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THE REVIVAL OF LATIN AMERICAN CO-OPERATION AND THE EC

Abstract

In the following article, it is argued, unlike commonly held assumptions about the impossibility of Latin American co-operation, that recent empirical evidence authorize a different and more optimistic view on the subject.

The author sustains that after experiencing a serious economic and political crisis during the first half of the Eighties, three regional co-operation systems (Central America, the English Speaking Caribbean, and the Southern Cone) begun to recover their strength during the second half of the past decade.

The article further contends that whilst it is true that trade and financial flows are important indicators, more attention should be devoted to the position adopted by the regional and extra-regional powers (i.e. hegemony in international relations) if we want to have a correct assessment of Latin American co-operation and its possibilities of success.

Finally, the author suggests that EC aid to Latin America would gain greater significance if, instead of been mostly bilateral, it were given by the EC to the Latin American co-operation systems.

Introduction

What we are mainly concerned with here is the recent evolution of Latin American Co-operation Systems (LACS) and the support they receive from the European Community (EC). I propose to consider first how the economic crisis, and particularly the Latin American debt problem, have led some analysts to deny LACS any significant possibility of success, followed by a short explanation of my theoretical stand-point. Next, we will consider the empirical evidence available on the subject, which points to a resumption of Latin American co-operation during the past years. Finally I will propose my own assessment of LACS and of EC support to those systems around which Latin American co-operation is converging.

A Decade Lost in Terms of Development

As recently as 1989, in its 1988 report, the Institute for Latin American Integration (INTAL) stated:

"Nobody will deny that this decade has been lost in terms of [Latin American] development".[1]

Throughout the Eighties, Latin American and Caribbean countries became net exporters of financial resources to the industrialized countries in the form of debt and debt repayments, which amounted to 178.7 billion Dollars during the 1982-88 period, according to the Economic Commission for Latin America and the Caribbean (ECLAC). Although the total external debt of the region slightly decreased during the last years, due to variations in the exchange rate of the Dollar and the reduction of the debt of countries such as Bolivia, Mexico, Venezuela, Brazil and Chile.

The GDP per capita showed only weak signs of recovery after the 1982 — 83 recession (it grew less than 1.4% per year), and so did the General Index of Market Prices of Principal Export Products after the 1986 fall, which was positioned, however, at 66.57 percentage points in 1988 (1980 = 100%).[2] Mainly as a consequence of this, the participation of Latin America and the Caribbean in world trade decreased from 5.8% in 1981 to 4.1% in 1988 (Latin American exports have often grown in volume and decreased in value throughout the last decade).

These developments have led some analysts to think that higher levels of co-operation in Latin America will keep on being a dream for a long time.[3] The rationale is: as the Debt consumes most of Latin American countries' hard currency, so they adopt policies aimed to import "only the necessary" which in most cases has the strongest effect on intra-regional trade; therefore, the Debt is seriously hindering both Latin American development and co-operation.

Authors like Hiemenz & Langhammer even use the distinction between "integration" and "co-operation" introduced by Balassa, in 1976, to conclude:

"The bottomline of the experiences with regional integration amongst developing countries is that *economic integration* in the traditional sense (customs unions, common markets, joint investment planning) *has proven not to be viable.* There seems to be no alternative to trade liberalisation on a nondiscriminatory basis. What remains are scattered examples of regional co-operation in specific areas of common interests among partner countries."[4]

The failure of the Latin American Free Trade Agreement (LAFTA), which was transformed in 1980 into the Latin American Integration Association (LAIA) to attain the "economic integration" of practically an entire subcontinent (with the exception of Central America and the Caribbean) seems to support this view.

All this may be true enough but I have a different opinion.

An Unconventional Analysis for a Familiar Phenomenon

Latin American "integration" has been studied mainly by economists. I am not an economist and my approach to the subject differs from theirs in several respects. I do not see Latin American macro-economic policies as the sole source of explanation for Latin American co-operation. I see myself as seeking new insights by subjecting an already familiar phenomenon to rather unconventional analysis. I am using an International Relations approach, which tries to find the causes of the resumption of Latin American co-operation both in the decay of US hegemony and the assertion of the new Latin American civilian governments. According to my adopted view (which falls within a Robert O. Keohane theoretical framework, actually), co-operation in the

Third World can prosper only if a great power, or "a few great powers", assume the leadership. The experience of the so-called Central American Common Market (CACM) and the Caribbean Community (CARICOM), on the one hand, and that of the River Plate basin countries on the other, would provide both the positive and negative test cases of this insight.

In 1983, Robert O. Keohane, one of the leading scholars in International Relations, wrote in his book After Hegemony, that his theory been

"relevant to any situation in world politics in which states have a common or complementary interests that can only be realized through mutual agreement"[5]

would be falsified if co-operation were consistently to appear in the 'wrong places'. For instance — he wrote —

"I do not expect much co-operation by large numbers of small countries without the leadership of a few great powers; thus the emergence of a strong United Nations led by small states, or of 'collective self-reliance' strategies amongst Third World countries, would also count as strong evidence against my theory."[6]

Finally, "it would count against my theory if most agreements among governments were constructed not within the framework of international regimes, but on ad hoc basis, either apart from established regimes or in issue areas that had not experienced prior development of international networks or institutions".[7]

Co-operation is here defined by opposition to harmony which requires complete identity of interests. Co-operation "can only take place in situations that contain a mixture of conflicting and complementary interests. In such situations, co-operation occurs when actors adjust their behavior to the actual or anticipated preferences of others. Co-operation, thus defined, is not necessarily good from a moral point of view."[8]

Regimes are here defined as sets of implicit and explicit principles, norms, rules and decision-making procedures around which actors' expectations converge in a given area of international relations.[9]

Hegemony is defined as a situation in which one state is powerful to maintain the essential rules governing interstate relations, and willing to do so.[10]

I am using the term Latin American Co-operation Systems (or its acronym LACS) to refer to ongoing processes of co-operation such as those existing amongst Central American, Caribbean, and Southern Cone countries. In my view, these processes go beyond the mere "economic integration" and can only be adequately explained taking into consideration the realities of hegemony in international relations.

The Central American Common Market (CACM) whose economy of scale is a precondition for the existence of modern industry, as well as CARICOM, may be considered examples of co-operation under the leadership of superpowers (the US and the EC). Hopefully, CACM and CARICOM countries will see their bargaining position enhanced vis-a-vis their main partners.

The opposite is true of co-operation amongst Southern Cone countries: there is no great power behind them (except in the case that Brazil and/or Argentine are "graduated" as emerging powers). The main input in this process comes from the Argentina-Brazil axis itself.

As in the other cases, it is important to state that Latin American countries have been able to cope with further erosion of their Co-operation Systems, and that this has corresponded to the "first generation" of civilian rule in most of the countries of the zone, and that further progresses can only be expected if the newly elected "second generation" of civilian governments show that their commitment to foster co-operation goes beyond the mere "external extraction". So far, they seem committed to step forward, as we will see.

The three sub-regions of Latin America that I am using to test Keohane's theory are more or less economically symmetrical, and show, nowadays, a much higher degree of political affinity than under the past military rule. Furthermore, fostering co-operation suits the interest of those civilian governments; since downgrading foreign threats helps to keep power out of military hands. This applies to several cases not only in the Southern Cone, but also in Central America.

Nevertheless, if there is a strong possibility that such sub-regions of Latin America advance towards higher levels of co-operation, I assume that they will fail or succeed relative not only to factors such as symmetry, complementarity and contiguity, but to the position adopted by the regional and extra-regional great powers, as well; which I consider to be a necessary but not sufficient precondition to attain higher levels of co-operation: a support in the case of small countries, a benign neglect or a paper-tiger effect in the case of the bigger ones (see Fig. 1).

For my part, and taking into consideration both perspectives, I have reduced the scope of my research to

Three Zones of Co-operation in Latin America

Central America

Although Central American co-operation endeavours are receiving international support from several sources and benefiting from an unusual political coincidence of most of the important actors in the Central American scenario, a sudden interruption of such economic support would make economic co-operation more difficult and could lead to its failure, in the medium term.

The region went through its worst crisis during the 80s. For many analyst, this crisis was supposed to be the end of Central American co-operation. What really happened was that although the Central American main multilateral institutions were badly affected by the crisis, they were not dismantled and re-emerged during the second half of the decade. The CACM itself revived after this long period of crisis. In 1988 exports grew for the second consecutive year, finishing at US$ 563.3 million according to estimates of the Secretariat of the General Treaty of Central American Economic Integration. Costa Rica, El Salvador and Guatemala jointly accounted for almost 92 percent of total exports to the area and 84 percent of purchases of goods of Central American origin. Costa Rica and Guatemala continued to run surpluses with the sub-region. The Guatemalan surplus is substantial, amounting to some US$ 100 million in both 1987 and 1988. Intra-subregional exports accounted for 13.6 percent of the area's total exports in 1988, a percentage comparable to or exceeding those recorded since 1985 but well below those of the earlier years of the decade, which fluctuated between 20 and 25 percent.[11] A progressive reduction of the imbalances in intra-Central American trade can be observed in Fig. 2. Member countries approved an Immediate Action Plan in 1988 aimed to the revitalization of Central American co-operation. This effort was supported by the Special Programme of Economic Co-operation with Central America of the United Nations (approved in May 1988) and by the proposals of the Group of Rio (Acapulco's Compromise of 29 November 1987). Key areas are food assistance, economic revival, energy security, external debt, and assistance to refugees and displaced persons. As a result of that, the Central American agreement has acquired a more considerable scope as it now entails the major aspirations of Central America for peace and development.

It is important to highlight, as well, the contribution of the EC to the revitalization of Central American co-operation through a US$ 400 million aid to restructure the Central American Economic Integration Bank (BCIE) and to promote subregional trade. The EC has also helped to the establishment of the Central American Parliament, and to increase sub-regional industrial co-operation (another credit of US$ 47.8 million was granted to create a multilateral system of payments). During 1990, the EC pledged again to provide substantial support for the market-building effort, raising its US$ 120 million annual assistance budget by 50 — 60%, most of the increase going to international co-operation projects within the Isthmus.

Central American ministers attending the 1990 Antigua (Guatemala) summit spoke of creating a Central American railroad, forming a sub-regional diplomatic service to promote foreign investment and tourism, and finalizing plans to open the Central American Parliament.

If in the future the Central American Common Market is able to provide for some sort of self-sustained development (let us say as in the 60s), its possibilities would still have to be considered as evolving between US support and US "benign neglect". The opposition of the US would certainly destroy the Central American co-operation endeavours as these require delicate international co-ordination.

The Southern Cone

Unlike Central Americans, River Plate countries are more independent of the US in many ways (military, economically, politically, etc). These countries are co-operating without the help of the US, the EC or any other akin institution. What begun as a series of Argentina-Brazil Integration Protocols has more recently attracted Uruguay and Paraguay and has begun to be called "Mercosur". As in Central America, peace and development are in the agenda, but those terms have a different meaning in the River Plate, in as much as Brazil and Argentina have bigger and more complex economies whose capabilities are dramatically larger than those of "Isthmania". In this case, co-operation depends more on the policies followed by those Latin American countries and less on the US, whose "benign neglect" is nevertheless required; although the "paper tiger effect" may yield similar results, as well.

Co-operation between the two countries has produced very important results already, even in some highly sensitive fields like the nuclear industry. Symptomatically, détente between Brazil and Argentina has permitted détente between the latter and Chile, and a complete modification of the long standing balance of military forces that had characterized the Southern Cone for a long time. However, this process of co-operation is protracted by the instability of the two countries' economies, and the behaviour of their internal markets which, been a function of their different levels of economic development and capabilities, echo the disequilibria in their commercial relations.

On 29 November 1988, the two countries agreed to an "Integration, Co-operation and Development Treaty" providing for the creation of a free-trade area between the two countries, within ten years, through the progressive dismantling of all trade barriers.

Co-operation between Argentina and Brazil has sensibly increased since it was formally launched in 1986. A number of agreements have been signed besides the 24 major protocols, and two more countries have decided to join in this process (Uruguay and Paraguay). Such expansion of the scope of co-operation altogether with the complexity and broad scope of the agreements make difficult an early evaluation of results, especially in areas such as nuclear energy, bio-technology and aeronautics. However, it is possible to assess the advances made in several areas.

On capital goods (Protocol 1), for instance, around 30% of the target settled for the 1987 — 1990 period has already been attained: 190 of the 600 tariff numbers are now included in the agreement. This has particularly benefited Argentinian exporters of machine-tools (lathes, harvesters, fertilizer spreaders, etc). Machinery and capital goods accounted for more than 60% of the total US$ 400m total Argentine sales to Brazil during the first quarter of 1987.[12] Still, further growth of this sector depends on state purchases and investment, as the Investments Fund (Protocol 7) has suffered delay.

Trade preferences (Protocol 4) have widened, restrictions have been eliminated and many more products granted preferential treatment. Lack of compliance has been observed, though, in agricultural products.

On protocol 14 (road transportation), Argentina, Brazil and Uruguay have concluded a series of agreements, amongst which, the Buenos Aires-Sao Paulo corridor. The corridor, whose objective is to foster transport while reducing prices began to work (experimentally) in January 1990. A group of specialists is committed to these problems, and in relation to the protocol 2 (wheat).

On protocol 8 (hydroelectric projects), technical and administrative phases leading to the construction of the Pichi-Picun dam have concluded. Financial steps are now required to begin works.

The car industry (protocol 21) remained a formidable hurdle, but a special bilateral government committee has been formed to discuss ways to overcome resistance.

Finally, on telecommunications (protocol 16), an inter-connected digital network is under way.

Figure 3, based on figures of INDEC (Argentine Government Statistical Office) gives a better idea of the evolution of bilateral trade between the two countries.

It is worth stressing that, according to the figures shown in Fig. 3, bilateral trade totalled 1845 million dollars in 1989, above the last peak (of US$ 1802m) reached in 1980.

Presidents Menem and Collor met in Brazil, on 5 — 6 July 1990. Amongst the points in their agenda were:

— the establishment of a common market by 31 December 1994,
— joint competition in international markets,
— the promotion of binational enterprises,
— the settlement of a Parliamentary Commission,
— the building of an international bridge between Sao Borja and Santo Tome,
— the satisfactory development of the automobile agreement (industrial co-operation, parts, and trade),
— the opening of their nuclear co-operation programme to other Latin American countries,
— a binational space programme,
— support to Multilateralism in international fora,
— protection to the environment,
— reinforcement of the Antarctic Treaty,
— the Paraguay-Parana waterway (integration of the River Plate basin),
— mutual granting of all social services to nationals of both countries,
— a declaration about the US president's initiative, the Enterprise for the Americas, hoping it will take into consideration the trade, investment and debt problems,
— a declaration against drug-trafficking.[13]

The Caribbean

CARICOM countries have been advancing in a controversial way towards further policy co-ordination, despite visible differences in the political orientation of their governments. As in the case of Central America, both the US and the EC support this co-operation regime, only here, the EC has more say, since most countries are ex-colonies of the UK (and Holland). And just like in the case of Central America, access to the US and EC markets constitutes one of the main issues. However, since the very survival of several micro-states is at stake, and the political elites show a new resolve, further political co-ordination inside CARICOM may follow, as a further step and yet another example of higher levels of co-operation by Third World countries. Some small states have even begun to merge into single political entities, as in the case of the Windward Islands (Dominica, Grenada, St Lucia and St Vincent).

Exports within CARICOM grew by an estimated ten percent during 1988, according to the CARICOM Secretariat. The recovery of this market begun in 1987, reversing a decline of five years. Exports during 1988 (US$ 349 million) exceeded by 17 percent those of 1987. All CARICOM countries except Grenada and Montserrat contributed to this increase, especially Jamaica, Barbados, and the countries of the Organization of Eastern Caribbean States as a whole. The distribution of the value of intra-sub-regional exports among the various countries remained by and large as in 1987 (i.e.: Trinidad and Tobago, and Jamaica are the leading exporters) except for an increase in Jamaica's share and a rather pronounced drop in that of Trinidad and Tobago. Intra-zonal trade in 1987 represented slightly less than 12 percent of member countries' total exports.

The heads of governments met at Deep Bay, Antigua-Barbuda, in July 1988 to reinforce co-operation. They agreed to the return of free trade, as provided for in the

Annex to the Treaty of Chaguaramas. Except for a few goods, quantitative restrictions on trade and other imports controls on intra-CARICOM trade have been lifted. Also worth noting are the entry into force during 1988 of the CARICOM Enterprises Regime, the Protocol establishing the Caribbean Industrial Programming Scheme, and the preparation of a Sectoral Agricultural Development Programme.

Equally important was the X CARICOM Summit held in Grenada on July 3 — 8, 1989 with the participation of the 13 Heads of the members states. The Grand Andse Declaration that was issued pleads for the fostering of sub-regional co-operation. A new schedule was approved: Dec 1990: free circulation of persons, July 1991: elimination of tariffs barriers amongst the 13 nations, 1993: a single stock-market. They agreed to the creation of a Caribbean Parliament (only as a discussion forum, for the moment) and of a Court of Justice (to replace the British Council, as a legal authority in the zone). Both organisms will begin to work after the countries modify their national Constitutions.[14]

In the Jamaica summit of 1990 (Kingston, July 31-Aug 2), CARICOM took further decisions; notably the Common Tariff entry into force by 1st January 1991 for CARICOM most advanced countries, and by the end of the year for the less advanced countries with the exception of Montserrat which will abide in 1994.[15] A CARICOM Commissioner to be appointed by 1 Oct 1990 would ensure the implementation of the measures agreed at the 1989 summit, with the aim of bringing about a single CARICOM market by 1993. Monetary Union is scheduled for 1995. And the British Virgin Islands and Turks and Caicos (both British dependencies) were granted associate membership.[16]

... and the Others

The Andean Pact (not included in my research) offers a contrasting example of a Latin American co-operation regime that has not attracted US economic support (transnational corporations were not, until very recently, eligible to participate in the Pact) and does not contain a would-be hegemon to make co-operation advance. Chile, a very important ex-member is not likely to return to the Pact, and Bolivia may be attracted to the River Plate agreement in the next future. Finally, the Andean Pact is weak as a trade regime; it controls only 26% of their intra-sub-regional trade, in strong contrast with CARICOM (60%) or the CACM (80%). Thus, the Andean Pact, according to my theoretical perspective, shall not make further progresses.

My opinion is consistent with the current trade and financial flows between Latin American countries.

The "Revealed" or "Underlying" Trade Patterns

A study of the regional markets of each country, elaborated by the IDB, shows that there is one trade bloc that includes the countries of the Southern Cone, Brazil and Bolivia; another bloc consisting of Venezuela, Colombia and Ecuador; and others in the CACM and between CARICOM members; and in addition, there is substantial trade in the Caribbean Basin. These patterns differ from those of the trade regimes, especially that of the Andean Group. It is clear -says the study- that Brazil and Argentina are the most important regional markets for each other, as they are for Bolivia, Chile, Paraguay and Uruguay. These six countries form a very important intra-regional trade bloc. In 1988, the trade of this group accounted for 69.3 % of the intra-regional exports of Argentina, 63.9 % of those of Brazil, 92.8 % of those of Bolivia, 67.6 % of those of Chile, 92.4 % of those of Paraguay and 94 % of Uruguay's. From the point of view of intra-regional exports, Bolivia is "integrated" with the countries of the Southern Cone and with Brazil but not with the Andean Group.

Symptomatically, the only countries for which Latin American direct foreign investment (DFI) is significant, as a proportion of total DFI, are Paraguay (30%), Uruguay (7 %), Colombia (6%) and Chile (5%) which comes mainly from Brazil and Argentina (and Venezuela for Colombia).[17]

Impressive as these figures might be, if we use total trade instead of intra-Latin American trade as a yardstick, the results are less overwhelming, but still significant. During 1982-88, the trade of the four Mercosur countries accounted for 5% and 6% of the total exports and imports of Brazil, 9.8% and 15.5% of those of Argentina, 25.9% and 32.2% of those of Uruguay, and 36.06% and 47.03% of those of Paraguay. Mercosur exports and imports accounted for 6.9% and 10.19% of the sub-region total exports and imports during the 1982 — 88 period.[18] Mercosur, it is worth recalling, has just been launched.

If Co-operation Follows

The inescapable conclusion which emerges from what I have said is that if it is true the "integration" of the whole Latin American sub-continent is not at sight, this is not equally true in the case of the three aforementioned Latin American sub-regions. Accordingly, I feel that it is very important not to underestimate the excellent services that co-operation has already made to those sub-regions.

In all cases, as for the Third World in general, an easing of economic problems (debt, trade, etc) shall provide a more adequate environment for the good success of "integration".

If the CACM and CARICOM advance towards higher levels of co-operation (as it can be expected), and the River Plate Agreement fails, then the hypothesis of Mr. Robert O. Keohane might be confirmed. But further progresses in the River Plate agreement shall have the opposite effect.

If the observed trends continue, there is a strong possibility that the EC, the United States as well as the rest of the world shall be dealing, within five or ten years time, not with twenty-odd Latin Americas but with four or five Latin American economic blocks.

The EC and Latin American Co-operation Systems

The level of commitment of the EC with Latin American countries is made explicit by the comparatively small level of its economic involvement: The EC will provide

Lomé signatories with 10.800 millions of Ecus (US$ 12.934m.), whilst Latin America and Asia together will receive only 2,900.[19]

As we have seen, the EC supports two Latin American and a Caribbean Co-operation Systems: the Andean Pact, the Central American Common Market and the Caribbean Community (CARICOM countries are also members of the Lomé Convention). This support has revealed to be very important in all cases, and particularly for Central America. However, a review of the relations between Western Europe and Latin America up to 1987 shows that, despite important progresses, most of the support to the LACS countries continue to be strictly bilateral.

For instance, the five Central American partners plus Panama received Ecu 72.04m during 1986 of which only 22m were destined to "regional actions" (sub-regional, in our adopted terminology). The five Andean Pact countries received Ecu 37.52m during the same year of which only 0.42m went to "regional actions". Southern Cone countries did not receive aid for "regional actions" whatsoever.[20]

Whether or not this figures reflect the advances in policy co-ordination made by LACS countries, EC support to "regional actions" is the one which may yield better fruit if adequately treated.

LACS are institutions that can guarantee a more rational and appropriate utilization of international resources in multinational co-operation projects on issues such as border developments, refugees, drug-trafficking, and all kind of emergencies. By giving more weight to these Co-operation Systems, the EC can also more effectively promote co-operation in Latin America and discourage an eventual resurgence of conflict amongst countries with still fragile democracies and yet suffering the hardships of economic and political crisis.

NOTES

1 El Proceso de Integracion en America Latina en 1988. Buenos Aires, BID-INTAL. 1989. p. ii.

2 International Commodity Quarterly Price Bulletin No 24. Washington, OAS. Oct. — Dec. 1988.

3 See for instance HIEMENZ, Ulrich & Rolf J. Langhammer. Regional Integration among developing countries: opportunities, obstacles and options. Tübingen, Institut für Weltwirtschaft an der Universität Kiel. 1990.

4 Id. p. 74 (emphasis added).

5 Keohane, Robert O. After Hegemony: Co-operation and Discord in the World Political Economy. Princeton University Press. 1984. p. 247.

6 Id. p. 234.

7 Ibid.

8 Axelrod, Robert, and Robert O. Keohane. "Achieving co-operation under anarchy: strategies and institutions" in: World Politics, vol 38, no 1 (October 1985), p. 226.

9 Krasner, Stephen D. International Regimes. Cornell University Press. 1983. p. 2.

10 Keohane, Robert O. and J. Nye. Power and Interdependence: World Politics in Transition. 2nd edition. Boston, Little, Brown. 1989. p. 44.

11 Inter-American Development Bank. Economic and Social Progress in Latin America. Several issues.

[12] Latin American Regional Reports-Southern Cone. 28-May- 1987.
[13] Gazeta Mercantil. Sao Paulo. 7-Jul-90.
[14] Comercio Exterior. Mexico. Jul-89.
[15] The implementation of the common tariff has suffered delay, but shall be in place by the end of 1991. Cfr. Financial Times 25th April 1991.
[16] Caribbean Insight. London. Sep-90.
[17] Inter-American Development Bank. Economic and Social Progress in Latin America. Several issues.
[18] International Monetary Fund. Direction of Trade Statistics Yearbook 1989.
[19] Carpeta Latinoamericana ALASEI. Mexico. July-90.
[20] IX Conferencia Interparlamentaria Comunidad Europea- America Latina. IRELA-Madrid 1989. p. 71.

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Figure 1: Regional and Extra-Regional Powers and Latin American Co-operation

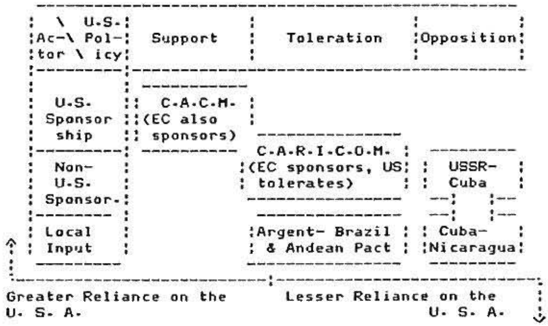

Figure 2:

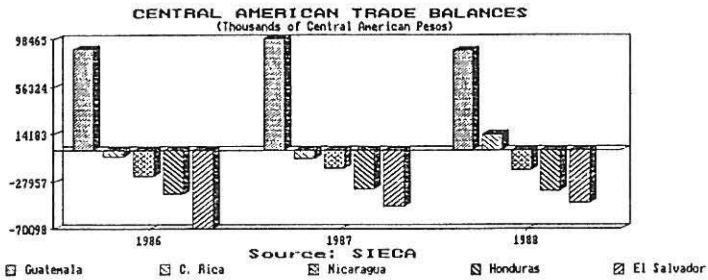

Figure 3: