

The perpetual pursuit of integration in Latin America and the Caribbean¹

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Received: 13/09/2023

Accepted: 22/09/2023

Abstract

Latin America and the Caribbean set out to achieve regional integration. However, sixty years on from the launch of the first major regional project — the Latin American Free Trade Association (LAFTA)— the modest results have fallen well short of the original aspirations. Latin America and the Caribbean is a fragmented region. Institutions for integration have achieved little, and integration has largely appeared in discourse, rather than among national policy priorities. Politicization of integration has hampered progress on the pragmatic and long-term vision offered by this regional project. As supply chains are nearshored, integration is once again becoming an important issue. In view of the national circumstances that must be taken into account to move forward with this major regional project, a number of measures are proposed in this article, to take advantage of nearshoring and pave the way for greater integration, to drive growth, development and well-being.

Keywords

Economic integration, international trade, economic development, regional organizations, regionalism, exports, imports, trade statistics, political aspects, industrial location, trade facilitation, Latin America and the Caribbean

JEL classification

B27, F15, N16

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¹ The author would like to thank Jorge Mario Martínez Piva, Chief of the International Trade and Industry Unit of the subregional headquarters of the Economic Commission for Latin America and the Caribbean (ECLAC) in Mexico for his valuable comments on a draft of this text.

I. Introduction

Latin America and the Caribbean has been in continual pursuit of regional integration since the very beginning of its independent existence. The notion of an integrated region has formed part of the political ideology of different leaders throughout its history, with a multitude of different approaches and visions. In the nineteenth century, Simón Bolívar's vision of regional integration sought to unite the newly independent countries as the confederation of Gran Colombia. José Martí, meanwhile, proposed a united America. In the twentieth century, Raúl Prebisch, Executive Secretary of the Economic Commission for Latin America (ECLA), was a key figure behind economic integration in the region. His thinking and proposals sought to influence economic and development policies in the region. One of his proposals was to foster growth in the countries of the region by pursuing a move to a single market facilitated by trade flows (Prebisch, 1969). In his vision, growth through the industrialization of all Latin American countries by means of import substitution could be supported by the creation of a single Latin American market that would enable consolidation of a strong internal market (Sotelsek, 2008).

More than six decades have been spent in the pursuit of economic integration in Latin America and the Caribbean by creating a free trade area or common market, but the results are modest and fall far from the declared aim of promoting trade by eliminating barriers to exchanges of goods and services among the countries of Latin America and the Caribbean. Considering trade flows, intraregional trade has accounted for around 15% of all trade between the countries of Latin America and the Caribbean and the world. The region is fragmented between the countries of South America, Central America and the Caribbean and Mexico; moreover, the latter seems a very distant Latin American neighbour given the trade and investment dynamics in the region. Turning to investment, Latin American and Caribbean countries account for a small share of the foreign direct investment (FDI) flows received by the region. Although a record share of 14% was recorded in 2022, this was still less than the 17% of FDI from the European Union or the 38% of FDI from the United States (ECLAC, 2023a).² These figures reflect the limited economic, trade and investment integration among Latin American and Caribbean countries.

The integration project in Latin America and the Caribbean has been supported by creation of regional institutions, but they have made little progress. There may be various reasons for this, but what is clear is that there is still much to be done in the area of the institutional framework for integration. The limited advances are an indication of how low a priority regional integration has been for the countries and their different governments.

In the current context of nearshoring and regionalization of supply chains, aiming to diversify China's supply to other countries and regions, regional integration is once again becoming a more important tool for the future of Latin America and the Caribbean to be one of "more productive, inclusive and sustainable development", as stated by ECLAC (2023b). Although modest progress has been made on regional integration, in this article it is argued the time is right to rethink the way forward and reexamine public policies, to return to a course that will enable, through deeper regional integration, opportunities for growth, development, inclusion and prosperity for the citizens of Latin America and the Caribbean.

This article analyses why limited advances have been made with respect to integration of Latin America and the Caribbean and offers proposals that could help build a framework for greater levels of integration. The current state of the integration process in the region is reviewed briefly, focusing on the institutional framework for integration and trade and investment flows. Section II outlines how integration has not been a priority in the agendas of the countries of the region, as there has been a lack of pragmatism and leadership to foster meaningful integration. Greater importance has been attached to nationalism and sovereignty than to the benefits of integration, diverting the region away from this goal. Institutional frameworks for integration are examined, along with the two types of regional initiatives: trade integration and those with

² Over the 2015–2019 period, FDI from Latin American and Caribbean countries in the region was 10%.

political and ideological motives to develop cooperation agendas. Although these institutional frameworks have been in place for decades, they have produced meagre results. However, at this time there does not seem to be a willingness to reexamine these institutions, so the best approach would be to make use of those that already exist and, adopting a pragmatic approach, further developing the technical areas that can boost the share of Latin America and the Caribbean in supply chain relocation.

Section III analyses the integration situation by examining figures for intraregional trade and investment. The numbers show that integration still has huge potential as, although bilateral and subregional preferential trade agreements do exist, the resulting trade and investment flows are limited, especially among the countries of the Latin American Integration Association (LAIA). This contrasts with the buoyant growth in trade between Latin America and the Caribbean and its extraregional trade partners, such as the United States, China and the European Union.

Section IV reviews the politicization of integration, which is hampering progress on a pragmatic and long-term regional project. Issues relating to nationalism and sovereignty have hindered a number of countries from fully committing to integration projects at different points in the region's history.

Section V outlines how the current context of nearshoring and decoupling of Chinese supply chains from the United States and the European Union may offer an opportunity to boost integration of Latin America and the Caribbean. Interest from countries and companies in implementing a “China Plus One” (C+1) supply diversification strategy, with Latin America and the Caribbean potentially being that “plus one”, could drive construction or strengthening of supply chains in sectors such as apparel, footwear, furniture or medical devices. In this respect, productive integration can improve the positioning of Latin America and the Caribbean to participate in regional and global supply chains in an integrated manner.

Lastly, section VI explores the future of integration and the question of whether integration has a future in Latin America and the Caribbean. Given the specific circumstances of the region and the difficulties in making progress on integration, some paths forward are proposed, to build blocs gradually and pragmatically, paving the way for future regional integration. Some proposals are made with respect to how the region can take advantage of nearshoring, which appears to be a long-term trend that Latin America and the Caribbean can participate in, and above all how it can increase integration to boost growth, development and well-being, to build a better future for the people of the region.

II. The institutional framework for integration in Latin America and the Caribbean

Integration in Latin America and the Caribbean is limited, but as an issue it remains on the foreign policy and trade agendas of the region's countries. The term “integration” appears repeatedly in political discourse, but it is not a priority in national public policy agendas. None of the countries of Latin America and the Caribbean have demonstrated a willingness to take the lead on the integration project. Brazil and Mexico, the major economies of the region, have shown no interest in leading a bona fide Latin American integration project, nor have they demonstrated the vision to do so. Moreover, integration has been politicized, depending on the political positions and ideologies of the governments of the region. When the political agendas of different governments have aligned, agreements have moved forward, but when agendas have been at odds, differences have triumphed over the pragmatism that is needed to guide integration. The region has forgotten that, as Prebisch stated in 1969, economic cooperation can be a solid foundation for political unity, but the concept of a Latin American market is separate from any concept of political unification, because a common market does not have a political design, and integration should therefore not be politicized (Prebisch, 1969). But the issue has indeed become politicized, making it difficult to focus on the ultimate goal: achieving an integrated region that can catalyse growth, development, job creation and well-being.

The staunch defence of national sovereignty by countries of the region has also hindered integration, because it has prevented a proper balance being struck between reaping the benefits of integration and subjecting national sovereignty to certain regional rules. Each country is prioritizing its national agenda, and regional cooperation is not seen as a source of strength (Hakim, 2015). In Latin America and the Caribbean, it has not been possible to isolate discussions on sovereignty from integration, so the countries of the region have been unable to “temper their demands of absolute sovereignty ... and turn to collective regional action when valued regional norms and interests are at stake.” (Hakim, 2015).

The region does not have a body that is equivalent to the European Commission within the European Union or the Coordinating Council within the Association of Southeast Asian Nations (ASEAN), which could oversee progress on a Latin American and Caribbean integration process, and at this time it is difficult to imagine such a body even existing.³ The only regional organization that could play this role is LAIA, which has demonstrated limited convening power as a forum to discuss and promote integration issues, and even weaker capacity to decisively champion an integration process.

There are two types of regional integration initiatives in Latin America and the Caribbean: those that are economic or trade-related, and those that originated from political and ideological visions, aiming to build a policy cooperation agenda for the participating countries.

ECLAC has actively promoted trade integration in the region. In 1960, it supported the creation of the Latin American Free Trade Association (LAFTA) and in 1980 the establishment of LAIA⁴ through the Montevideo Treaties of 1960 and 1980. LAIA was established through different instruments and in substantially different global and regional circumstances than those that enabled the creation of LAFTA (LAIA/ECLAC, 2012).

LAFTA sought to create a free trade area within 12 years (later extended to 18 years) through negotiations among member countries to gradually eliminate tariffs and non-tariff restrictions (LAFTA, 1960). Later, in 1980, LAFTA was transformed into LAIA when the goal of creating a free trade area could not be achieved within the established period, with the proposal to “establish a Latin-American common market, without predetermined chronograms, within a flexible framework in order to allow the establishment of bilateral and sub-regional relations” (LAIA, 1980).

LAIA is currently encountering challenges in taking action to move forward with a regional integration project to eliminate barriers to intraregional trade. In recent years, the Association’s ministerial meetings have not been attended by ministers, possibly reflecting the lack of priority given to the issue by its member States and the great challenges LAIA and the regional integration project both face. Although more than six decades have passed since the creation of LAFTA (1960), and in spite of the later establishment of LAIA (1980) and countless initiatives put forward to promote economic, trade and productive integration of the region, the reality is far from the proposed aim.

In addition to LAIA existing as a Latin American integration organization, bilateral and subregional integration agreements have been negotiated since the 1990s to promote economic, trade, political and social cooperation among some countries in the region.⁵ Prior to 2000, the average country in Latin America and the Caribbean “held a preferential trade agreement with about 4 regional partners; by 2013 this number rose to close to 10”. However, the countries did not always demonstrate great openness to genuine regional integration (World Bank, 2017).

³ ASEAN comprises 10 countries (Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam) pursuing an economic, political and sociocultural community (see [online] <https://asean.org/our-communities/economic-community/>).

⁴ LAIA comprises 13 member countries and a further 2 countries are in the process of joining. It was created in 1980 from LAFTA (which existed between 1960 and 1980), as a regional integration organization to promote the economic and social development of its members.

⁵ See the texts of the various trade agreements of Latin American and Caribbean countries on the Organization of American States (OAS) Foreign Trade Information System website (see [online] <http://www.sice.oas.org/defaults.asp>) and the LAIA website (see [online] <https://www.aladi.org/sitioaladi/acuerdosactuales/>).

Signing subregional trade agreements has allowed the region to have some presence in the world economy. Such agreements not only contribute to regional integration, they have also created a network of disciplines with differing levels of coverage and aims, as well as different degrees of liberalization of trade in goods and services, when the latter are included. These differences lead to costs for businesses, which must comply with various regulations to obtain preferential tariff treatment (when it is available) in the 33 Latin American and Caribbean markets in the absence of a common market.

From a perspective of economic integration, we identify some subregional agreements that have been in place for decades and have undergone adjustments and deepening, but also setbacks, so that “Latin America’s integration schemes so far seem mostly toothless and ineffectual” (Hakim, 2015). They are: the Andean Community (CAN),⁶ the Caribbean Community (CARICOM),⁷ the Southern Common Market (MERCOSUR),⁸ the Central American Integration System (SICA),⁹ the Secretariat for Central American Economic Integration (SIECA)¹⁰ and the Pacific Alliance.¹¹ These agreements include, among other measures, reducing or eliminating tariffs on imports of goods, as well as disciplines for trade in goods and services. However, within the subregional mechanisms, progress has been limited. For example, in the case of MERCOSUR, which was established in 1991, tariffs are still applied to trade among member countries and in some circumstances they have applied tariffs to imports from third parties that deviate from the Market’s own principles, which entail applying the same common external tariff in the four countries for imports from outside the region, as the agreement is a customs union.¹² The best examples are perhaps two agreements signed in 2002 between Mexico and MERCOSUR: Economic Complementarity Agreement No. 54, which gave rise to four bilateral agreements with Mexico, with different levels of tariff preferences in each, and Economic Complementarity Agreement No. 55, which governs trade in the automotive sector between Mexico and each of the MERCOSUR member States. The two agreements, and the bilateral agreements, are intended to be the building blocks that will eventually lead to the establishment of a free trade agreement between Mexico and MERCOSUR.

Political cooperation initiatives include the Community of Latin American and Caribbean States (CELAC),¹³ the Bolivarian Alliance for the Peoples of Our America-People’s Trade Agreement (ALBA-TCP)¹⁴ and the Union of South American Nations (UNASUR).¹⁵ These organizations were created to promote political agendas, as the participation of the different member countries of ALBA-TCP and UNASUR has reflected, on occasions, ideological alignment of governments in power. This explains the pro-activity or indifference seen in these organizations, which are not good points of reference for building a productive integration project or an expanded common market.

⁶ Established in 1969, comprising Colombia, Ecuador, Peru and the Plurinational State of Bolivia. Seeks to promote balanced and sustainable development of member countries through economic integration and regional cooperation.

⁷ Established in 1973 to support economic, social and cultural cooperation among Caribbean countries. Comprises 15 countries (Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago) and 5 associate members.

⁸ MERCOSUR originated in 1991 as a customs union between Argentina, Brazil, Paraguay and Uruguay to promote trade and economic cooperation, and to establish a common trade policy with respect to third parties, by establishing a common external tariff. The Plurinational State of Bolivia has requested to join the bloc.

⁹ Established in 1991 to integrate the Central American countries of Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

¹⁰ It is the body of SICA in charge of promoting economic integration and development in Central America.

¹¹ It was created in 2011 as an economic and trade integration mechanism to allow free movement of goods, services, capital and people among its members: Chile, Colombia, Mexico and Peru.

¹² In May 2022, Brazil unilaterally reduced its MERCOSUR common external tariff, while Uruguay sought to negotiate a bilateral FTA with China; both decisions are contrary to construction of a customs union between the members (see [online] <https://www.reuters.com/markets/us/brazil-set-make-another-10-cut-import-tax-rates-2022-05-23/>).

¹³ Established in 2011 as a regional forum, bringing together the 33 countries of Latin America and the Caribbean to promote political, economic and social cooperation.

¹⁴ Established in 2004 to combat poverty and social exclusion. It comprises Antigua and Barbuda, the Bolivarian Republic of Venezuela, Cuba, Dominica, Grenada, Nicaragua, Saint Lucia, Saint Vincent and the Grenadines and the Plurinational State of Bolivia. Honduras joined in 2008, but withdrew in 2010. Ecuador joined in 2009 and withdrew in 2018.

¹⁵ Established in 2008 and entered into force in 2011. Comprises Argentina, the Bolivarian Republic of Venezuela, Brazil, Guyana, the Plurinational State of Bolivia and Suriname following the withdrawal of Colombia, Paraguay, Peru and Uruguay.

In the 1990s, the integration process in Latin America and the Caribbean was characterized by “open regionalism”, which, per the proposal from ECLAC, entails interaction of policy-driven integration and de facto integration supported by non-discriminatory policies, in order to facilitate greater competitiveness for Latin American countries and, at the same time, build the foundation for a more open international economic system (Fuentes, 1994). The countries of Latin America and the Caribbean have established a network of trade and investment treaties and agreements with countries within and outside the region that could support integration efforts. For example, within the framework of the 1980 Montevideo Treaty, there are 70 partial scope agreements in force (in which only some LAIA member countries participate), of which 37 are economic complementarity agreements (LAIA, n/d). Of those agreements, 25 are free trade agreements and include 12 of the 13 member countries (Leroux, 2018). Although the countries of Latin America and the Caribbean have built an institutional framework with agreements that include tariff preferences for many products with trade potential, their coverage is only partial, meaning that they are unlikely to lead to formation of a free trade area. From the establishment of LAIA onward, as a result of renegotiation of its predecessor LAFTA in the 1980s, trade agreements had limited product coverage and consisted of tariff preferences, but not elimination of tariffs (LAIA/ECLAC, 2012). Since the 1990s, the trade agreements negotiated among the countries of Latin America and the Caribbean have become free trade agreements, whose purpose has been to liberalize trade in goods, including elimination of tariffs on almost the entire universe of products and opening up trade in services by deregulating the activity of the sectors covered. The agreements have also included disciplines for trade in goods and services, investment, government procurement and intellectual property, among other disciplines. They also provide for mechanisms for settlement of disputes between States.

In short, since the 1960s, Latin America and the Caribbean has been building an institutional framework of trade and investment agreements that should be the foundation for pursuing integration among the countries of the region. However, this web of trade agreements among various Latin American and Caribbean countries, which has led to bilateral and subregional liberalization, is not enough to build a Latin American common market.

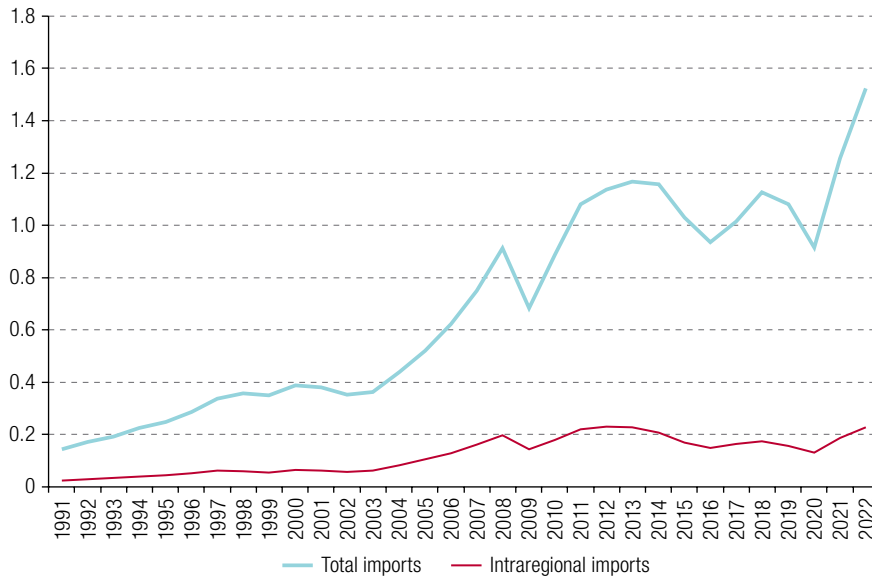
III. The state of integration

Intraregional trade and investment have not taken off. Integration in Latin America and the Caribbean, measured in terms of trade flows among the countries of the region, has remained at around 15% on average, with slightly higher levels in some years (over 20% from 2005 to 2010) and slightly lower levels in others (for example, 13% in 2020). The Inter-American Development Bank (IDB) concluded that “economic integration in LAC largely stagnated” over several decades (Giordano, 2021).

In 2022, intraregional trade showed one of the lowest levels of integration in recent decades. Of the total imports into Latin America and the Caribbean in 2022 (US\$ 1.524 trillion), just 14.95% came from the region (US\$ 227 billion) (see figure 1) (IMF, n/d). Exports from Latin America and the Caribbean in 2022 totalled US\$ 1.394 trillion, of which US\$ 214 billion were intraregional, accounting for only 14.78% of total exports (see figure 2).¹⁶

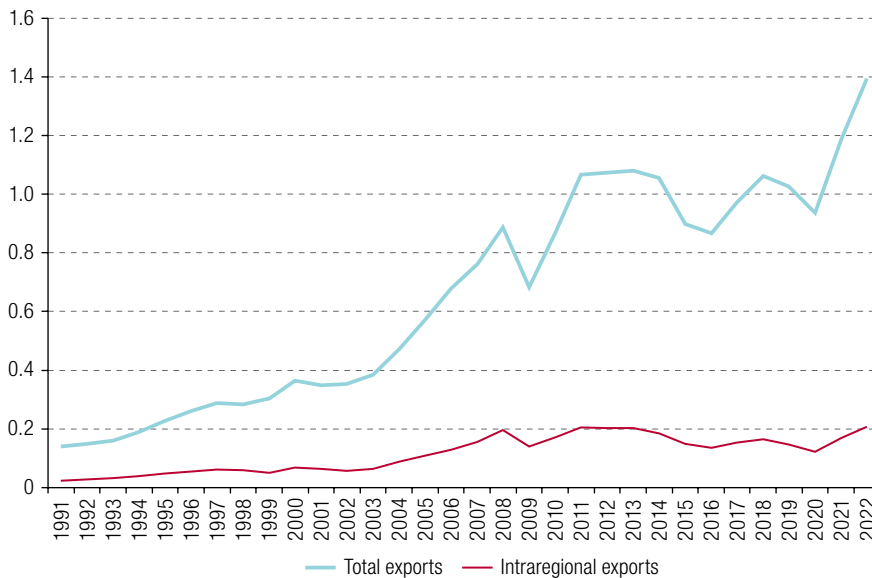
¹⁶ In 2022, the top five intraregional export sectors were oil, vehicles, machinery, plastics and machinery, appliances and electrical equipment. Trade statistics for international business development (Trade Map), Intraregional trade, Exports. See [online] Bilateral trade between Latin America and the Caribbean and Latin America and the Caribbean. Product: Total All products https://www.trademap.org/Bilateral_TS.aspx?nvpm=3%7c%7c15%7c%7c15%7cTOTAL%7c%7c2%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1.

Figure 1
Latin America and the Caribbean: total imports from the region and from the world, 1991–2022
(Billions of dollars)



Source: International Monetary Fund (IMF), "IMF Data" [online] <https://data.imf.org/regular.aspx?key=61013712>.

Figure 2
Latin America and the Caribbean: total exports to the region and to the world, 1991–2022
(Billions of dollars)

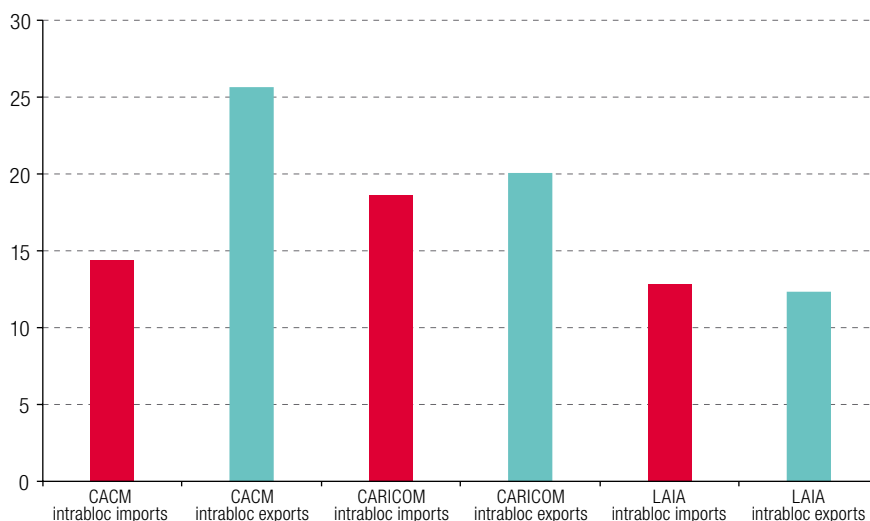


Source: International Monetary Fund (IMF), "IMF Data" [online] <https://data.imf.org/regular.aspx?key=61013712>.

Although trade among Latin American and Caribbean countries has grown since the 1990s in terms of value, the region's countries still account for a similar share of total exports and imports. Intraregional trade totalled US\$ 47 billion in 1991, US\$ 131 billion in 2000, US\$ 350 billion in 2010 and US\$ 433 billion in 2022. While in 1991 this trade represented 16.7% of the total trade of Latin America and the Caribbean with the world, by 2022 the share had dropped to around 14.8% (IMF, n.d.).

Looking at trade levels by subregional blocs (Central American Common Market (CACM), CARICOM and LAIA), trade among LAIA member countries is the lowest among Latin American and Caribbean countries (see figure 3).

Figure 3
Central American Common Market (CACM), Caribbean Community (CARICOM) and Latin American Integration Association (LAIA): imports and exports within the blocs, 2022 (Percentages)



Source: International Trade Centre (ITC), Trade statistics for international business development (Trade Map).

In 2022, imports among LAIA member countries accounted for 12.84% of imports into LAIA countries from the world, while exports within LAIA accounted for 12.31% of total exports from LAIA countries to the world.

In the case of CARICOM, in 2022 imports within the bloc accounted for 18.62% of total imports into CARICOM countries from the world, while exports within the bloc accounted for 20.06% of total exports from the Community to the world.

In 2022 in CACM, imports within the bloc accounted for 14.41% of the countries' imports from the world, while exports within the bloc accounted for 25.62% of the countries' total exports to the world.

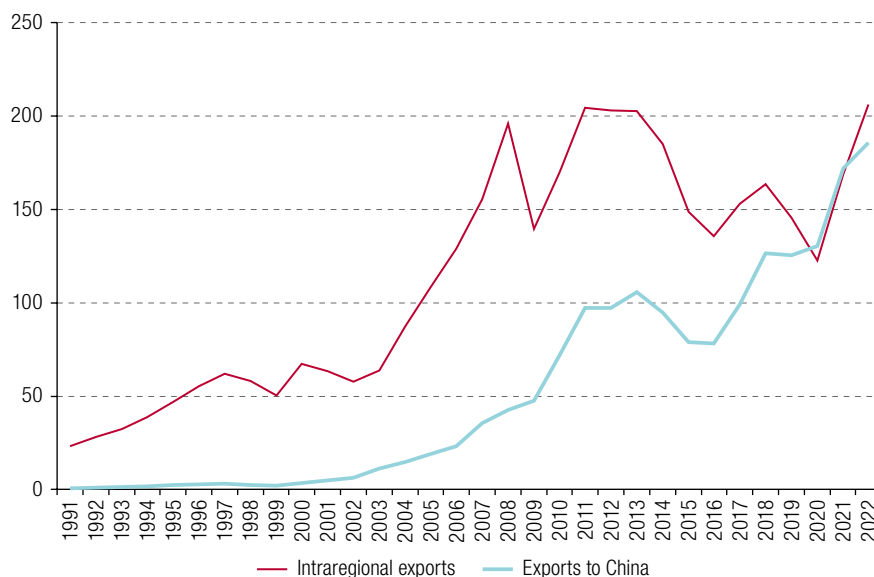
One of the reasons for the increase in trade among the countries of the region may be the reduction in tariffs that Latin American and Caribbean countries have applied as part of their efforts to open up their economies. According to ECLAC data, the average regional tariff applied among Latin American countries had decreased significantly to around 5% in 2019. In addition, as a result of the various agreements negotiated between the countries of the region, 82% of the trade between LAIA countries in 2019 was carried out without payment of tariffs (Leroux, 2018). However, these reductions in tariffs have not led to intraregional trade flows accounting for a larger proportion of total trade. Possible reasons for this, in addition to the lack of a wide-ranging agreement between the two largest economies in Latin America and the Caribbean (Mexico and Brazil), include a lack of exportable supply, the impact of non-tariff barriers on effective market access, competition between countries exporting the same products, and poor infrastructure and connectivity, which has limited the development of regional value chains (LAIA/ECLAC, 2012).

Furthermore, Latin American and Caribbean countries have focused their trade on markets outside the region, such as the United States, China and the European Union, which has limited the regional economic integration that could be achieved through production linkages, which are scarce. This has also greatly limited production complementarity and intraregional cooperation.

Compared to the limited growth in intraregional trade, exponential growth can be seen in the region's trade with China. In 2001, when China joined the World Trade Organization (WTO), Latin American and Caribbean exports to the country represented 1.43% of the region's total exports to the world (see figure 4) and the region's imports from the country accounted for 2.68% of its imports from the world (see figure 5). In 2010, exports from Latin America and the Caribbean to China represented 8.3% of total exports, and imports 13.59% of total imports, while in 2022 China bought 13.3% of exports from Latin America and the Caribbean and supplied 20.36% of its imports (IMF, n/d).

Figure 4

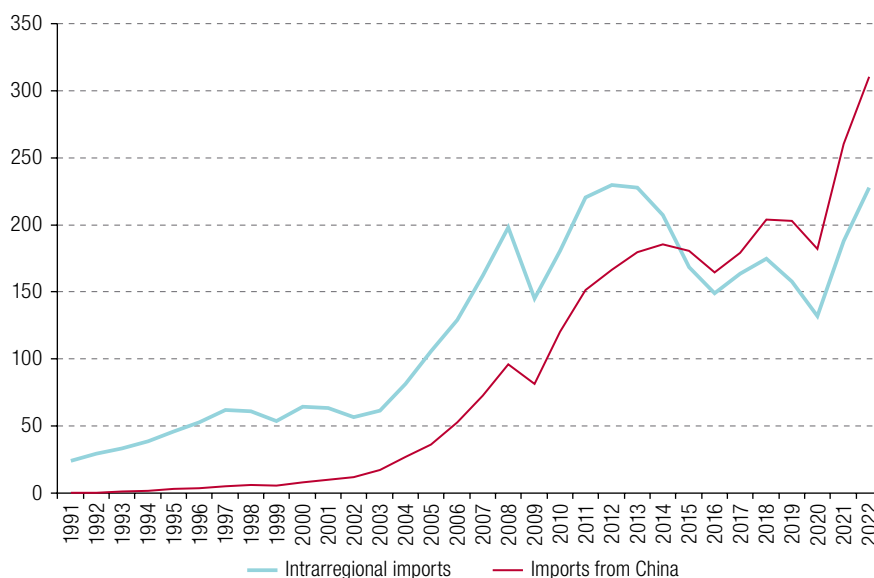
Latin America and the Caribbean: total exports to China and intraregional exports, 1991–2022
(Billions of dollars)



Source: International Monetary Fund (IMF), "IMF Data" [online] <https://data.imf.org/regular.aspx?key=61013712>.

Figure 5

Latin America and the Caribbean: total imports from China and intraregional imports, 1991–2022
(Billions of dollars)



Source: International Monetary Fund (IMF), "IMF Data" [online] <https://data.imf.org/regular.aspx?key=61013712>.

In 2022, the integration of Latin America and the Caribbean with China was much more dynamic than intraregional integration, which was only 1 percentage point above the region's exports to China. Meanwhile, China's imports were 5 percentage points higher than those within the region. Consequently, China has become one of the most important trading partners for the region; it is a key supplier, and also as an export market where a significant portion of Latin American and Caribbean sales to the world is directed.

Latin American and Caribbean trade with the United States is more than double intraregional trade, although its share in the region's total trade is declining. In 2000, 58.3% of Latin American and Caribbean exports went to the United States, but by 2022 the share had fallen to 43.3% (US\$ 603 billion), even though in value terms they almost tripled intraregional exports. In 2000, the United States supplied almost 50% of the region's total imports, while by 2022 this share had dropped to 31.5%. This decline in the United States' share of the total trade of Latin America and the Caribbean is a result of China's growing presence in the region's trade, while some of the countries already have free trade agreements with China (Chile, Costa Rica, Ecuador and Peru) (see table 1).

Table 1
Latin America and the Caribbean: value and share of intraregional exports and imports, with the United States and China, 1991, 2000, 2010 and 2022
(Billions of dollars and percentages)

Exports	1991		2000		2010		2022	
	Value	Share	Value	Share	Value	Share	Value	Share
Latin America and the Caribbean	23.3	16.58	67.5	18.5	170.3	19.6	206.2	14.8
United States	62.2	44.19	221.3	58.0	353.3	40.6	603.8	43.3
China	0.8	0.59	3.7	1.0	72.1	8.3	185.6	13.3
Other	54.5	38.64	71.6	22.5	274.2	31.5	399.7	28.6
Total	140.8	100.00	364.1	100.0	869.9	100.0	1 395.3	100.0
Imports	1991		2000		2010		2022	
	Value	Share	Value	Share	Value	Share	Value	Share
Latin America and the Caribbean	24.2	16.85	64.6	16.6	180.4	20.3	227.9	14.9
United States	67.4	46.80	193.8	49.8	271.3	30.6	480.4	31.5
China	0.5	0.34	8.3	2.1	120.5	13.6	310.4	20.4
Other	52.0	36.01	122.0	31.5	314.8	35.5	505.8	33.2
Total	144.1	100.00	388.7	100.0	887.0	100.0	1 524.5	100.0

Source: International Monetary Fund (IMF), "IMF Data" [online] <https://data.imf.org/regular.aspx?key=61013712>.

In short, trade among the countries of Latin America and the Caribbean and countries outside the region has grown more (China) and has accounted for a larger proportion of total trade (United States) than trade solely among the countries of the region, even when the countries have implemented preferential trade agreements that have eliminated tariffs among intraregional partners.

IV. Politicization of integration in Latin America and the Caribbean

Probably the biggest challenge relating to the integration of Latin America and the Caribbean is that it has become politicized, especially in the last two decades. This has hindered the consolidation of a Latin American integration project that would allow progress in the economy without being dependent on politics. The countries of the region have not been able to forge a common agenda that reflects even the most basic interests and that would make it possible to set out a workplan with clear goals,

to move forward with a regional integration project. Not only have the subregional blocs failed to coordinate positions among themselves, they have also undergone internal crises for various political reasons. Agreements such as MERCOSUR and the Pacific Alliance have sought to establish agendas with minimum common denominators between the two blocs on issues such as technical standards but have been unable to make progress beyond statements from leaders or ministers.

The economic integration of Latin America and the Caribbean has been approached from vastly different angles, which, on many occasions, have prioritized political and ideological preferences. This has slowed or sidetracked progress toward integration. Changes in governments and national policies have affected Latin American and Caribbean countries' direction with respect to regional integration and the priority they have given to the issue. Governments with different ideologies have had contrasting approaches to integration and regional cooperation, which has affected the dynamics of integration agreements and mechanisms.

Over the decades, Latin America and the Caribbean has experimented with different stances on the contribution of international integration to growth and well-being (LAIA/ECLAC, 2012). At different times, countries in the region have seen political trends emerge that questioned economic openness and regional cooperation. Some countries have permanently withdrawn from trade agreements. For example, in 2005, the Bolivarian Republic of Venezuela withdrew from the Group of Three free trade agreement, of which it had been a member with Colombia and Mexico since 1995, and in 2006 it left the Andean Community. Conversely, the accession of the Bolivarian Republic of Venezuela to MERCOSUR followed an arduous path; although the Accession Protocol was signed in 2006, it did not join until 2012, when Paraguay could not veto its approval because its rights were suspended owing to issues related to the Ushuaia Protocol on the Democratic Commitment in the Southern Common Market, the Republic of Bolivia and the Republic of Chile. Subsequently, following changes of government in Argentina and Brazil, the Bolivarian Republic of Venezuela's participation in the bloc was suspended in 2017. This has led to tensions over integration efforts and has affected the integrity and continuity of regional projects.

In contrast, there have been cases of highly successful integration processes when political leadership at the highest level has driven them forward. One such case is the Pacific Alliance which, when it was established in 2011, had four participant countries (Chile, Colombia, Mexico and Peru) that shared a vision of economic integration, but also political affinities. The twice-yearly summits of leaders gave significant momentum to the mechanism and made it possible to build spaces for dialogue, promote private sector participation and attract the world's attention, as reflected by the Alliance now having over 60 observer States that follow its work. However, trade within the Pacific Alliance has been limited; for example, in 2022, intragroup imports accounted for 2.7% of the four members' imports from the world and exports from Alliance countries to other group members accounted for 2.18% of total exports (ITC, 2022).

In addition, the instability and political and social conflicts that various countries in the region have experienced at different times have also made it difficult to foster economic integration and attract investment.

V. Can nearshoring promote regional integration in Latin America and the Caribbean?

Faced with such a bleak outlook for integration in Latin America and the Caribbean, the question is: why keep trying to achieve greater integration and ultimately create a wide-ranging Latin American market, when the reality does not seem to support this aspiration?

The challenges posed by globalization open up new opportunities for Latin America and the Caribbean, to integrate into supply chains seeking to relocate from China to countries closer to North America or Europe for geopolitical reasons. In fact, IDB has identified that Latin America and the Caribbean has the potential to be part of this wave of supply chain relocation and increase its exports of goods and

services by more than US\$ 78 billion (US\$ 64 billion in trade in goods and US\$ 14 billion in trade in services) (IDB, 2022). It is apparent that, as part of this strategy, countries such as Mexico and those of Central America and the Caribbean are already well-positioned to attract investments seeking to relocate to the region to take advantage of the Dominican Republic–Central America–United States Free Trade Agreement and the Agreement between the United States of America, the United Mexican States, and Canada (USMCA). However, this may also be an opportunity for the region to offer a more integrated market, like the one built in ASEAN, which seeks to shape a single market through regional economic integration and thus be better positioned to participate in supply chain building.

The integration of Latin America and the Caribbean is also being brought into the spotlight by the geopolitical rivalries between China and the United States and the effects of the coronavirus disease (COVID-19) pandemic, which are leading to further regionalization of supply chains. This is already being discussed in hemispheric forums. This is the case of the Americas Partnership for Economic Prosperity and the third Summit of Heads of State and Government of the Community of Latin American and Caribbean States and the European Union. During the meeting of the Summit of the Americas in June 2022, the Biden administration launched the Americas Partnership for Economic Prosperity, with the aim of strengthening “supply chains to be more resilient against unexpected shocks” and working to “foster regional economic development” (The White House, 2022). Likewise, in January 2023, in the United States Congress, Senator Bill Cassidy (Republican, Louisiana) and Congresswoman Maria Elvira Salazar (Republican, Florida’s 27th congressional district) released a draft bill called the Americas Trade and Investment Act (Americas Act) with the objective of deepening the United States trade relationship with countries in the Western Hemisphere and counteracting China’s dominant presence in global geopolitics and production (Cassidy, 2023). In July 2023, as part of the biregional meeting between CELAC and the European Union, the two parties recognized “the importance of open and fair trade based on internationally agreed rules, productive supply chains” and stated that they would “continue to further strengthen and develop trade and investment relations between the EU and CELAC countries and regions” (Council of the European Union, 2023).

Given the current context, now may be a good time to set a new course, with a view to deepening the integration of Latin America and the Caribbean. In the absence of a clearly defined integration project or the political leadership that the region needs, it is important to seek to develop, put forward and pursue specific proposals that will enable the countries of Latin America and the Caribbean to make headway in different areas to pave the way for cooperation and economic integration in the region.

VI. Is there a future for integration of Latin America and the Caribbean?

In 2017, the World Bank published a document in which it highlighted five reasons to strengthen regional integration: (i) to drive faster economic growth; (ii) to improve the quality of infrastructure and connectivity; (iii) to add complementarities; (iv) to reduce barriers to trade; and (v) to improve the region’s competitiveness (Bown and others, 2017). An IDB study also considered integration and trade to be positive for the region and found that trade and integration policies were “instrumental in overcoming the stagnation of the 1980s, accelerating annual per-capita income growth by an estimated 0.6 percentage points” (Mesquita Moreira and others, 2022). In addition, from a political perspective, an integrated region is desirable because “a divided and squabbling Latin America will remain a weak participant in an increasingly competitive global economy” (Hakim, 2015).

The global economy is heading towards increasing regionalized supply chains, testing the effectiveness of the multilateral trading system rules on which the region depends in its trade relations

with the world. In the restructuring of supply chains, the countries that are best positioned to benefit are those that already have integration networks with the United States, such as the countries of Central America, Mexico and the Dominican Republic. In this regard, because of rising operating costs in countries such as China, more and more companies are opting to nearshore in Latin America to be closer to their target markets (Pineda, 2023).

Deglobalization of the economy and regionalization of production processes is opening a window for Latin America and the Caribbean to attempt to deepen its integration under a new model based on the commitments made by the countries of the region in the different agreements in force. Although there is a lack of leadership and of a robust project, there are some areas in which building blocks can be put in place for an integration project that would enable the countries of the region to obtain the potential benefits of stronger linkages with each other and with the world economy.

There are clearly compelling economic reasons why it is worthwhile to continue the search for an effective way to build an expanded market or a free trade area in the region. For example, integration among neighbouring countries can create opportunities to expand domestic markets, which are small in the region (except for Brazil and Mexico), take advantage of economies of scale to attract investment, build regional value chains, diversify export baskets and markets, integrate small and medium-sized enterprises (SMEs), create jobs, adopt sustainable and innovative technologies, and ultimately create more opportunities for growth and development for the countries of Latin America and the Caribbean.

Integration has not had the reliable support of a supranational entity or strong leadership to give it the necessary momentum. Instead, this leadership has come from outside, particularly from the United States in the 1990s, when an attempt was made to negotiate the Free Trade Area of the Americas (FTAA). The failure of that initiative in 2005 was a result of the growing hesitancy of some governments and the inability of the countries of Latin America and the Caribbean to agree on a common position to move forward with an integration project that would have been unprecedented in the region (Serbin, 2010). Integration requires joint leadership from the region's large economies, which seems unlikely to materialize. Neither Brazil nor Mexico has been able to assemble an agenda for economic integration and cooperation that would enable a unified Latin American market to be created. Mexico's production chains are integrated with the United States market, while Brazil has focused on developing its domestic market, and its relations with its South American neighbours have been more focused on trade in goods than on integration of service markets, investments or regulatory harmonization, all of which underpin the development of global value chains.

More than six decades have passed since the signing of the 1960 Treaty of Montevideo and the General Treaty on Central American Economic Integration, and in that time the international landscape has changed. The countries of Latin America and the Caribbean have opted for open regionalism, whereby they maintain a series of trade agreements with third countries whose commitments are stronger than those among peers within Latin America and the Caribbean.

In the absence of strong political leadership in the region to champion an integration process and in light of the current context and open regionalism, it would be beneficial to revisit the thinking of Raúl Prebisch. It would also be useful to once again propose alternative means of promoting the integration of Latin America and the Caribbean based on experience and lessons learned, but, above all, considering the opportunities offered by the restructuring of the region's supply chains within the framework of regional, subregional and bilateral commitments.

Nearshoring goes hand in hand with an industrial policy that aims to transform economies to reduce carbon emissions and transition to production using renewable energy. It is also oriented towards high value-added activities, Industry 4.0 manufacturing and automation, where talent is key to participating in and triggering the benefits of this new wave of relocation.

So, the question is: how can Latin America and the Caribbean participate in these supply chains which have new requirements but also present opportunities?

The region has several subregional organizations, such as CACM, CARICOM, the Pacific Alliance and MERCOSUR. All of these mechanisms have designed and implemented agendas on certain issues that have enabled greater progress than that seen at the regional level. For example, the Pacific Alliance, in addition to building a free trade area among its members, has also established sector-level agreements to ensure that technical standards are not a barrier to trade (such as the sectoral annex for trade in cosmetics). In MERCOSUR, an agreement has been negotiated on good regulatory practices and regulatory coherence. One possible path forward would be to seek areas of common interest among the various subregional mechanisms, to deepen integration among those well-established blocs.

In short, it is imperative to have a strategic agenda to promote development of suppliers in the region, and this must be a priority in order to make the participation of Latin America and the Caribbean in supply chains viable. The work carried out for this purpose must take into account the levels of economic complexity of the countries, in order to scale up to outputs of greater complexity and value added. Such a strategic agenda could also encompass the following areas:

- **Talent development.** Human capital will be essential in successfully relocating production processes. The region can drive development of the talent that Industry 4.0 will need and design regional programmes to encourage specialization of human capital in highly skilled professions (Pineda, 2023). Facilitating knowledge transfer and student and academic exchanges in sectors related to sustainability and automation can help strengthen the region's human capital and its ability to participate in supply chains. One way to deepen integration would therefore be to strengthen student and academic exchange networks in disciplines that can support productive transformation in the region.
- **Networks of researchers in science and technology.** The region has the opportunity to join supply chains and take advantage of this possibility to participate in the development of scientific and technological research networks. One way to promote integration is by building networks of scientists that can be linked to productive activities. Currently, there is, for example, the IDB Latin American and Caribbean Research Network, which offers grants to research centres for economic and social studies in the region. The European Union is a benchmark, with its Horizon Europe Framework Programme for Research and Innovation and its Treaty on the Functioning of the European Union that seek to strengthen "its scientific and technological bases by achieving a European research area in which researchers, scientific knowledge and technology circulate freely" (European Parliament, 2023).
- **Critical minerals.** New technologies require critical minerals, such as lithium, which can be found in the region. Developing integration mechanisms for exchanging sustainability experiences in production processes, and proposals to add value, can position the region as a reliable partner in development of supply chains for the industries of the future (digital and energy) that are integrating these critical materials into their production processes. Integration can also strengthen exchanges of best practices.
- **The pharmaceutical and medical device industries.** Latin America and the Caribbean has productive capacity in these sectors and potential for greater development. Integration of production chains for pharmaceuticals and medical devices could be fostered by reaching sectoral agreements to facilitate recognition of technical regulations among the countries of the region. This would open up opportunities for production specialization and enable the countries of the region to expand their presence in the supply chain by making them more attractive to investment through potential for market expansion.

- **Trade facilitation.** All of the countries of Latin America and the Caribbean are members of the WTO Agreement on Trade Facilitation and have undertaken to implement measures to expedite trade and reduce associated costs. The region can draw on this Agreement to identify obstacles that countries can address and thus remove unnecessary barriers to trade. For example, use and acceptance of electronic certificates of origin might be a good way to promote intraregional trade.
- **Technical regulations.** Many tariffs no longer apply to trade between several countries in the region, but national regulations prevent effective market access. While it may seem challenging to expect mutual recognition of technical standards, the region could propose a framework agreement among interested countries. This agreement would facilitate negotiations for mutual recognition agreements in sectors of interest, recognizing regulations in different markets as equivalent to national standards. A regional mutual recognition agreement among national accreditation bodies would allow these bodies, based on peer evaluation, to accept the results of each other's accredited conformity assessment bodies or between conformity assessment bodies in countries that recognize the results of conformity assessment. This would substantially reduce the compliance costs (USTR, 2020). A regional agreement on the subject could propose mechanisms to facilitate acceptance of conformity assessment results or work towards developing common standards and conformity assessment procedures in sectors of mutual interest (USTR, 2020).
- **The digital economy.** The countries of Latin America and the Caribbean could increase their integration through the digital economy and e-commerce. For example, a regulatory framework could be proposed that would foster regional integration through improved connectivity, accessibility and development of infrastructure. A regional framework could be established encompassing regulatory measures that facilitate exchanges, relating to issues such as data protection, e-commerce, Internet governance and artificial intelligence. Consideration could also be given to creating an e-commerce platform that would allow the productive sector, especially SMEs, women and vulnerable communities, to access markets outside their local areas. In the case of the Pacific Alliance, for example, IDB has supported construction of a regional digital marketplace to enable companies in the region to digitally access the Alliance partners' markets. This could be a very valuable tool for SMEs in the region, enabling them to take advantage of an expanded market that could give rise to more opportunities for growth and innovation.
- **Physical infrastructure.** For there to be integration, infrastructure must be built. Public and private investment in development of physical infrastructure for land, sea and air transportation, as well as for connectivity, is essential to build the metaphorical bridges needed for integration. With the support of development banks and the domestic and foreign private sectors, regional and subregional projects can be developed to create infrastructure to enable the region's productive sector to turn integration into an opportunity for growth.

Integration in Latin America and the Caribbean has been slow and has progressed at different speeds in different sectors. In view of the challenges that tabling an integration project for all of the countries of the region entails, one possible means of moving forward may be to pursue more modest initiatives but ensuring that they are specific. Such efforts would contribute to forging the long-sought integration that remains an aspiration in discourse, but on which little progress has been made to date.

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