
UNIT 18 LATIN AMERICA AND THE DEVELOPED COUNTRIES/REGIONS

Structure

- 18.1 Introduction
- 18.2 NAFTA and Mercosur
- 18.3 Latin America and the Asia-Pacific Region
- 18.4 Latin America and the European Union
- 18.5 Summary
- 18.6 Exercises

18.1 INTRODUCTION

In the era of globalisation, one of the defining characteristics has been the formation of regional associations all over the world. From Europe to Africa, regionalisation is regarded as the route to achieving economic progress. Regional organisations have been formed by states to protect themselves from the deleterious effects of the neoliberal economic order. Increased competitiveness is one of the primary objectives for regionalisation.

States are also relating to other states in terms of the regional groupings that they belong to. Several regional organisations involve the dismantling of internal tariff barriers and provide for common external tariffs (CET) against the non-members.

Regional organisations today also have a substantial political element to them. Political backing for such groups ensures that the economies of a trade area are not subsumed by political realities. We have seen in the past that tough economic steps were avoided too often because of the lack of political will.

One of the main reasons why Latin American countries got together to form Mercosur and other economic and political associations is to combat the rise of regional organisations elsewhere, be it the EU or the North American Free Trade Association (NAFTA).

This unit examines the relations between the Latin American region and other regions of the world. It focuses mainly on regional organisations in the world as a way of looking at these regions.

18.2 NAFTA AND MERCOSUR

The main regional organisation in Latin America is Mercosur. Its constituent members are Argentina, Brazil, Paraguay, Uruguay, Bolivia, and Chile. It came into being in 1991 with the Treaty of Asuncion, and has both economic and political objectives. Politically, it sought to maintain the democratic consolidation in Latin America that has been taking place since the late 1980s, especially in Argentina and Brazil.

In economic terms, Latin American countries wanted to avoid being denied the benefits of globalisation and the neoliberal economic order. Individually, the countries did not have the resources to compete on the world stage by themselves. Forming a regional association has allowed them to increase the competitiveness of their markets, improve efficiency through economies of scale. This has helped to push forth the free trade agenda, which in turn has attracted increased amounts of foreign direct investment to the region.

Regional integration is thus a stepping-stone to integration with the global economy. But often, regional organisations are perceived as being protectionist. They can also come into conflict with other regional groups and agendas. The Mercosur-NAFTA rivalry is a good example of this. The primary issue between the two is the proposed Free Trade Area of the Americas (FTAA), the culmination of the agenda for western hemispheric integration.

The controversy here is about which model would be followed in the FTAA – NAFTA or Mercosur. Both models have different agendas and characteristics, even though they both aim at economic openness and integration.

For the United States, Mercosur is not the ideal vehicle to promote hemispheric integration, because it is seen as being protectionist and trade diverting. For the advocates of FTAA, the question is as to how such a broad free trade zone will fit with the already existing trade areas, notably NAFTA and Mercosur? The issue is not really about which one of the two would be swapped for NAFTA, but in fact which one would provide the blueprint for the FTAA. The countries involved in the two regional associations have different agendas and ideologies.

Among some Mercosur countries, especially Brazil, FTAA has been viewed with suspicion. There seems to be a contradiction between the interests of the United States and the promotion of free trade in the hemisphere. For the Brazilians the distrust of the United States stems from its attitude towards the present day trade negotiations. Protectionist tendencies in the United States regarding agricultural products from the Mercosur countries remain as high as ever. Subsidies and anti-dumping regulations are a big hurdle to South American agricultural products entering the North American market. Due to domestic compulsions, these protectionist provisions are not likely to be removed by the US government.

Furthermore, the strategy applied by Washington is to conclude free trade agreements with individual countries of Latin America. As evidenced in the recent trade agreement with Chile, this bypasses collective negotiations with Mercosur countries. The US is following similar policies with Central America. This poses an additional problem for the Mercosur countries. Such bilateral trade agreements brought in by the US would divert investment and resources from these countries.

Exports from the United States are also a source of threat for Brazil. Consumer goods such as electronics and automobiles from the North adversely affect the fledgling industry in Brazil and other countries there.

With this kind of background, it is but natural to have pessimistic views regarding the FTAA. For the United States also, Mercosur is a hurdle to the goal of free trade in the western hemisphere. Free trade requires coordination of macroeconomic policies by states around the neoliberal model. The US complaint is that Mercosur is too weak to persuade states to commit to such policies. Just as the United States has domestic compulsions that preclude it from doing away

with subsidies, Brazil, which is by far the biggest Latin American economy, is reluctant to make concessions on intellectual property rights, services and government procurement.

It is interesting that as the United States' interest in FTAA and bilateral agreements grows, its commitments to the multilateral trade system appear more and more suspect. The problems of the Uruguay Round talks and the delay expected in the Doha Round of trade negotiations have served to persuade Washington that it is better off dealing unilaterally when it comes to trade negotiations. This was a prime motive behind NAFTA. FTAA follows in the similar vein. In multilateral forums such as the WTO the US has witnessed a diminished control over the processes, leading to its concentrating on the processes that it can exert maximum control.

FTAA is more about expansion in services than about goods. It is here that there is a parting of the interests of the United States and Latin American countries.

The economic downturn in Latin America over the last two years is another reason for the countries there not being too amenable to the FTAA, especially one that is built on the NAFTA model.

As stated, one of the biggest hurdles to the FTAA has been the strong domestic sections in the US that oppose granting concessions to the Latin American countries. But the potency of this opposition was also due to the failure of the Clinton administration to obtain fast track negotiating authority from the Congress in the nineties. The success of the current Bush administration in getting this authority (renamed Trade Promotion Authority) could go a long way in assuaging the concerns of Latin American governments.

But what could also be argued is that this would not be able to surmount far greater and deeper domestic problems in the US. The stark rise in income inequality in the US has led to increased opposition to the extension of free trade to the rest of the hemisphere. The perceived dangers of low-paid workers in Latin America taking over large portions of the North American markets is high enough for the Bush administration to possibly postpone any free trade concessions till after the 2004 elections.

A similar suspicion exists in Latin America. Income inequality has worsened there also, a holdover from the debt crisis of the 1980s, and due to the market reforms undertaken since the late eighties. Regular financial crises in the region (Mexico, Argentina) have sparked off outflows of massive amounts of money from the affected countries.

The tussle over FTAA thus has deep-rooted problems. It is increasingly seen as a NAFTA versus Mercosur issue. The underlying foundations of the two models have fundamental contradictions. NAFTA is based on a legal, procedural system that imposes strict obligations on the member states. It restricts the powers of governments in these countries. On the other hand, Mercosur is based on a more participatory approach that takes into account the politics of the situation and members. Its goals are broader and more flexible politically.

The hope in the hemisphere is that a reversal of the global economic downturn might be able to change opinions here. Domestic pressures on governments will then ease enough for a more conciliatory approach by all sides.

18.3 LATIN AMERICA AND THE ASIA -PACIFIC REGION

In the early 1960s, several countries of Latin America and the East and South-East Asian countries adopted protectionist measures to develop their nascent industries. But there was one important difference that ensured the dominance of East Asian countries decades later; while Latin America adopted an import substitution strategy, East Asia went for an export-oriented strategy.

When we look at trade between Latin America and the Asia-Pacific region, for the most part, the latter has had the upper edge. Throughout the 1980s and the 1990s, exports from Latin America to Asia grew at a much lower level than the imports from the Asia-Pacific.

This situation, to a certain extent, has something to do with the kind of products traded between the two regions. Imports from Asia-Pacific include advanced technological products like automobiles, appliances and electronic products, which have achieved economies of scale. On the other hand, exports from Latin America have generally included primary products such as copper, iron, steel, zinc, wood, soybeans, coffee, fish, and some semi-manufactured items.

Another cause of the imbalance is the difference in economic integration in East Asia and Latin America. One of the objectives for regional integration in Latin America has been to increase the region's competitiveness. But the economic processes and development policies followed regionally in Latin America have not been very conducive to increasing competitiveness. Even after renouncing the ISI strategy, regional integration there has been relatively inward-looking. In contrast, integration in East Asia has been geared especially toward increasing competitiveness globally.

In the last two decades, Latin America's trade dependence on the United States has grown steadily. The gap between Latin America's exports to the US and its imports has grown. Thus the trade surplus between the US and Latin America is heavily loaded in favour of the former. But the situation is more or less the reverse when we consider the US and the East Asian countries. This further shows how far ahead the East Asian economies are, when compared to those of Latin America.

Yet another distinguishing feature has been the kind of integration with the world economy experienced by the two regions. Latin American regionalism and liberalisation involves a high degree of deregulation of the foreign investment sector. This has led to imports increasing much faster than exports.

Between the two regions, trade has increased in the last two decades, but the share of Latin America in the East Asian trade has remained constant. Countries of East Asia took full advantage of the opening of the Latin American economies, but the reverse was not true. This has meant that Latin America's share in the East Asian exports has remained constant at about 2 per cent-3 per cent, while East Asian exports to Latin America are as much as 10 per cent.

One advantage that Latin America did have in terms of foreign direct investment (especially till its current economic problems) is that it has been increasing there a lot more than in the East Asian region. The reason for this is that Latin America has been more open to mergers and acquisitions by foreign firms. This has been taking place in infrastructure sectors such as telecommunication,

energy, and electricity.

To further promote trade between the two regions, bilateral free trade agreements have been considered, such as the Japan-Mexican FTA and a Japan-Chile FTA. But more important is the East Asia-Latin America Forum (EALAF), now known as the Forum for East Asia-Latin America Cooperation (FEALAC). This forum aims to increase economic ties between the two regions.

The unique point with FEALAC is that almost all the Latin American countries are members of this group. In contrast, only three Latin American countries are members of the similar association—the Asia Pacific Economic Forum. And even in this (APEC), North America provides the indirect link between the two regions—Asia and Latin America.

Of course, the question arises as to where APEC fits into the scheme of things here, and whether their aims overlap and have potential for some confusion. The answer to this is that APEC is narrower in its aims—it is concerned only with economic and commercial aspects, while FEALAC's scope is broader, extending to social and political issues.

For the time being regional integration is institutionally stronger in Latin America than in East Asia. One way of offsetting this situation is the creation of bilateral FTAs between countries of the two regions. Latin American countries like Mexico and Chile are experienced in this regard, and can provide the first steps to richer cooperation for their continent with East Asia.

18.4 LATIN AMERICA AND THE EUROPEAN UNION

In recent years, the European Union, in its bid to have a coherent, unified policy on all issues, and not just economic, has started to move forward in its relations with other regions of the world. Historically, the links between Europe and Latin America have been strong, on account of the strong cultural ties. The huge population and economic potential of Latin America has been recognised by Europe as part of its overtures.

It is obvious that any analysis of Latin America's ties with the EU would be contrasted to its ties with the United States. As compared to the US, the EU has been relatively more understanding and conciliatory, in several fields. When it comes to the problem of drug cultivation and trafficking, the EU has been less aggressive than the US in asking the concerned countries to take action against this menace. Perhaps the US is more aggressive on account of its proximity to Latin America, but all the same it is an important distinction. Relatedly, foreign assistance is more forthcoming from the EU than the US.

For the Latin American countries, the EU is not seen with the level of suspicion that is attached to the United States.

One factor that could help explain this is the difference in sectors of collaboration and ties that the EU and the US maintain with the Latin American countries. The EU has focused considerably on less contentious issues such as cultural relations, shared historical traditions and political ties. This does beg the question, however, about how much this would be of benefit to the Latin American countries, which perceive better ties with other regions as primarily a route to better participation

in the world economy. One could say that North America/NAFTA/FTAA or even the East Asian countries would be a better partner to Latin America in this regard.

At a time when economic progress is the prime need for Latin America, the main area where the EU can be of assistance (besides foreign aid) involves one of the most controversial issues of domestic policy in Europe—the Common Agricultural Policy (CAP).

The enormous restrictions to the import of agricultural products to the EU are a big hurdle for the countries of the developing world. A change in this status requires a major overhaul of the EU policies. Judging from recent developments, it is highly unlikely that this would happen in the near future. The EU is already burdened by its enlargement to the Central and Eastern Europe and how that would affect the CAP.

This is symptomatic of economic ties between the Latin America and the EU. In fact trade between these two regions is less than their trade with North America or the Asia-Pacific region. This is why ties between Mercosur and the EU are on a much lower level than they could potentially be.

The growth in trade has come about largely due to the increase in Latin America's imports from Europe. Even then, the EU is also considerably less competitive than Asia and the US.

The creation of NAFTA has also decreased trade between EU and Mexico, which has hampered the overall trade with Latin America. The proposed creation of the FTAA to cover the entire western hemisphere would further hamper prospects for better economic ties.

Nevertheless, Latin America is an important region for the EU when it comes to promoting an independent and common foreign policy that goes beyond the foreign policies of the individual European countries. Historically, there have been considerable civil society linkages between the two regions, such as political parties, labour movements, that provide a solid foundation for the expansion of relations.

Furthermore, Latin American countries are less likely to suspect the motives and interests of the EU, as opposed to their relations with the United States.

For the EU, the chances of a unified viewpoint and policy about Latin America should not be too difficult to achieve, considering that European countries do not have any strategic interests at stake there and also because no single country is too powerful in relation to the others.

Latin America can benefit greatly from especially those areas where assistance from the US is less forthcoming. This includes development, regional integration, and human rights. Considering that about 17 per cent of the population of Latin America lives in 'extreme poverty', a proportion that is greater than those living in similar conditions in East Asia, the Middle East or Central and Eastern Europe, the EU can play an important role here. The European Union is already the main source of foreign aid for Latin America, though there is an apprehension that, with the spread of EU foreign policy, foreign aid might be diverted to other developing areas. But for now, aid has been increasing for Latin America.

But when it comes to aid, bilateral policies are still prominent, and this can lead to overlapping

and inefficient use of funds.

Other areas of interest for the EU, such as democratic consolidation and human rights are increasing in importance for Latin American governments as well. But the fact is that such considerations are directly related to the level of economic development. Thus, while promoting such objectives as stability and democracy, EU countries have to see it in the context of an overall economic growth.

As stated earlier, democratic consolidation is a major goal of regional integration in Latin America. It is here that Europe can be of immense help. Through the half-century long experience of European countries in matters of regional integration, the overall goals of stability, democracy and economic growth can be promoted.

Peace and security has also been one of the goals of Latin American integration. Common policies on defence and security are also something that EU nations can assist with. After all, the genesis of the European Union lies in the quest for peace there in the post-war period.

It seems that for the time being, non-economic sectors are the best bet for expecting positive changes in the EU-Latin America relations. Economic ties are a determinant of domestic EU policies, which are for the time being non-negotiable.

18.5 SUMMARY

Latin American objectives are concentrated mainly around economic development and increasing their share of world trade. But there are pros and cons of dealing with the main economic regions of the world, namely, North America, Asia-Pacific, and the EU.

Only if the benefits of globalisation and regional integration flow to the sections of populations that need it the most, will economic liberalisation and integration gain more support.

It is interesting how important domestic constituencies are when it comes to economic ties with other regions. In East Asia and EU, as also in the United States, domestic factors are the biggest hurdles to increased exports from Latin America.

Changes in domestic opinions would require economic changes in these regions also, especially a dramatic decrease in the levels of income inequality. This would allow public opinion to come round to the idea of dismantling barriers and only then would the ostensible objective of developed countries—free trade—come to fruition.

In an attempt to compare Latin America as a developing region to the developed regions of the world, this unit contrasts Latin American regional organisations like Mercosur with NAFTA and their differing perceptions and interests. For instance, among some Mercosur countries like Brazil, FTAA has been viewed with suspicion whereas United States would like to go ahead with it. Yet, the United States remains protectionist about its agricultural products. At the same time it is negotiating free trade agreements with individual countries of Latin America.

Other regions which can be contrasted with Latin America are the Asia Pacific region and the European Union. While Latin America adopted an import substitution strategy, East Asia went

for an export-oriented strategy. Exports from Latin America to Asia grew at a much lower level than the imports from the Asia-Pacific mainly because of the difference in the kind of products exported by the two regions. Also, Latin America is a lot more dependent on the United States than the East Asian countries. In order to increase ties between Latin America and East Asia, the Forum for East Asia-Latin America Cooperation (FEALAC) has been formed with large Latin American participation but at the same time another regional grouping the Asia Pacific Economic Cooperation (APEC) has only three Latin American members.

Historically Latin America has close ties with Europe and Europe has been more understanding than the United States in several fields like drugs. It has also focused on the less contentious issues like cultural relations with Latin America but this does not help Latin America's present need for economic progress. Contentious issues include the Common Agricultural Policy of Europe. It seems that for the time being, non-economic sectors are the best bet for expecting positive changes in the EU-Latin America relations.

18.6 EXERCISES

1. What are the steps that Latin America has taken in order to face the rise of regional organisations in the developed world?
2. Is regional integration in Latin America a step towards integration with the global economy? State reasons for your argument, giving examples.
3. In what ways could Europe be a better bet for Latin America than the United States?

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