



Commentary

Regional Integration in Latin America and the Caribbean

Amb. Deepak Bhojwani

1 The Latin American and the Caribbean (LAC) region comprises three principal sub regions: South America; Central or Meso America; and the Caribbean. The three sub regions share many commonalities, principally, a European colonial history from the 16th to the 19th centuries; close economic and, in many cases, political ties with the US in the more recent past; and racial miscegenation over centuries of intermingling between the indigenous and later European/North American and African inhabitants.

2 Even a superficial examination, however, reveals differences and exceptionalities such as the English (and French) speaking Caribbean; Portuguese speaking Brazil; considerable geographical disparities between tiny island states and gigantic countries such as Mexico, Argentina and Brazil; varying degrees of natural and resource endowment; as well as differences in the levels of economic development, arising out of the inconsistent nature of the political economy in a majority of the nation states, created during the 19th century, which are now struggling to create a regional identity.

3 Though Hispanic America dominates, it is Portuguese speaking Brazil which is generally acknowledged as the prime mover, not just of political and diplomatic, but also of economic, integration. Brazil shares a land border with all of the South American countries except for Ecuador and Chile, and achieved, with its nine

territorial neighbours, amicable border settlements as far back as the 19th century. It is also the largest economy in the region and has survived political and economic vicissitudes through the 20th century to emerge as the regional power.

4 Despite the differences, there have been genuine attempts made, in the recent past, at effective regional integration, which could enable governments in the region to further their political interests and perhaps a common destiny, through give and take on issues that divide and unite the region, and enhance trade and economic cooperation for mutual benefit. These efforts have by and large, been patchy and piecemeal, reflecting geo-political realities - as well as contrary pressures from within and outside the region – and while the trend presently is positive, there are several obstacles before even like-minded governments in the region manage to harmonize their economies sufficiently to consolidate the process of authentic and lasting commercial and economic integration.

5 **Attempts at integration** date back to the early 19th century, when the most prominent freedom fighter of South America – Simon Bolivar – attempted to organize a conference on integration of North, Central and South America in Panama in 1822. The attempt, along with his attempt to integrate the Andean countries into a Greater Colombia, failed. A century and a half later, modern Latin American governments realised the need to increase integration, mainly for commercial and economic reasons.

6 The LAC region consists of 40 countries with a combined population of over 500 million; a combined GDP of US\$ 4 trillion and overall annual trade turnover of US\$ 1.65 trillion. The region is home to about 20% of the world's fresh water resources; considerable hydrocarbons (Venezuela's resources, according to a recent study, are said to rival those of Saudi Arabia); accessible mineral deposits of iron ore, copper, coal, gold, nickel, lithium, precious and semi precious stones; vast stretches of arable land available at very reasonable prices; forest resources, particularly wood and a favourable geographical location, with the Panama canal playing a vital global role, while countries such as Brazil are achieving greater connectivity.

7 **Regional Forums and Institutions :**

i) **Latin American Integration Association (ALADI)** was born as the Latin American Association for a Common Market (ALACM) in 1960 with seven countries associated. ALADI currently has 13 members - Brazil, Argentina, Paraguay, Uruguay, Venezuela, Colombia, Cuba, Ecuador, Bolivia, Chile, Mexico and Peru – with Cuba being the last to join in 1999. The 1980 Treaty of Montevideo (Uruguay) sought convergence between the members of ALADI, leading to the eventual formation of a common Latin American market, with general guidelines on trade relations between the member countries. ALADI today serves essentially as a clearing house for regional trade.

ii) **Andean Community (CAN)** The original Andean Pact was formed through the Cartagena Agreement in 1969 by Chile, Bolivia, Peru, Ecuador and Colombia. Chile left the CAN in 1976 and Venezuela joined in 1973 but announced its dissociation in 2006. The four members of the Southern Common Market (Mercosur) have been associated members of CAN since 2005. CAN has had a chequered recent past, largely on account of a split between Colombia and Peru on the one hand, who seek closer integration and freer trade with the US and Europe, and Ecuador and Bolivia on the other (as well as Venezuela prior to 2006) who insist on a more autonomous policy. A free trade zone created by the CAN in 1993 has also been affected by some unilateral steps, (Peru in 1997; Ecuador in 2008). With new Governments coming to power in Colombia and Peru in 2010, there have been diplomatic moves to consolidate economic and commercial relations within members of the CAN. In 2005, CAN introduced free movement of all citizens within its territory.

iii) Central American Common Market (CACM) was formed in 1960 between Guatemala, Honduras, Nicaragua and El Salvador. Costa Rica joined in 1963 and Panama is an observer. Political differences, as well as tendencies by countries such as Costa Rica to stay aloof from its poorer neighbours, hampered fuller integration and the region now cooperates through the SICA forum – Central American Integration System.

iv) Caribbean Community (CARICOM) was established in 1973 through the Treaty of Chaguaramas. It increased membership to 15 Caribbean nations with seven South and Central American countries and five dependencies joining to create the Association of Caribbean States (ACS). It supersedes the Caribbean Free Trade Association (CARIFTA) which existed 1965-72 between English speaking countries of the Caribbean, following the dissolution of the West Indies Federation. 12 Caribbean countries share a single market under CARICOM since 2006 and their citizens hold Caribbean passports.

v) South American Common Market (Mercosur) After an important political understanding between the two traditional South American rivals – Brazil and Argentina – in 1985, Mercosur was formed with the signing of the Asuncion (Paraguay) Treaty in 1991 by Argentina, Brazil, Paraguay and Uruguay. The Ouro Preto (Brazil) Treaty of 1994 established the institutional structure of Mercosur, whose aim is integration through a common external tariff and adoption of common commercial policies. With the accession of Venezuela in 2006 (still to be ratified by Paraguay's Parliament), Mercosur comprises a population of over 300 million and a combined GDP close to US\$ 2 trillion. Mercosur leaders and functionaries meet regularly at Summits and sectoral meetings every year.

vi) Rio Group was formed in December 1986 with the Declaration of Rio de Janeiro by Argentina, Brazil, Colombia, Mexico, Peru, Panama, Uruguay and Venezuela, known as the Contadora Group, and was seen as an attempt to counterbalance the Washington based Organization of

American States (OAS) dominated by the US. The Rio Group currently has 23 members including Cuba, and held annual summits since 1988, (known as Summit of Latin America and Caribbean- or CALC) the last in Cancun in February 2010 where a proposal was made for establishing a Community of Latin American and Caribbean States (CELAC). The degree of political convergence was impressive, evident from the decision to appoint Venezuela and Chile to co-chair the forum and present statutes for the new institution.

vii) Bolivarian Alternative for the Americas (ALBA) was born through a bilateral agreement in December 2004 between Venezuela's Hugo Chavez and Cuba's Fidel Castro, primarily as a reaction to the US proposal for a Free Trade Area of the Americas (FTAA) in 2001, an initiative which saw a strong reaction, not just from the left wing, headed by Venezuela, but also from Brazil, which has frequently demonstrated its resistance to US economic and trade policies. ALBA's stated aim is abolition of poverty and social exclusion. It shuns the so called neo-liberal concept of free trade, advocating contribution and sharing in social sectors, rather than promoting commercial advantage. Current membership includes Cuba, Venezuela, Nicaragua, Ecuador, Bolivia, Dominica, Antigua and Barbuda, St. Vincent and the Grenadines. Suriname and St. Lucia have applied for membership, while Haiti has observed status. Honduras was expelled after the coup in 2009. The main tangible feature of ALBA is a free trade agreement abolishing trade tariffs between Cuba and Venezuela. It is also held together by discounted supplies of Venezuelan oil; a virtual currency called SUCRE, to enable trade between members, avoiding use of the dollar; projects in the hydrocarbons sector among some members; medical missions mainly from Cuba; and other joint social projects.

viii) Union of South American Nations (UNASUR) was formed in 2004 by 12 countries in Peru: - Chile, Argentina, Paraguay, Uruguay, Brazil, Bolivia, Peru, Ecuador, Venezuela, Suriname, Guyana and Colombia. The founding treaty was only signed in May 2008 in Brasilia. The main elements of UNASUR include, apart from the annual summits, a

headquarters in Quito, Ecuador; a permanent Secretary General; vision for a common South-American market; the formation of the South Bank (Banco del Sur) with approximately US\$ 7 billion contributed by Venezuela, Argentina, Brazil and lesser contributions from some others; collaboration on infrastructure projects, principally energy and transportation; and a dialogue on security and defence cooperation.

ix) Pacific Alliance: on 6th June, 2012, the Presidents of Mexico, Chile, Colombia and Peru met in Chile, where at the IV Summit of the Pacific Alliance, they signed the Founding Agreement of the Alliance. Also present were the Foreign Ministers of Costa Rica and Panama as Observers and Foreign Minister of Canada and Ambassadors of Australia and Japan as special invitees. The Alliance aims at “closer bilateral relations, increased trade, intensified investment flows between the Pacific Alliance and other markets”. Instrumentalities include reduction of custom duties and other barriers to trade, services, capital and travel. Attempts will also be made to harmonise policies and regulations on intellectual property, financial systems, academic exchanges, free movement of personnel etc. The Alliance is an attempt to integrate markets of the four forward – looking economies in Latin America.

x) Community of Latin American and Caribbean States (CELAC) was conceived at the February, 2010 LAC Summit in Mexico and officially launched in Venezuela on 4th December, 2011. CELAC brings together 33 independent countries of Central America, South America and the Caribbean (excluding European and US held territories) including Cuba, and excludes the US and Canada. CELAC subsumes the Rio Group and CALC. The next Summit of CELAC will be held in Santiago, Chile, which is the current pro-tempore Chairman, end 2012.

8. The Organisation of American States (OAS) is an umbrella organization with a Secretariat based in Washington D.C., with membership of all independent countries in North, Central and South America and the Caribbean. It was formed in 1948 and in 1962 communist Cuba was expelled at the behest of the US. The OAS has been the

lead agency organizing the tri-annual **Summit of the Americas**, first held in Miami, USA in 1994. The most recent Summit was held in Colombia in April, 2012 and was polemical on account of threats by ALBA members to boycott the Summit if Cuba was not invited. The issue was diplomatically resolved by the Colombian leadership though the issue of Cuba overshadowed the Summit, reportedly being the main cause for the Summit ending without an agreed Declaration. The OAS has seen considerable acrimonious debate, mainly between the left oriented members of ALBA and the US and some of its supporters. Major issues under discussion include trade, narcotics, democracy and human rights.

9. Apart from the above regional and sub-regional institutions, there have been other initiatives at lowering barriers and enhancing economic cooperation:

10. **Plan Puebla- Panama:** An initiative promoted by Mexico to improve integration between Central American countries, in which Colombia is also participating. The intention is to improve transportation and infrastructure links, and undertake common projects such as an oil refinery.

11. **G3:** A free trade agreement between Mexico, Venezuela, Colombia. Venezuela withdrew in 2006 after political disagreement with both other countries.

12. **Petro Caribe:** An initiative of President Chavez whereby Venezuela supplies discounted oil to 20 Latin American and the Caribbean countries. This was an offshoot of the **San Jose Agreement** whereby Mexico and Venezuela in 1970s agreed to supply discounted oil to non oil producing countries in the region, but is now more important in terms of quantities and terms offered.

13. While the overlapping nature of regional and sub-regional groups can and does lead to confusion, apart from diluting the focus and aims of the members, the desire for closer integration by all governments and business interests cannot be gainsaid.

14. Latin America has also witnessed **regional integration of business houses** at an exponential rate. Today, Mexican, Brazilian, Argentinean and Chilean companies

compete successfully with American and European enterprises for resources and market share in the whole region. Cultural advantages are enhanced by political backing provided through regional forums. Latin American companies have also been concentrating their resources and strategies regionally to ensure their growth before they venture abroad. The resource-rich nature of most Latin American economies has also led to an inward concentration of investment, and a tendency to collaborate with outside investors rather than venture into unknown and risky markets. This makes Latin America an extremely interesting prospect for Indian investors.

[The views expressed in the above article are the author's own and do not reflect the policy or position of the Indian Council of World Affairs.]

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