Regionalization in Canada and Latin America

NAFTA and Mercosur

*Elisa Dávalos**

Today's formation of regional blocs has forced most countries to reinsert themselves in the world economy regionally. Canada, as a developed country and next-door-neighbor to the United States, has signed the North American Free Trade Agreement (NAFTA), as has Mexico, while the rest of the Latin American countries have signed different regional projects. Among the most outstanding of these is Mercosur, involving the strongest and most diversified economies of the southern part of the hemisphere.

Since independence, Latin America has a long tradition of projects and discussions about integration. However, these projects never encountered ideal conditions for developing until very recently. "The most important aspect of political life in Hispanic America in the nineteenth century was the setting up of new nation-states that individually linked up directly to the world market....It was in this context of affirmation of national sovereignty that projects for Latin American integration emerged."[1] Underlying these attempts was the region's interest in protecting itself both from Spain and from the Monroe Doctrine. However, the project of erecting nation-states was economically more attractive than regional integration.

A second important moment when Latin American integration was proposed was in the mid-twentieth century:

> In the 1950s... new trends changed the composition of world trade... the participation of Latin America dropped from more than 12 percent to less than 7 percent between 1950 and 1965. This transformation gave growing weight to manufactured products to the detriment of raw materials....The adoption of import substitution policies was the natural response to the deterioration in the terms of exchange....It was in this context that ECLAC [the Economic Commission for Latin America and the Caribbean] and its main theorist, Raúl Prebisch, developed what we could call the Doctrine of Economic Integration for Latin America.[2]

At the 1958 ECLAC meeting held in Santiago, Chile, Prebisch said,

> The process of integration could not be left solely to the forces of the market, to the gradual, progressive lowering of customs duties; in addition, agreements to complement industries, to distribute the output of a specific industry among different member countries, must be sought, not only to take advantage of the division of labor and specialization, but also to speed up equitable distribution of the fruits of integration.[3]

Historically, the Canadian discussion about economic integration has not had this slant since north of it lies the North Pole and its southern neighbor is the world's most powerful nation, the United States, with which its economic asymmetry is very marked.

Canadian discussions about economic integration with the United States are nothing new either. Perhaps one of the most relevant moments in this sense was the discussion about the signing of a "Reciprocity Accord" between both countries in 1854. In fact, this was actually a free trade agreement on natural resources that lasted ten years. Underlying it was to a great extent Canada's search for safe markets after Great Britain abolished its colonies' tariff privileges because its rapid industrialization put the priority on importing the cheapest raw materials regardless of their place of origin. The signing of this accord was also imbued with an active pro-integrationist discussion on the part of important industrial sectors of Canada.[4]

* Researcher at CISAN.

Thus, we can see that while in Latin America the concept of integration was permeated with common ideals from the last century on (the original proposals were made by Simón Bolívar at a time when the region began to be made up of nation-states), in Canada the idea of integration with the United States was seen from a strictly economic standpoint. This integrationist project reached its most advanced expression with NAFTA even though by the 1960s an important accord was signed to liberalize trade in the automotive sector.

We should also not forget that NAFTA's theoretical focus is on comparative advantages, the free market applied to non-equals. Canada, like Mexico, has interlocked its economy with that of the United States, to the degree that almost 75 percent of its foreign direct investment originates there. In contrast, countries like Argentina or Brazil have much more diversified patterns of direct investment, which makes them less vulnerable to pressure from the United States.

An absolute prerequisite for formally establishing an economic region is really existing economic integration. In that sense, undoubtedly the United States has intertwined the Canadian and Mexican economies with its own. Works like Garreau's *The Nine Nations of North America*[5] describe a proposed geo-economic map that would result from the integration of the three countries of North America. Other, later, works develop proposals along the same lines, following already existing economic areas in North America which, although they operate within the nation-state framework, have an economic dynamic with a strong life of their own, expressed in the internal movement of goods and investments.[6]

Another kind of factor that undoubtedly indicates a vigorous economic integration of North America are the projects for the "NAFTA superhighway system" and the "Tamaulipas Intercoastal Canal."[7]

Without a doubt, the Mercosur project is an interesting alternative, even though it remains to be seen how solid that bloc could be, what its real level of integration would be and how complementary its economies would be in the long run. Real participation by the European Union or the United States in Mercosur would unquestionably add to its potential for consolidation.

NAFTA consolidates a de facto economic integration, led by the large U.S. multinational corporations which for decades have penetrated the Canadian and Mexican economies.

Now, Mercosur is facing some problems, albeit of a very different nature from what Mexico or Canada might think:

> Although Mercosur represents a very significant achievement in historical terms, tensions are rising. The macroeconomic imbalances between Brazil and Argentina have become more marked, generating a trade gap in Brazil's favor....Exchange rate policy, inflation rates and the trade liberalization process have become acutely misaligned....The inability of the Brazilian government to maintain a coherent economic policy has undoubtedly increased the number of Argentines who think they should put more emphasis on negotiating a free trade agreement with Washington and has reinforced Chilean doubts about the viability of its becoming part of Mercosur.[8]

In this regard, the following are potential problems for the possible consolidation of Mercosur:

1. Mercosur is conceived as a mechanism for improving these Latin American economies' insertion into the world market —particularly in light of the regional bent that trade flows and investment have shown in the last decade— but there is a problem which Charles Oman points out: "The creation of global spaces obeys microeconomic, centrifugal forces that reduce the distance between countries and regions in economic terms, while regionalization is a centripetal process, directed by political forces with the aim of strengthening the sovereignty of the states that constitute a region."[9] This quote expresses something very real: an economic region will be able to participate dynamically in the world economy only if it has dynamic microeconomic forces.

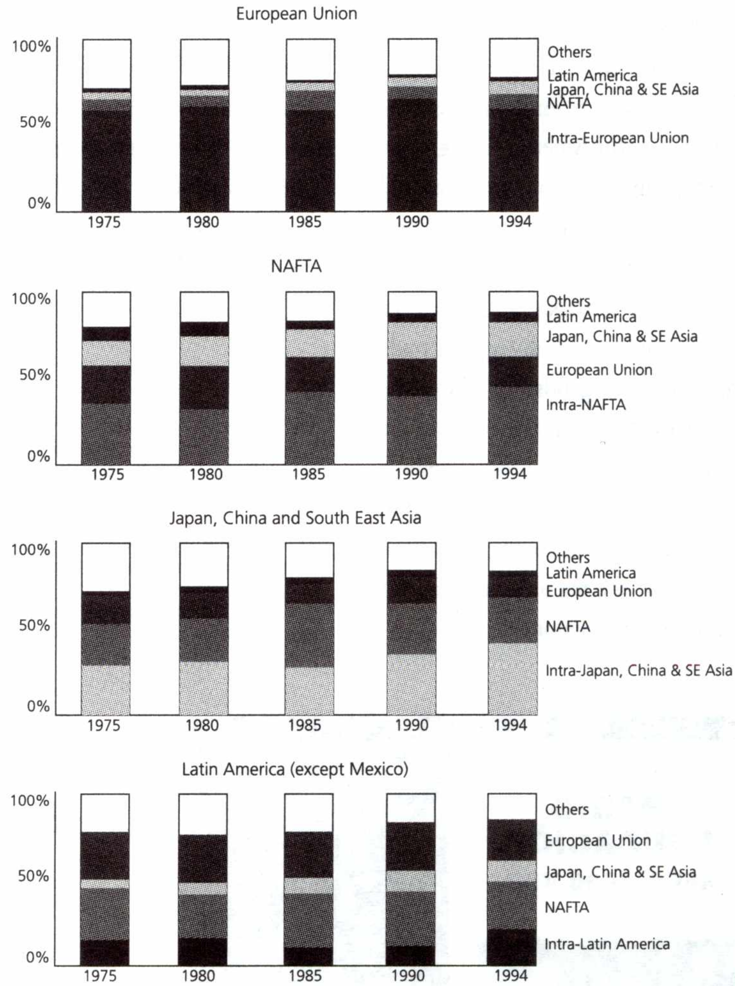
2. An economic region may only be consolidated with the participation of multinational corporations. According to UN figures, 33.3 percent of the world's exports are intra-firm trade between central offices and subsidiaries; 32.7 percent corresponds to trade between multina-

tional corporations' head offices and subsidiaries on the one hand and non-affiliated companies on the other; and the remaining 34 percent is classified as "exports of other companies," that is, trade not associated with multinationals.[10]

This means that regardless of the tariff policy followed, the geographical location of trade and investment flows will follow their own routes, determined more by multinational corporations strategies than by governmental tariff policies, including those decided by governments to set up customs zones, common markets or trade treaties. If in addition we take into account that the markets of the multinational corporations are the most dynamic in the trade flows, the problem is even more relevant.

3. However, under the new conditions of world competition, what this ECLAC document points out is still important: "The state has the fundamental function of establishing the basis for 'systemic' competitiveness, either directly or indirectly. Without appropriate policies and investment in infrastructure and human resources, countries are condemned to marginalization."[11] Like many neoliberal policies, these measures aim to attract foreign capital. Undoubtedly, the economies need foreign capital to form part of the dynamism of the world market.

Graph 1
Development of Intraregional Trade in the Large Economic Areas, 1975-1994
(Percentage of exports attributable to intraregional trade)



Source: ECLAC, ***Panorama de la inserción internacional de América Latina y el Caribe*** (Washington, D.C.: United Nations, 1996), p. 31.

This situation is what constitutes the difference between Canada's and Mexico's integration through NAFTA (despite the asymmetries and clear disadvantages in signing a treaty with the United States) and the more equitable but less dynamic integration of Mercosur. NAFTA consolidates a de facto economic integration, led by the large U.S. multinational corporations which for decades have penetrated the Canadian and Mexican economies. Thus, the United States represents 88 percent of the GDP and 70 percent of the total population of NAFTA's three signatory countries. In addition, before the treaty was signed, more than 70 percent of Canadian and Mexican exports already went to the United States, a figure which has risen to more than 80 percent since NAFTA.[12]

If we consider, as some specialists have pointed out, that we can talk about regionalization when trade among the countries in question grows more rapidly than world trade, certainly Latin America still has much left to do in establishing complementary economies that promote intraregional trade. If we look at the graph on this page, we will note that trade within the European Union was more than 50 percent of all the region's trade in 1994; trade among NAFTA countries was almost 50 percent, as was that among Japan, China and Southeast Asia. For the same year, however, exchange among Latin American countries amounted to a bare 20 percent of their total trade.

Nevertheless, it is important to consider that in Latin America "a high and growing proportion of intraregional exports are manufactured goods: 42 percent in 1990 and 46 percent in 1995, compared with averages of 31 percent and 37 percent for overall regional trade in manufactured goods for the same years."[13] However, the performance of the capital goods sector —a chronic problem in Latin America— must be improved to be able to come to any more solid conclusions about the region's potential for economic complementarity.

The development of solid regional alternatives centered in South America's Southern Cone will depend on its ability to consolidate complementary regional industry. Otherwise, the role played there by both the European Union and the United States will determine its regional market evolution. In the case of the United States, this would be through a U.S.-promoted free trade agreement for the entire hemisphere. **VM**

NOTES

[1] Aida Lerman, *Ideas y proyectos de la integración latinoamericana* (Mexico City: Universidad Autónoma Metropolitana, Xochimilco campus, 1996), pp. 10-11.

[2] Ibid., pp. 33-34.

[3] Ibid., p. 38.

[4] See W.T. Easterbrook and Hugh Aitken, *Canadian Economic History* (Toronto: University of Toronto Press, 1988).

[5] Joel Garreau, *The Nine Nations of North America* (New York: Avon Books, 1981).

[6] Some examples of this type of work are to be found in Pablo Wong, "Integración de América del Norte," Guillermo Ibarra (comp.), *Relaciones México-California, más allá de la frontera* (Culiacán, Sinaloa: Universidad Autónoma de Sinaloa, 1997). Another work of this sort, developed at the University of Toronto is quoted in Ediberto Galván Cervantes, "Globalización y procesos regionales," in *Nexos* (Mexico City), no. 239 (November 1997).

[7] According to *Nexos* no. 239 (November 1997) the superhighway system would unite Canada, the United States and Mexico from Mexico City to Winnipeg, and link cities like New York, Montreal, Quebec, Toronto, Detroit, Chicago, Vancouver and Seattle, among others. The Tamaulipas Intercoastal Canal aims to connect the Mexican Gulf Coast to the Great Lakes region, through the Mississippi basin, covering 40 states of the United States and three Canadian provinces.

[8] Andrew Hurrel, "Regionalismo en las Américas," in *América Latina en el mundo nuevo*, Abraham Lowenthal and Gregory Treverton (comps.) (Mexico City: Fondo de Cultura Económica, n.d.), p. 214.

[9] Charles Oman, *Les Défis Politiques de la Globalization et de la Régionalisation* (Paris: OCDE, 1996), p. 40.

[10] ECLAC, "Aspectos estructurales de la economía internacional," in *Panorama de la inserción internacional de América Latina y el Caribe* (Washington, D.C.: United Nations, 1996).

[11] Ibid.

[12] Ibid., p. 30.

[13] Ibid., p. 105