

South America: Too many regional institutions, too little integration

João Augusto de Castro Neves, *Washington D.C.*

REGIONAL INSTITUTIONS are everywhere in South America's political landscape. In a continent with just 12 countries, there are at least two regional parliaments, a couple of customs unions, and one overarching intergovernmental union. Yet, despite the plethora of initiatives, most of the institutions are weak, unfinished, or both. To paraphrase an observer of Latin American diplomacy, the ability of local leaders to turn an ounce of facts into a ton of words—or, in this case, ineffective regional institutions—is impressive.

To a large extent, the main takeaway from Mercosur's summit meeting last month demonstrates how ineffective the South American bloc is when dealing with major problems. Amid deep concerns about the global economy and worries about a possible wave of protectionism in the region, leaders from South America's largest customs union focused largely on politics. The abrupt ouster of President Fernando Lugo last month prompted the suspension of Paraguay from the bloc until next year's presidential elections. Meanwhile, Hugo Chavez's Venezuela finally received unanimous support to become a full member—a process that was only possible after the temporary removal of Paraguay from the decision-making process.

The Paraguay-Venezuela swap was unfavorable to Mercosur because it sends mixed signals about the region's commitment to democratic norms. The lack of clear benchmarks to define what constitutes a coup subjects the decision to uphold the bloc's democratic clause to a highly subjective—and politically charged—decision-making process. While in theory a sudden breakdown of democratic order is easier to recognize (although even that may be questionable in Paraguay's case), the same cannot be said of a gradual process of deterioration of democratic norms, as seems to be the case in Venezuela.

But Venezuela's admittance to Mercosur will create problems beyond the political realm. Currently, every Mercosur decision requires unanimity. That includes negotiation of free trade agreements (FTAs). It is notorious that the numerous trade disputes between the bloc's two main economies, Brazil and Argentina, hamper Mercosur's capacity to negotiate with other countries. In the past few years, while other Latin American countries have succeeded in signing FTAs with the world's major economies (United States, European Union, and China), Mercosur has signed only three: with Israel, Egypt, and Palestine.

castroneves@eurasiagroup.net

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Add a contrasting economy like Venezuela to the mix, subject to Chavez's ideological whims and with its interests mostly in the energy sector, and the bloc's cohesiveness in external negotiations is likely to diminish. In fact, this may explain why the leaders who convened in Argentina last month declared their intention to increment trade relations with China without any mention of or timetable for an FTA. If this is really the case, sooner or later, as Mercosur seeks horizontal expansion, it will be pushed to address the shortcomings of its vertical institutionalization.

Thus far, there is no political will to address these shortcomings. Last month's summit in Argentina fell short of any noteworthy economic measures to quell the specter of protectionism in the region. Long-standing trade disputes between member states remain unresolved. And the hurdles to regional trade are likely to get higher as protectionist measures make their way into the policy repertoire of local leaders seeking responses to the global economic crisis.

By numbers alone, Brazil's exports to Argentina have been slowing consistently in recent years, due mostly to unilateral safeguards imposed by Buenos Aires. In the first five months of 2012, Argentina absorbed less than 8% of Brazil's total exports, far below the 13% peak in 1998. Moreover, Brazil recently indicated that it may voluntarily reduce by about 30% (to US\$2 billion) its trade surplus with Argentina as a way to help Buenos Aires meet its financial obligations.

In conclusion, by highlighting Mercosur's shortcomings, last month's summit underscores the general procrastination about definitive solutions to trade disputes and a more aggressive external trade agenda. As for Paraguay, its political troubles are likely to dissipate before they have any significant impact in the region, except in the unlikely event Paraguay decides to permanently abandon the bloc and seek FTAs on its own—or create yet another regional institution. ■

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