The Impact of Regional Trade Blocs on South American Competitiveness Evolution

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Abstract

During the past two decades, political leaders of South American states have raised the need to integrate the region in order to improve the performance of local economies and generate a positive impact on the quality of life of its citizens. Hitherto, they have not been few initiatives aimed to dismantling existing barriers within the continent.

In South America there are several sub regional trade blocs and political forums, but there is not any space that can be considered as a regional integration. Such spaces and their relationships, deserve to be studied with special caution, since the scope of its development on the regional economy may generate more problems than benefits. Heretofore, the main endeavours of integration in South America are Mercosur and the Pacific Alliance, which have shown some degree of effectiveness in generating additional income for local economies.

However, among them, the economic, social, and political relations are practically nonexistent. This, rather than strengthen the continental conjunction, may not involve into a collapse, but into a clear fracture within the region.

Despite the reform effort of past decades, the economic and social performance of Latin American countries during the 1990s was quite disappointing with few exceptions. This

paper tries to explain this striking difference, and the relation if any between the Trade Blocs agreements and the economic development of the countries involved.

In order to establish if the sub regional trade blocs have improve the overall situation on the economics of South America, there is going to be assessed in term of competitiveness evolution in the region. Looking deeper on the world Economic Forum ´s document: The Global Competitiveness Report, one may find that there’s no big difference on competitiveness improvement after Mercosur or the Pacific Alliance had been implemented.

The methodology implemented on this research is to measure the competitiveness index built by the WEF on each country before and after the existence of the sub regional trade blocs, then, group the countries on their respective trade bloc and establish if there is any traceable link between the fact of being part of a regional trade bloc and the development of the national economy.

Following the most recent literature, and the partial findings of this research that highlights the role played by institutions and policies on growth, we argue that regional integration had not played a significant role on Latin American economic growth. After analysing the data, we found that there has no been any major change on competitiveness related with the membership of Mercosur or The Pacific Alliance.

The sub regional blocs

There are few different efforts focused on working for the gathering of the economies of the region, at first, it is indicating that apparently there is a political will at the continent to give life to a wide regional integration. Paraphrasing professor Briceño, "Integration should aimed essentially to abolish the barriers and obstacles to free flow of goods and services between the various national economies. From thus be achieved to create an integrated economic area in which the performance of market laws would strengthen the interdependence economic between partner countries." (Briceño, 2003)

The Southern Common Market or Mercosur, was created in 1991 by the Treaty of Asuncion and its main objectives are: "the free movement of goods, services and factors of production between countries, the establishment of a common external tariff and the adoption of a common commercial policy, coordination of macroeconomic policies and sector among States parties and the harmonisation of legislation in in order to strengthen the integration process." (Mercosur, 1991)

The Common Market of the South, emerged as a response to the global phenomenon of creation of free trade zones, emphasising on the new trend in world trade liberalisation, regional integration, through tariff preferences, more generous import quotas and sectoral agreements, in addition to bilateral negotiations to solve trade disputes. (Portela, S. F.)

Conformed by the Republic of Argentina, the Federative Republic of Brazil, the Republic of Paraguay, the Republic of Uruguay, the Bolivarian Republic of Venezuela and the Plurinational State of Bolivia, Mercosur has nearly three hundred million people, its GDP is around $ 4.5 billion USD, facts that make it the most important economic area in the region.

The engine on most of the agenda is undoubtedly Brazil, which since the arrival of Former President Da Silva, with the development of progressive economic policies focused on the resurgence of the middle class in the country, demonstrated to the Western world that could reached interesting results in terms of development in Latin America outside the guidelines established by Washington in the 90s.

This generated that many Latin American countries implemented similar economic policies, in which the coexistence of the State involvement and free trade would generate more benefits if one exclude any of the two actors from the local and regional economic scenario. At the same time, the Southern Common Market, welcomed Chile, Colombia, Peru and Ecuador as Associated States while Guyana and Suriname are in the process of ratification formally to be linked in to the Market.

While relations between Mercosur and CAN were in the perfection of an agreement to eliminate tariff barriers between the two blocs in order to increase levels of trade, employment and incomes, the Andean Community reoriented her will and finally converged in the Southern Common Market. (Gil, Paikin, 2013: 22)

Considering the above, it show that, either as full members or as associated States, all of South America is part of the Mercosur, which aims for "the free movement of goods, services and factors of production between countries, the establishment of a common external tariff adoption and a common trade policy among States parties and the harmonisation of laws in order to strengthen the integration process." (Mercosur,1991) At this point, doubts begin to emerge about the real need for the creation of a simultaneous integration process in the Pacific basin instead of taking advantage of the progress made so far by the Mercosur.

On the other hand, The Pacific Alliance is the latest regional integration initiative. It is an area of deep integration which looks for "the free movement of goods, services, capital and people and drive further growth, development and competitiveness of the economies of the Parties." (Pacific Alliance, 2012)

The origins of the Pacific Alliance, can be traced back to the MILA, the Integrated Latin American Market, which is an initiative of integration between the stock exchanges markets of Bogota, Lima and Santiago, whose main objective revolves around give a greater dynamism to the share transactions of companies from the three countries.

Although they are two separated spaces, the MILA may be considered as the first step that gave the South American Pacific economies, and Mexico towards integration. Later, during April in 2011, in Lima, presidents from Peru, Alan Garcia; Chile, Sebastian Piñera; Colombia Juan Manuel Santos; and Mexico, Felipe Calderon, accompanied by President Ricardo Martinelli as an executive observer, gathered with the firm intention of establishing the Pacific Alliance for the creation of an area of deep integration under the Latin American Pacific Basin, aimed at promoting regional integration and further growth, development and competitiveness of the subscribed economies.

In a Latin American political environment shifting to the left spectrum on the political arena, promoting a more active role of the national sate on the local markets, the Presidents gathered at the Summit of Lima, converged on ideological matters around the neoliberalism as the axis of the model of economic policies created a contrast to the Latin-American and social development model.

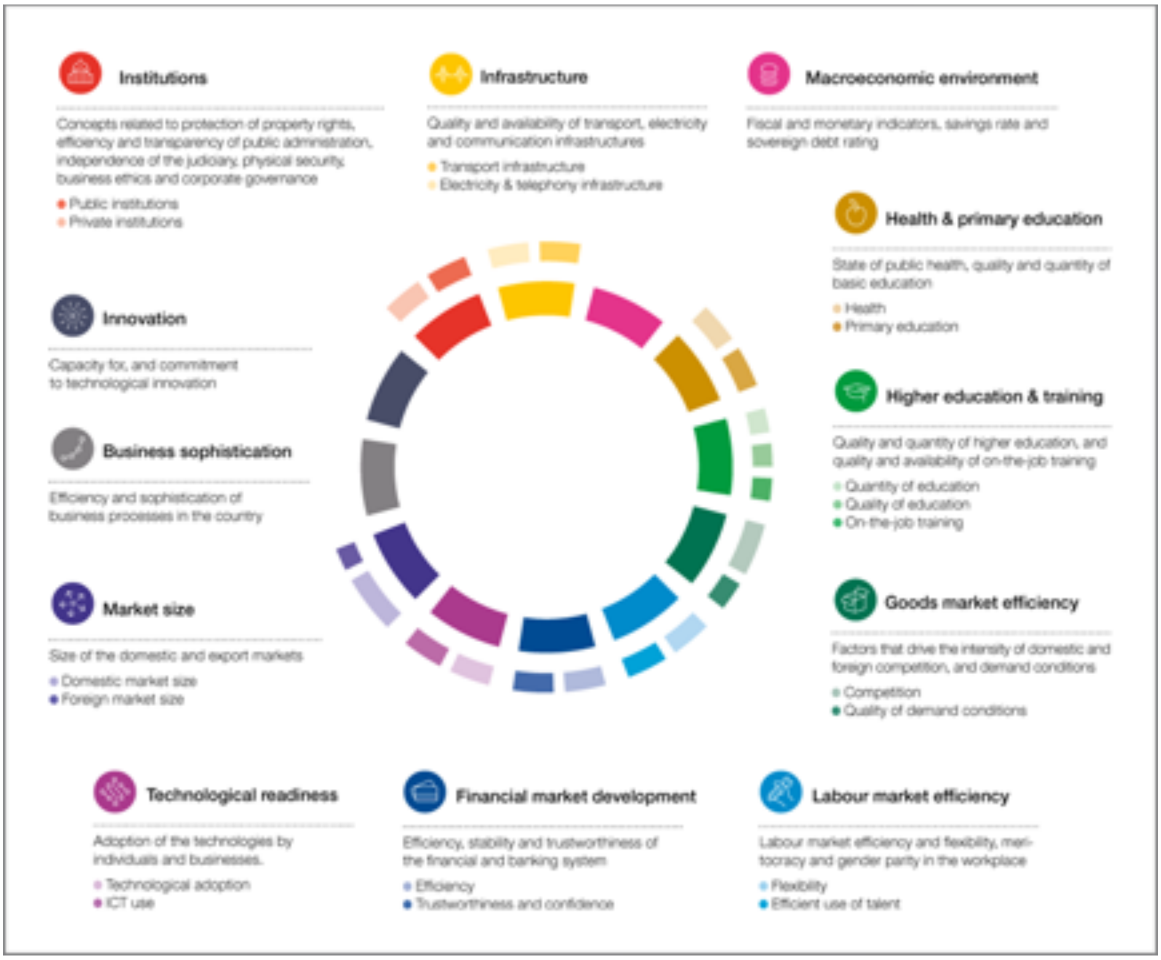
Therefore, and taking up the argument outlined above in relation to that all countries of the continent were in one way or another participating in the Mercosur, it is not the need to strengthen local industries, and promote trade between states, even the will to promote a higher level of development, as repeated elements sets objectives in both integrations, prompting the birth of the Alliance. By contrast, it was the political tendencies of presidential governments the forces that generated the need to promote the creation of the new integrative space in the region as a counter weight to the positive results of the implementation and consolidation of the Mercosur.

Competitiveness

Thinking on the definition of Competitiveness as “the ability of a region to export more in value added terms than it imports.” (Atkinson, 2013: 2) For this paper, and because of the methodology, we will embrace the World Economic Forum definition of competitiveness: “the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be reached by an economy” (WEF, 2015: 4) In words of the Forum, a more competitive economy is one that is likely to grow faster over time.

Because of competitiveness describes the economic growing ability of a country over time, we are not measuring economic growth, but just the competitiveness evolution. The Global Competitiveness Report measures twelve pillars in order to verify the situation o a given country.

The 12 pillars of Competitiveness



The relation of the pillars whit the economic development of the countries is critical, pillar by pillar they conform a very complex network of different aspects that working together in a positive way, may give the conditions for economic growth.

The first of the pillars is the institutional environment, which is determined by the legal and administrative framework within which individuals, firms, and governments interact to generate wealth. (WEF, 2015: 6)

Infrastructure is the second pillar. Extensive and efficient infrastructure is critical for ensuring the effective development of an economy. “It is an important factor in determining the location of economic activity and the kinds of activities or sectors that can develop within a country.” (WEF, 2015: 6) Macroeconomic environment, the third pillar is absolutely critical because organisations cannot operate efficiently when the macro economical environment is unstable.

Health and primary education are being counted into the competitiveness assessment because “poor health leads to significant costs to business, as sick workers are often absent or operate at lower levels of efficiency”. (WEF, 2015: 6) Quality in higher education and training, the fifth pillar is crucial for economies that want to move up the value chain beyond simple production processes and products.

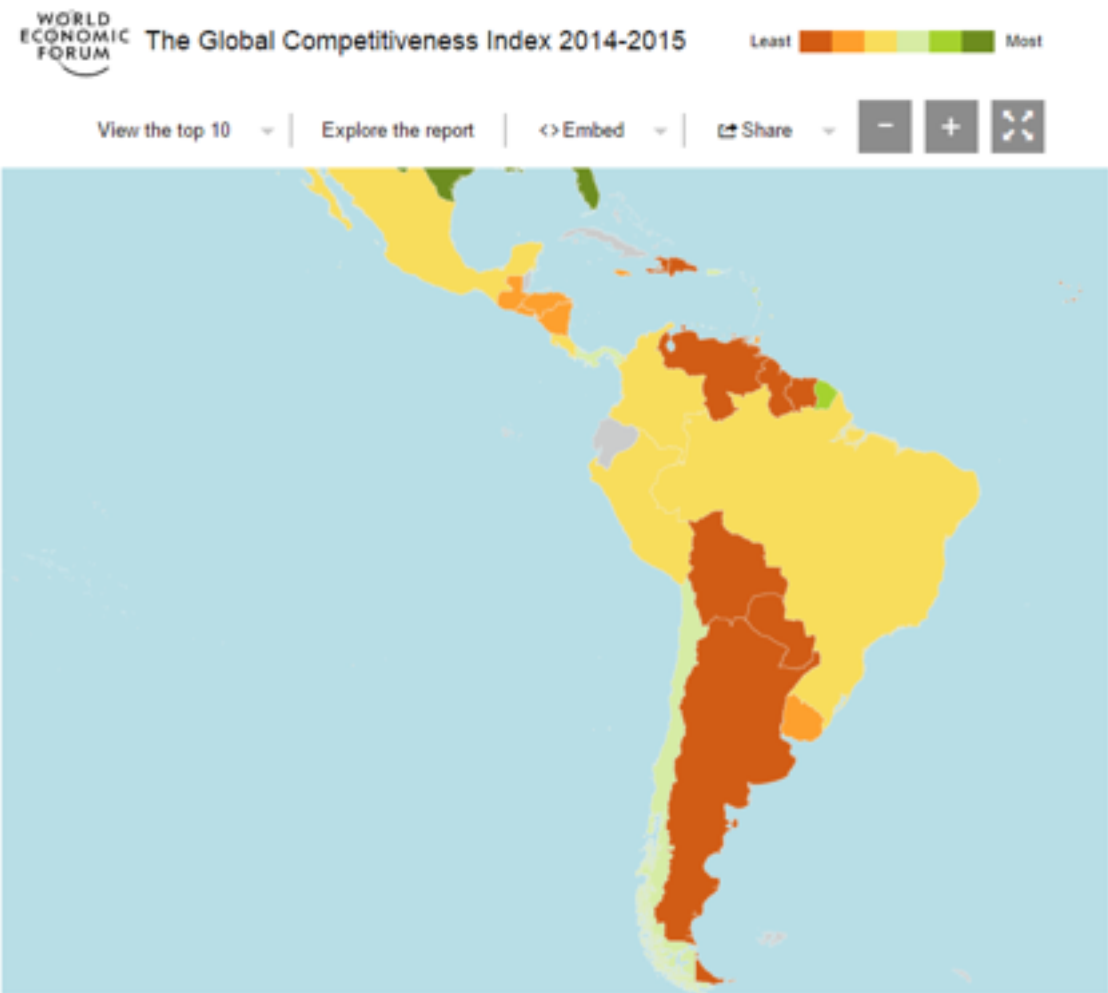
The next three pillars are the efficiency of the goods market, the labor market and the financial market, all of them important not just for measuring competitiveness but for the real economic development.

The ninth pillar is named technological readiness. The pillar measures “the agility with which an economy adopts existing technologies to enhance the productivity of its industries” (WEF, 2015, 7).

Market size and business sophistication are the 10th and 11th pillars. It is not the same a country with 200 million people than a country with just 2 million, the market size can give to the internal economy a greater pace by its own. Business sophistication concerns two elements that are intricately linked: the quality of a country's overall business networks and the quality of individual firms' operations and strategies (WEF, 2015: 7)

The last but, one of the most important pillars is innovation, the innovation can be implemented in all of the economic sectors and in all of the pillars being analysed by the WEF and in this paper. One may improve a specific sector by implementing research and development on any way imaginable. Innovation is the link between all pillars. It is important to keep in mind that the 12 pillars do not work separately, they tend to interact with each other in different ways.

Competitiveness on the region



On the heat map elaborated by the WEF, one may realise that the countries of Mercosur, except Brazil are on the “least” competitive range, while the Pacific Alliance is on the “medium” range, and Chile amongst the “most” competitive countries world wide.

Competitiveness score on 2015

Pacific Alliance

	2008		2009		2010		2011		2012		2013		2014	
Chile	28	4.7	30	4.7	30	4.7	31	4.7	33	4.6	34	4.6	33	4.6
Colombia	74	4.0	69	4.0	68	4.1	68	4.2	69	4.2	69	4.2	66	4.2
Mexico	60	4.2	60	4.2	66	4.2	58	4.3	53	4.4	55	4.3	61	4.3
Peru	83	3.9	78	4.0	73	4.2	67	4.2	61	4.2	61	4.2	65	4.2
Pacific Alliance		4.2		4.2		4.3		4.4		4.4		4.3		4.3

Mercosur

	2008		2009		2010		2011		2012		2013		2014	
Argentina	88	3.9	85	3.9	87	3.9	85	3.9	94	3.9	104	3.8	104	3.8
Bolivia	118	3.4	120	3.4	108	3.6	103	3.8	104	3.8	98	3.8	105	3.8
Brazil	64	4.1	56	4.2	58	4.3	53	4.3	48	4.4	56	4.3	57	4.3
Paraguay	124	3.4	124	3.3	120	3.5	122	3.5	116	3.7	119	3.6	120	3.6
Uruguay	75	4.0	65	4.1	64	4.2	63	4.3	74	4.1	85	4.0	80	4.0
Venezuela	105	3.6	113	3.5	122	3.5	124	3.5	126	3.5	134	3.3	131	3.3
Mercosur		3.7		3.7		3.8		3.9		3.9		3.8		3.8

Note: Chart elaborated by the author with the database of Global Competitiveness Report from the World Economic Forum

The first column corresponds to the position on the ranking elaborated by the WEF, and the second, at the score obtained by each county on the Global Competitiveness Report.

The table shows that there is no significant change on the average obtained by both trade blocs. The years 2011 and 2012 for Mercosur and the Pacific Alliance are the periods with the higher scores obtained, but the year after, and 2014 they return to the score they had before.

The regional integration is more political than practical, economical. The competitiveness of the economies on the region have had not major growth since they form the regional blocks, hence the economy has neither grow in a significant way.

All the efforts had been lost because there is the platform but is not being used by businesses, basically because the national countries still export the same products they have exported since always. Intra industrial trade is still at its basic stages on the region, there is no evidence of any major improvement on research and development, and the most critical aspect is that countries see each other as a competitor instead of a potential market.

Conclusion

It is too early to assess the consequences of the implementation of the Pacific Alliance in the region and it is not yet possible to identify a positive or negative trend in economic matters in the sub Pacific basin region, there is a general optimism about the consequences at the local level, in fact, existing international cooperation initiatives in areas such as education and health; at the same time, the mobility of citizens of member countries of the Alliance, has been favoured by eliminating visa for tourism and business.

Moreover, although the Pacific Alliance has worked for a couple of years to strengthen trade within it, it has not presented any initiative approach to other regions of the Pacific Rim, natural region of the Alliance. In fact, as described by ECLAC, "There is not enough awareness of the importance of bi-regional trade and investment have been few coordinated between countries or seeking closer trade and investment links with Asia Pacific regional grouping strategies.

The approach of Latin America and the Caribbean with Asia has been sporadic and piecemeal, and has been confined to the conclusion of bilateral free trade agreements. "(ECLAC, 2008: 11) If you have not been able to consolidate an articulated region, it is very unlikely that a successful approach with other regional blocs is reached.

Additionally, in the South American continent, two models diverge completely opposite economic policy as to how to achieve a higher level of development. Meanwhile, in Mercosur, the vast majority of nations are dumped to work on a progressive model that mimics some aspects of the social democracy in northern Europe, and promotes social security and the welfare and protection of the middle class; while the countries of the Pacific Alliance tend to be more aligned with the US neoliberalism, promoting less government intervention in matters relating to the market and the generation and distribution of income.

However, both models converge in real need to increase both economic and human development in the region. However, due to changes in governments last year in the region, one can glimpse that are the presidential interests that determine the course of integrations and now with President Bachelet, the Chilean executive begins working over his Mountains to bring the two integration efforts. In the words of Chilean Deputy Foreign Minister Eduardo Riveros, "it is false the view that the two coast live back to back. [From Chile] want to be a bridge between the Pacific Alliance and the Mercosur. "(Riveros, 2014)

Finally, as Latin Americans hope that decision makers manage to overcome their differences and personalistic focus on work rather than state projects, regional policy and thus the progress made in both agreements, taking into account their objectives, scope and challenges mostly imitate, which serve for an eventual merger between the Pacific Alliance and the Common Market of the South to conquer that goal, so elusive for nearly two centuries of South American integration.

Appendix a: Global Competitiveness measuring Computation and Structure of the Global Competitiveness Index

	Weight (%) within immediate parent category
BASIC REQUIREMENTS	20–60%
1st pillar: Institutions	25%
A. Public institutions	75%
1. Property rights	20%
1.01 Property rights	
1.02 Intellectual property protection	
2. Ethics and corruption	20%
1.03 Diversion of public funds	
1.04 Public trust in politicians	
1.05 Irregular payments and bribes	
3. Undue influence	20%
1.06 Judicial independence	
1.07 Favoritism in decisions of government officials	
4. Government efficiency	20%
1.08 Wastefulness of government spending	
1.09 Burden of government regulation	
1.10 Efficiency of legal framework in settling disputes	
1.11 Efficiency of legal framework in challenging regulations	
1.12 Transparency of government policymaking	
5. Security	20%
1.13 Business costs of terrorism	
1.14 Business costs of crime and violence	
1.15 Organized crime	
1.16 Reliability of police services	
B. Private institutions	25%
1. Corporate ethics	50%
1.17 Ethical behavior of firms	
2. Accountability	50%
1.18 Strength of auditing and reporting standards	
1.19 Efficacy of corporate boards	
1.20 Protection of minority shareholders' interests	
1.21 Strength of investor protection*	
2nd pillar: Infrastructure	25%
A. Transport infrastructure	50%
2.01 Quality of overall infrastructure	
2.02 Quality of roads	
2.03 Quality of railroad infrastructure*	
2.04 Quality of port infrastructure	
2.05 Quality of air transport infrastructure	
2.06 Available airline seat kilometers*	
B. Electricity and telephony infrastructure	50%
2.07 Quality of electricity supply	
2.08 Mobile telephone subscriptions*	
2.09 Fixed telephone lines*	
3rd pillar: Macroeconomic environment	25%
3.01 Government budget balance*	
3.02 Gross national savings*	
3.03 Inflation*	
3.04 Government debt*	
3.05 Country credit rating*	
4th pillar: Health and primary education	25%
A. Health	50%
4.01 Business impact of malaria	
4.02 Malaria incidence*	
4.03 Business impact of tuberculosis	
4.04 Tuberculosis incidence*	
4.05 Business impact of HIV/AIDS	
4.06 HIV prevalence*	
4.07 Infant mortality*	
4.08 Life expectancy*	
B. Primary education	50%
4.09 Quality of primary education	
4.10 Primary education enrollment rate*	
EFFICIENCY ENHANCERS	35–50%
5th pillar: Higher education and training	17%
A. Quantity of education	33%
5.01 Secondary education enrollment rate*	
5.02 Tertiary education enrollment rate*	
B. Quality of education	33%
6th pillar: Goods market efficiency	17%
A. Competition	67%
1. Domestic competition	variable
6.01 Intensity of local competition	
6.02 Extent of market dominance	
6.03 Effectiveness of anti-monopoly policy	
6.04 Effect of taxation on incentives to invest	
6.05 Total tax rate*	
6.06 Number of procedures required to start a business*	
6.07 Time required to start a business*	
6.08 Agricultural policy costs	
2. Foreign competition	variable
6.09 Prevalence of trade barriers	
6.10 Trade tariffs*	
6.11 Prevalence of foreign ownership	
6.12 Business impact of rules on FDI	
6.13 Burden of customs procedures	
6.14 Imports as a percentage of GDP*	
B. Quality of demand conditions	33%
6.15 Degree of customer orientation	
6.16 Buyer sophistication	
7th pillar: Labor market efficiency	17%
A. Flexibility	50%
7.01 Cooperation in labor-employer relations	
7.02 Flexibility of wage determination	
7.03 Hiring and firing practices	
7.04 Redundancy costs*	
7.05 Effect of taxation on incentives to work	
B. Efficient use of talent	50%
7.06 Pay and productivity	
7.07 Reliance on professional management	
7.08 Country capacity to retain talent	
7.09 Country capacity to attract talent	
7.10 Female participation in labor force*	
8th pillar: Financial market development	17%
A. Efficiency	50%
8.01 Availability of financial services	
8.02 Affordability of financial services	
8.03 Financing through local equity market	
8.04 Ease of access to loans	
8.05 Venture capital availability	
B. Trustworthiness and confidence	50%
8.06 Soundness of banks	
8.07 Regulation of securities exchanges	
8.08 Legal rights index*	
9th pillar: Technological readiness	17%
A. Technological adoption	50%
9.01 Availability of latest technologies	
9.02 Firm-level technology absorption	
9.03 FDI and technology transfer	
B. ICT use	50%
9.04 Internet users*	
9.05 Broadband Internet subscriptions*	
9.06 Internet bandwidth*	
9.07 Mobile broadband subscriptions*	
2.08 Mobile telephone subscriptions*	
2.09 Fixed telephone lines*	
10th pillar: Market size	17%
A. Domestic market size	75%
10.01 Domestic market size index*	
B. Foreign market size	25%
10.02 Foreign market size index*	
INNOVATION AND SOPHISTICATION FACTORS	5–30%
11th pillar: Business sophistication	50%
11.01 Local supplier quantity	
11.02 Local supplier quality	
11.03 State of cluster development	

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