveness for investment, which raise reactions in each of the other associates and in fact hinder the consolidation and progress of Mercosur towards higher levels of integration, both internally and with the world. There are many other asymmetries, for instance in educational and social indicators, with Argentina and Uruguay performing much better than Brazil and Paraguay but the most important ones are, of course, the aggregate sum of economic capabilities; and that gives an extraordinary ‘power’ to Brazil.

Also relevant enough, this time for institutional motives is that this enormous differential among member countries does not reflect in the decision-making process. As is very well known, this process is characterized by the perfect equality of duties and obligations among all member countries, and this comprises the vote (and veto) power, giving the same weight to each of them. So, Uruguay, with its 3.5 million inhabitants, has the same capacity in the decision-making of Mercosur – and thus, formally, in the determination of its main policies – than has Brazil, with its 207 million population.

There are many processes or structural features that seem to be determinant in the future course of Mercosur, in its proper, ‘domestic’ dimension, or in connection with external factors. They can be summarized as follows:

1. Domestic changes in institutional politics and economy, in member countries, without discontinuity in their pluralistic and democratic regimes;
2. The willingness of their political leaderships to continue to push towards integration, in spite of the social costs, that in some sectors would be inevitable;
3. The establishment of a realistic work agenda, coordinated for the best among member countries, pointing to the joint overcome, in the short term, of contingent obstacles, and, in the medium term, of the limitations and structural hindrances for the full integration of the markets; that is of course the most difficult question;
4. The preservation of economic growth and external competitiveness, in order to maintain the attractiveness to foreign capital and reciprocal investments in Mercosur countries;
5. The continuity of macroeconomic reforms and in specific sectors (like taxation, industrial and trade policies), with the adoption of an ‘integrationist outlook’ in the various aspects of this process, including standards and technical regulation, the coordination of legal systems and the integration of regulatory policies;
6. The preservation of the economic stability, and of political and social peace in the region, as this reflects on the external relationships of Mercosur, in especial regarding the consolidation of the agreements already concluded with Andean countries (CAN), as well as the continuity of other schemes for the physical and political integration in the continental context (currently within the framework of the Unasur, the South American Union of Nations);
7. Progresses the multilateral trade negotiations (either an end to Doha Round, or a new round within WTO), that area heavily dependent on success in the farm and industrial sectors, besides services and intellectual property;

8. The extension and deepening of trade liberalization agreements with other blocs, such as the Pacific Alliance and other partners, in the region or elsewhere, especially in Asia, as they represent a real big challenge for Mercosur, either as means to attract of new investments or in terms of market access to those huge markets;
9. What are the current and future relationships between Mercosur and other key partners in the world economy, such as United States, the European Union and, forcibly for South America, China, as the new main trade partner of many countries in the region? There will be a common response to those linkages – not only of a commercial nature – or each country, or bloc, will look for its specific interface, according to its own characteristics and capabilities?

With this last feature in the format of two question marks, we have to conclude this brief examination of the regional integration process in Latin America with an optimistic note. Despite many shortcomings and frustrations, the region has not lagged behind the world: with some efforts, it has kept pace with the many transformations and changes occurring in the great interdependent and contradictory process that is called globalization, accompanying the trends with some differences among the countries, but with a sense of pertaining to the same universe of cultural performances that link our people to the greatest accomplishments of civilization: democracy, human rights, full liberties at individual level. Those are the values and principles that are, and must be, at the core of the Latin American countries.