



Dipartimento di Scienze Politiche

Cattedra di International Public Policies

MERCOSUR AND THE PACIFIC ALLIANCE: ON THE PATH TOWARDS CONVERGENCE?

A FOCUS ON THE ROLE OF ARGENTINA IN REGIONAL DYNAMICS

Relatore

Prof. Guidi Mattia

Correlatore

Prof. Telò Mario

Candidato

Di Bella Claudia

Matricola 627182

Table of contents

Abstract	7
Introduction	8
1. Topic and structure of the dissertation	8
1.1. Why this dissertation	11
I. Preliminary concepts.....	12
1. Introduction	12
2. Brief analysis of preliminary concepts: the Region	13
2.1. Regionalism and Regionalization	14
2.2. Economic Regionalism	15
2.2.1. Who gains and who loses?	17
2.2.2. Trade creation and trade diversion	20
2.2.3. Further benefits of trade liberalization	22
2.2.4. The “dark side” of RTAs	23
2.3. Different types of regional economic agreements	24
3. IPE’s main schools of thought	26
3.1. Realism and the Hegemonic Stability Theory	27
3.1.1. Liberalism and Neofunctionalism	29
3.1.2. Critical Approaches	31
3.2. Old and new regionalism	33
3.3. Competing regionalism	34
3.4. Eurocentrism	35
3.5. WTO&RTA: a conflictive relationship	37
3.6. The US in the Trump era: side-effects on LA regionalism	39
4. Conclusion	40
 II. Mercosur: structure, development and achievements	 42
1. Introduction	42
1.1. A brief overview of Latin American regionalism	43
2. Antecedents: a conflictive cohabitation	46
2.1. First attempts at cooperation	47
2.1.1. Argentina and Brazil: strengthening bilateral cooperation	48

2.2.	Founding treaties and protocols: the Treaty of Asuncion	50
2.2.1.	The embryo structure as defined by the TA	52
2.2.2.	The Protocol of Ouro Preto (POP)	53
2.2.3.	The Protocol of Olivos and the Dispute Settlement System	54
2.3.	The reasons behind the intergovernmental choice: presidentialism and conflictive interests	57
2.3.1.	The legislative realm: the lack of direct effect of Mercosur norms	59
2.3.2.	The creation of PARLASUR	60
2.3.3.	Possible solutions to the vicious cycle of presidentialism	63
3.	A gap between rhetoric and practice	66
3.1.	A paradoxical result	67
3.1.1.	The integration's stalemate in strategic sectors	69
3.2.	The economic performance	71
3.3.	Is it possible to reconcile asymmetries and deepen integration?	75
4.	Conclusion	78

III. The Pacific Alliance: the most recent attempt at LA regionalism

.....	80
1. Introduction	80
2. The Pacific Alliance: a brief overview	81
2.1. Antecedents	82
2.2. The founding documents of the PA	83
2.2.1 The Additional Protocol to the Framework Agreement	85
2.3. The institutional framework: the role of presidents in a non-politicized bloc	87
2.3.1. The Council of Ministers and the High Level Group	88
2.3.2. Observer countries	89
2.4. The full members of the PA: socio-economic potential	90
3. Factors of competitiveness	92
3.1. A stable environment for foreign direct investments	92
3.1.1. The role of the private sector	93
3.1.2. A trans-Pacific cooperation	95
4. A theoretical framework: open regionalism	97
4.1. The notion of strategic regionalism	99

4.2. A changing international environment	100
5. Achievements and challenges	101
5.1. Achievements: trade liberalization and promotion	102
5.1.1. Financial market and financial transparency	102
5.1.2. Movement of people	103
5.1.3. The political realm	103
5.1.4. Representation abroad and international cooperation	104
5.2. Challenges	105
5.2.1. Trade integration: is the PA too much outward oriented?	106
5.2.2. Investments' flows	108
6. Conclusion	109

IV. A PA-Mercosur convergence: how to address the main deficiencies in LA regionalism 111

1. Introduction	111
2. Mercosur and the PA: perspectives of cooperation	112
2.1. 2014-2017: years of gradual convergence	112
2.1.1. Is convergence a win-win solution?	114
2.2. What can Mercosur learn from the PA	115
2.3. Existing relations between the two blocs: trade	117
2.3.1. FDI and the role of Multilatinas	118
3. PA-Mercosur: challenges that can be better addressed together	119
3.1. Trade-related aspects	120
3.1.1. Infrastructures and connectivity	121
3.1.2. Regional Value Chains	122
3.2. Latin American regionalism: a Spaghetti Bowl effect	124
3.2.1. What to integrate?	125
3.3. Limits to LA regionalism	127
3.3.1. The realm of politics	127
3.3.2. The economic realm	128
3.4. Regional economic strengths	130
4. Conclusion	131

V. Argentina: a potential regional leader? 133

1. Introduction	133
1.1. Argentina socio-economic outlook	135
2. The Kirchner administration	135
2.1. DJAI and the WTO	138
2.2. Institutions and public expenditure	139
2.2.1. The National Statistical Institute	140
2.2.2. Public expenditure: increased money supply and taxes	141
3. Factors of competitiveness	142
3.1. Economic competitiveness	143
3.2. Political assets	144
3.3. The main challenges ahead	145
3.3.1. Education and human capital	147
3.3.2. Infrastructures: precondition for economic development	148
4. Mauricio Macri: an atypical figure in Argentina's history	149
4.1. Economy: reintegrate to the world	150
4.1.1. Infrastructural projects	151
4.2. Foreign policy	152
5. Conclusion	155
Conclusion	157
Bibliography	161

Abstract

This work focuses on the recent history and perspective evolution of Latin American regionalism. Even if Latin America (LA) is characterized by multiple regional arrangements that overlap and coexist, the present work deals with a deeper analysis of Mercosur and the Pacific Alliance. The choice of these two regional blocs is due to multiple reasons. First of all, Mercosur is the more institutionalized among all the Latin American regional projects. It also comprises two of the main economies in the region, Argentina and Brazil. Still, it has been plagued by a gradual stagnation after the first decade of activity. The main reason for this stalemate has been identified in presidentialism as the form of government of the member states, determining the preeminence of national concerns over regional advancements. The Pacific Alliance has been analyzed as the more recent attempt at Latin American regionalism. In spite of its youth, it already reached promising results and it also comprises important regional players, especially Mexico. The present work also tries to analyze the current state of Mercosur-PA cooperation and its possible evolution in the future. It assesses that such cooperation is strongly desirable both for internal and external reasons. Actually, the main regional challenges could be certainly better addressed with a coordinated approach, and this is especially true when it comes to infrastructural connection and the formation of regional value chains (RVCs). Moreover, changes in the international scenario are pushing LA to explore different strategies in order to capture the benefits of trade and investments flows. Indeed, Donald Trump's protectionist rhetoric and its withdrawal from the TPP represent a huge challenge for the region as a whole. Mexico could be the most prejudiced by such a shift: still, the U.S. is among the main economic partners of all LA countries. Internal and external forces are pushing towards cooperation but this would be impossible in the absence of political drive. Argentina, under the presidency of Mauricio Macri, seems to be ascending as the regional leader and mediator of the process. The country is the third main economy in the region and it could especially play the role of a bridge between the other two LA giants, Mexico and Brazil, whose relationship has been characterized by a history of long lasting rivalry. Cooperation between the two blocs could finally overcome the traditional dichotomy between the concept of South America as a region in its own right and the idea of LA as a broader region with deep internal ties. Moreover, it could turn LA as a whole into a more integrated region, with a more diversified portfolio of opportunities. Internal divisions and rivalries have historically trumped any attempt at a joint and coherent project. Unity could be the ideal solution to explore new and efficient possibilities of internal development and international insertion.

Introduction

1. Topic and structure of the dissertation

This work's unit of analysis is the description and comparison of the two main attempts at Latin American (LA) regionalism: The Pacific Alliance and Mercosur. The last sections will further deal with the possibility of their gradual convergence and increased cooperation. Still, the research will especially focus on understanding, explaining and comparing these two distinct processes of regional integration. The first chapter will deal with all the preliminary concepts that are considered preparatory for the subsequent ones. For the purpose of this thesis, the region will be defined as a multi-state entity with no strict geographical criteria. This means that the states that form a region, do not necessarily have to share a border or being in a relationship of strict geographical proximity. This paves the way for a focus on Latin America as a whole and as a region in its own right, with profound social, cultural and economic ties. Hence, the point of reference will be the LA region, regardless of the fact that its countries are geographically located in three different zones: South America, Central America and the Caribbean and even North America (Mexico). The first chapter will also analyze the winners and losers of economic integration with a special focus on trade liberalization, assessing that the resulting overall gains will overcome the negative effects and distributional consequences. Moreover, Regional Trade Agreements (RTAs) are considered perfectly compatible with the World Trade System if they are more trade-creative than trade diverting. After a brief overview of the main school of thought in the field of International Political Economy (IPE), there will also be an excursus on eurocentrism. The latter is necessary in order to understand how the European Union cannot be considered as the sole comparatum in the evaluation of a regional bloc, its structure and achievements. Indeed, regions are sensibly different and each of them must find its own path towards integration, which is linked to specific historical, political and economic factors. Still, eurocentrism has been the main plague of many studies on LA regionalism. Mercosur will be dealt with in the second chapter. There will be an analysis of its current development and founding documents as well as of its direct antecedents, which can be found in the increased bilateral cooperation between Argentina and Brazil. Presidentialism coupled with an intergovernmental structure has been identified as one of the main deficiencies of the bloc. As a matter of fact, in the absence of any supranational body, it has been easy for national presidents to act unilaterally in times of crisis or when in disagreement with the other members. This resulted into a gradual stalemate of the integration's effort. Indeed, it is paradoxical that integration

proceeded in many fields that were not envisaged as central in the founding treaties, while it has been halted in sensible or strategic sectors. This also caused the declining performance of the bloc, its decreased credibility and a huge gap between rhetoric and practice. Indeed, even the creation of an internal parliament (PARLASUR) did not change the overall picture, since it is not a fully independent body. The third chapter will deal with the Pacific Alliance. The latter has a very flexible institutional structure and it works through a combination of presidential and technicians' activities, even if the main forums of discussion are the Presidential Meetings or *cumbres*. Still, PA presidentialism did not hinder integration because it has been supported by committed and responsive leaders who really share a common set of objectives. The same cannot be said about Mercosur since Argentina and Brazil historically tried to pursue their own objectives, regardless of the smaller members of the bloc, Uruguay and Paraguay. Asymmetries exist in both groups, and yet they are more evident in the case of Mercosur. Uruguay and Paraguay have an economic pattern that would benefit from economic openness and liberalization. Still, they are also highly dependent on their access to the Brazilian market and, to a lesser extent, to the Argentinean one. Hence, they need to be part of an economic web comprising their giant neighbors, but they also declared their admiration for the PA's economic model more than once. The third chapter deals with both the main strengths and weaknesses of the alliance. Among its main strengths there is precisely the commitment of each single member, which made possible a smooth and rapid advancement of the program. For instance, an Additional Protocol to the Framework Agreement has been signed even before the entering into force of the Framework Agreement itself. The PA is also recognized as a business-friendly region and the four members are even part of a joint stock exchange, known as *Mercado Integrado Latino Americano* (MILA). The four countries further demonstrated a strategic diagnostic capability of the international environment. Indeed, the organization is especially focused on future integration with the Asia-Pacific region. Still, the PA is far from perfect. First of all, because the degree of openness of the Alliance's members is not matched by a similar degree of intra-bloc integration. Intra-PA trade flows are still weak and there has not been the formation of Regional Value Chains (RVCs). The picture is different when dealing with the analysis of intra-bloc FDI flows. And yet the latter process has mainly been a bottom-up one, driven by the private sector and by local multinational enterprises. In other terms, the PA has presented itself as a model of open regionalism and profound integration. Still, the model is probably too much outward oriented, missing the focus on internal economic ties. The fourth chapter discusses the possible convergence between the two blocs and it further places the analysis into the wider framework of LA regionalism. Indeed, understanding the very nature and weaknesses of previous attempts at regional integration could provide useful guidelines for this latter proposal of cooperation.

Moreover, coordinated policies involving both the PA and Mercosur could be a first-step towards the mitigation of the so-called spaghetti bowl effect, due to the existence of multiple integration schemes that overlaps resulting into confusion and norms' conflict. But why integration should proceed now while it repeatedly failed in the past? This is due to changes in both the international and regional panorama. At the international level, Donald Trump's protectionist rhetoric could represent a serious challenge for LA countries, especially for Mexico because of its membership into the North America Free Trade Agreement (NAFTA). This entails the need for LA countries to diversify their portfolios of economic partners. Moreover, international pressures are also coupled with important changes at the regional level. In particular, the new Presidents who took office in both Argentina and Brazil are now supportive of economic openness and liberalization. Hence, this could start a process of internal metamorphosis of Mercosur that could further pave the way for a gradual convergence with the PA. This latter process is not aimed at a merger between the two blocs: and yet increased cooperation can help creating RVCs and curbing certain regional deficiencies such as infrastructures and connectivity. Convergence will be a win-win solution if accompanied by a focus on regional economic strengths and common challenges. The fifth and last chapter's core is an analysis of Argentina, which could play the role of bridging the gap between the PA and Mercosur. Its leadership is favored by the long-lasting rivalry between Mexico and Brazil that will not accept any process centered on or sponsored by their counterpart. The chapter also deals with an analysis of the internal situation of the country and its recent history at the economic and political level. This is necessary in order to evaluate its potential as a regional leader both in terms of hard and soft power. Hence, even if Argentina is already the third LA economy, it should also work on its internal weaknesses in order to be a strong and credible leader. Up to now, the actual government of Mauricio Macri intervened on sensible aspects that even provoked sanctions by the IMF and WTO in the past. Still, he is mainly working at the diplomatic level, strengthening his cooperation with all the possible regional partners. He is strongly promoting, together with President Bachelet, the idea of convergence and cooperation between the two blocs. The request of being admitted as an observer member to the PA had a huge symbolic value itself. And yet, Argentina cannot promote a model for regional integration that it is not implementing at home. Hence, it should increase its effort to curb its internal flaws and be perceived as a responsible, committed and credible leader. This is not to say that the whole process will exclusively be the result of an Argentinean initiative. This simply means that LA needs a country playing the role of mediator among the different actors and their views. Indeed, in spite of its strong social, cultural and historical ties, Latin American countries always found it difficult to adopt a common posture and focus on their respective similarities rather than differences. Even if the region

has not been plagued by inter-state wars comparable to the European ones, mutual mistrust and rivalries are widespread. Integration should avoid an excessive rhetoric and it should revolve around tangible and shared interest supported by a credible political commitment.

1.1. Why this dissertation?

The analysis of a possible convergence between Mercosur and the PA is coherent with recent developments that suggest the possibility of a future increased cooperation between the two regional blocs. The Common Market Group of the Mercosur and the PA's High Level Group recently met at a ministerial meeting at the sidelines of the World Economic Forum for Latin America held in Buenos Aires in April 2017. The meeting has a huge symbolic and practical meaning, since it resulted into the drafting of a roadmap for their gradual convergence. This has been the formal reintroduction of a project that was first proposed by the Chilean president Michelle Bachelet in 2014. Still, such a development was opposed by both Argentina and Brazil under their previous presidencies. Current changes in the regional and international scenario may provide an appropriate environment for the development of the project. The last chapter's focus on Argentina is due to its potential as the most feasible leader of the process in the current situation. Indeed, economic integration must be based on shared and common interests, but it is also unthinkable in the absence of political drive and commitment. The process of convergence must be the result of a joint action involving all the members of the two blocs, but Argentina could provide some key inputs and play as a strategic regional balancer. It has the potential of promoting, as a more neutral player, the idea of gradually closing the gap between Mercosur and the PA. Even if the two aforementioned regional blocs will be at the center of this work, there will be a digression on LA regionalism as a whole, too. As a matter of fact, Latin America has a long lasting history of regional integration's attempts. Still, they all ended up showing the very same deficiencies and, in particular, a low degree of internal coherence. A program of cooperation between the two blocs, with the inclusion of Mexico, could finally bridge the Latin America/South America divide. This would entail an integration of LA scope, overcoming past conflicts and rivalries by focusing on a common plan based on convergent objectives. Obviously, Mercosur and the PA do not comprise all the LA countries. And yet they include all the most dynamic regional economies and their cooperation could appear as an attractive project from the outset, causing a carry-over effect in the region. The perspective of convergence could further provide the possibility to increase the region's international standing and its capability to support its interests in international fora and organizations.

I. Preliminary concepts

1. Introduction

This chapter will deal with preliminary concepts that are preparatory for the rest of the present work. First of all, it defines the concept of region not as a subnational entity but as a territory composed of different states not necessarily linked by geographic proximity. This definition will be coherent with the subsequent analysis of Mercosur and the Pacific Alliance and both their possible convergence and strategy of international insertion. The chapter will further deal with the distinction between regionalism and regionalization, being the latter respectively a formal and top-down process and a more informal non-state process. Moreover, the whole work will be focused on a specific aspect of the phenomenon: economic regionalism. Hence, it will analyze the benefits of economic liberalization and in particular trade integration, by dealing with the classic models of David Ricardo and Heckscher-Olin. Regional Trade Agreements (RTAs) will entail both winners and losers. Still, the chapter will support the idea that the overall benefits of economic liberalization will overcome the adjustment costs and distributive consequences. Moreover, it will be assessed that a RTA will be truly beneficial when the amount of trade creation will exceed the amount of trade diversion. Being part of a RTA will also entail benefits such as transparency, stability and an increased credibility of the commitment to an open economic paradigm. Later on, the chapter will be concerned with the different prototypical examples of economic regionalism (Free Trade Areas, Custom Unions, Common Markets and Monetary Unions) and the different degree of integration and sovereignty transfer that they require. Any analysis cannot occur in a vacuum; hence, the chapter will also focus on the main school of thought in International Relations that can be further applied to the field of International Political Economy, which is the theoretical framework of the work itself. In the present chapter, it will also be supported the idea that studies on regionalism have been often plagued by eurocentrism. The European Union is probably the most advanced example of regional integration and yet it cannot be treated as the sole comparatum, since the main features of an integration process will also vary accordingly to region or country-specific issues, historical reasons and already existing ties. Finally, the chapter will focus on the relationship between the World Trade Organization (WTO) and RTAs. Even if the latter are stepping-stones rather than stumbling blocs for the diffusions of WTO precepts, they can also entail certain problems in case of conflictive rules or overlapping jurisdictions.

2. Brief analysis of preliminary concepts: the Region

Any analysis of the regionalism's phenomenon cannot overlook the concept of regionalism itself, but also of what do we mean by the terms "region" and "regionalization". The conceptual problem must be addressed before proceeding to any deepening of the topic. Hence, this first chapter will principally deal with preliminary issues that we must address in order to analyze the phenomenon of regionalism at large, and South American experiences in particular. First of all, considering our minimal unit of analysis, the region, we are not referring to a sub-state entity but to an extended area that comprises different states and we should ask ourselves whether we consider the geographical proximity as an essential feature or not.¹ For the purpose of this work, I personally consider that this element is not the central one in the task of defining what a region is. Indeed, I will especially focus on economic regionalism and on the importance of adopting an open paradigm for international trade and investment flows, connecting state economies that don't necessarily share a border or are located in the same continent. Even if the more immediate way to define a region is certainly to look at the geographic proximity among its members, that's not the unique answer to our first question. Some could support the idea that a region is also, even if not only, defined in cultural terms. Such a definition maybe underlines the debate on Turkey's membership in the European Union, considering that this country's europeanness is contested both in geographical and cultural terms. Anyway, such simplistic definitions are not compatible with the study of any modern phenomenon of regional integration. Indeed, nowadays, there is a real complex panorama of regional experiences that escapes any rigid definition and requests a more nuanced approach. For that reasons I prefer to expand the concept of region, also focusing on cross-regional dynamics. Regions are not necessarily natural ones or given regions, but they are continuously constructed, deconstructed and reconstructed through intentional as well as non-intentional dynamics. Furthermore, I prefer to consider these dynamics as fostered not solely by states but by mixed coalitions that involve states but also sub-national and supranational units. For instance, according to Söderbaum, we must rethink regionalism as a whole, but also in spatial terms and scale: "A territorial focus on the nation-state in main-stream thinking has resulted in many superficial representations of spatial horizons and practices. Often, and especially in political science and economics, regions have been taken as pre-given, and in a rather reductionist sense, been reduced to states-led regional organizations and mechanisms".² Regions interact with social dynamics of society: they are involved in a process that is both top-down and bottom-up and even if there are

¹ We are of course overlooking the analysis of the term region as a sub-national unit. The focus will be on macro-regions, comprised of different nation-states.

² Söderbaum F., *Rethinking regionalism*. Palgrave Macmillan, 2005, p.5

regions that actually are pre-given or strictly defined in geographical terms, the concepts itself is also in permanent flux, and it is subject to new interpretations and definitions. For instance, business interests and MNCs are acting at the global level, but also creating and fostering regionalized patterns of economic activity. Moreover, viewing regions as socially constructed also implies that, in case of failure, they can be disrupted by the same forces that contributed to their formation.

2.1. Regionalism and regionalization

The terms “regionalism” and “regionalization” are often used as synonymous, but in practice they reflect two different kinds of dynamics. Indeed, whereas regionalism is often seen as a formal and top-down process, the term regionalization refers to a more informal and non-state process. Regionalism leads to the formation of a *de jure* region through formal agreements, with the conscious and sustained effort of the actors involved to reach a higher level of cooperation on issues considered of common interest. It is further possible to distinguish between “soft” and “hard” regionalism depending on the focus, respectively, on “low politics” or “high politics”. For instance, the European Union, with its high degree of institutionalisation and even the adoption of a common currency among the majority of its members, can certainly be defined as a project of hard regionalism. In the contemporary era it is not possible to analyze regionalism without both an endogenous and exogenous perspective, which means to study both the role of agency, that shapes the phenomenon itself, and the intertwined relationship between regionalism and globalization. Moreover, we can look at regionalism not only as a process, but also as the outcome of the latter. Gamble and Payne define regionalism as an outcome wherein states “reorganize a particular regional space along economic and political lines”³. The term regionalization, in contrast, defines “an explicit, but not necessarily formally institutionalized process of adapting participant state norms, policy making processes, policy styles, policy content, political opportunity structures, economy and identity to both align with and shape a new collective set of priorities, norms and interests at the regional level, which may itself then evolve, dissolve, or reach stasis.”⁴ Hence, if regionalism is a project, regionalization is a process, that can also be seen as the first step to lead to the construction of a more integrated and institutionalized region. Anyway, that’s not always the

³ Schneider C.J., *The Political Economy of Regional Integration*. In: Annual Review of Political Science, Vol. 20, 2017, p.2

⁴ Robinson N., Rosamund B., Warleigh-Lack A., *New Regionalism and the European Union. Dialogues, comparisons and new research directions*. Routledge/ECPR Studies in European Political Science, 2011, p.21

case and the distinction between these two formal and informal dimensions is quite blurred. According to T. Pimoljinda⁵ it is possible to distinguish between regionalism and regionalization by looking at two specific dimensions: the degree of collective action that is made possible by regional institutions, and the degree of transfer of sovereignty to regional bodies. Indeed, the author especially focuses on the comparison between the EU and the ASEAN. For mainly historical reasons, a real process of formal integration and high institutionalization was not possible in the latter region; hence the result was a more informal model of regionalization. The two organizations are different ways to respond to the same issues of regional insecurity and instability, even if with a distinct degree of formalization and integration in various politico-economical fields. Regionalist processes cannot be defined in a unique and absolute way. If states usually remain the protagonists of these projects, at the same time the latter involve a rich variety of business and civil society actors, resulting in both formal and informal fluxes and practices. Hence, defining regionalism is not an easy task, because each experience differs significantly from others in terms of structure, form and actors involved. Furthermore, the term regional integration has been defined by Ernst Haas in “The Uniting Europe” as “the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities to a new center whose institutions possess or demand jurisdiction over the pre-existing national states”⁶.

2.2. Economic regionalism

For the purpose of this work, I will focus on a special aspect of regionalism, which is economic integration. A lowest level of economic integration initially affects trade, by reducing or eliminating trade barriers among the parties to an agreement. The benefits of trade liberalization are well known since the studies of David Ricardo on comparative advantages, who stated that each country will benefit from specializing in the production of a good in which it is relatively better. Indeed, comparative advantage is not the same as absolute advantage. The latter one is the result of a country having the best technology to produce a certain good, but it is not a good explanatory factor for trade patterns. Indeed, if trade flows were only determined by absolute advantage, technologically advanced countries, such as the United States, should be practically autarkical

⁵ Pimoljinda T., *Theoretical Discussion on Regional Integration: EU-ASEAN perspectives*. Available at: http://www.academia.edu/388618/Theoretical_Discussion_on_Regional_Integration_EU-ASEAN_Perspective [Last access: 18/03/2017];

⁶ Haas E.B., *The uniting of Europe: political, social, and economic forces 1950-1957*, Stanford University Press, 1958, p.16

economies and it would be virtually impossible for less efficient economies to gain their own role in the international market. By contrast, we should look at trade dynamics in light of the comparative advantage, which a country possesses when it specializes in goods that produces best compared to other. Comparative advantage will in turn depend on the opportunity cost of producing a specific good. In the Ricardian model we suppose that there are only two countries producing two goods; that the sole input is labor, which is perfectly mobile within each country but not among them; that the marginal product of labor is constant (there are no diminishing returns); that goods are homogeneous in the two countries and can be shipped with no transportation costs; the production technologies differs and, finally, the model works under the assumption of perfect competition.

Good	Country A	Country B
Wine	2	1
Clothes	3	2

Country A need 2 units of labor to produce 1 unit of wine and 3 units of labor to produce one unit of clothes; Country B needs 1 unit of labor to produce 1 unit of wine and 2 units of labor to produce 1 unit of clothes. That means that it has an absolute advantage in the production of those goods. But let's look at the opportunity cost, which measures the loss of output of a good, due to the increased production of another one. For instance, in country A, producing one more unit of wine would require two more workers, which will be diverted from the production of clothes, that will decrease of an amount of $2/3$. That is the opportunity cost of producing one more unit of wine. Similarly, the opportunity cost of producing one more unit of clothes will be 1.5. In country B, the opportunity cost of producing one more unit of wine will be 0.5, and 2 in the case of clothes. In both countries, the PPF (production possibility frontier) will be a straight line, indicating that opportunity costs are fixed. Since opportunity cost of clothes in A is inferior to the one in B, A has a comparative advantage in producing that good. Similarly, B will have a comparative advantage in the production of wine, which means that he can produce the good more efficiently than A. For trade to occur, it is also necessary that the opportunity cost of producing a good is superior to the world price. For instance, we can suppose that in country B, the opportunity cost of producing clothes is superior to the relative world price $(P_c/P_w)W$. Hence, country B will import clothes and export wine. At the same time, country A will export clothes only if the world relative price is superior to the opportunity cost of producing the good C. Even the country that has an absolute advantage in the production of both goods will gain by engaging in trade. That is, the utility of an importing or

exporting country will be, at least, as high as it would be in the absence of international trade.

Another model that shows the benefits of free trade is the Heckscher-Olin (H-O) model, which in turn focuses on the differences of factors' endowments. Moreover, here we analyze trade dynamics taking into considerations two factors of production, capital and labor. Hence, whereas in the first model with a single factor of production the latter is not hurt by the opening of the economy, in the H-O model, free trade will benefit the abundant factor and damage the scarce one. There are four many theorems related with this model:

- Factor price equalization, which holds that international trade tends to equalize factor prices;
- The Stolper-Samuelson theorem, whose central proposition is that an increase in the price of the labor-intensive good increases wage and reduces return to capital and vice versa, an increase in the price of the capital-intensive good increases return to capital matched by a decrease in wages;
- The Rybczynski Theorem, assuming that an increase in labor endowment increases the output of the labor-intensive industry and decreases the output of the other, capital-intensive, industry or vice versa;
- And the H-O Theorem itself, which states that a country will export the good produced using its abundant factor, and it will import the good whose production depends on the utilization of the scarce factor.

Moreover, as demonstrated by the Leontief⁷ Paradox, the model is more accurate if labor is divided between highly skilled and low-skilled one, without assuming that it is an homogeneous factor.

That means that even a country that is capital-abundant, such as the U.S., may export labor-intensive goods, even if they will be intensive in high-skilled labor.

2.2.1 Who gains and who loses?

Even if these theories could seem obsolete in the contemporary tertiarized economy, they are still valid as a useful and simple heuristic elements that can help in the understanding of the gains from free trade. I consider them to be pertinent relatively to the subject of this work, since the majority of the analysis on Regional Trade Agreements (RTAs) benefits focuses on their impact on the liberalization of trade and related gains for the home country. That is also why I support the claim of Christina Schneider that we must always focus on domestic factors and the impact of RTAs on them, too. Indeed, if we suppose that economic regionalism will mainly impact regional trade flows

in its first stage, it is also logical to suppose that export-oriented firms will basically support integration and trade liberalization, while import-competing one will oppose them. This is not an inviolable assumption⁸ but these societal actors, organized in powerful lobbies or interests groups, can have a huge impact of the government's decision to enter a RTA, especially in democratic settings in which the institutional design tends to favor a bottom-up contribution to policy making. Indeed, even if "the choice to enter an RIA might have unintended consequences, we can certainly glean a better understanding of the RIA effectiveness if we know what the intended consequences are"⁹. Consumers too are expected to be in favor of trade liberalization, because they will benefit from lower prices. Anyway, this statement could not hold when the integration starts to have a spillover effect in other domains or when regional policy-making became a highly-politicized issue. In general, looking at the literature on RIAs, their impact on trade is generally considered to be a positive one: they increase trade flows among the parties and reduce volatility. Indeed, according to traditional economic theory, trade liberalization will increase trade flows, led to a more rapid technological development, eliminate price distortions, and allow for important gains in terms of production's efficiency. It will also raise the general employment level of a specific country, even if it could have a negative effect on employment in specific sectors of the economy. Hence, the overall consequence of trade liberalization on a national economy will be a beneficial one. Of course, there are also cases in which the opening of the economy initially had a harmful effect on the domestic trade balance, leading to a surge of imports and decreased exports. That was the case, for instance, of Argentina and Brazil that started opening their economies in the 80s, but the adverse effect was partially due to the appreciated local currencies, that made national goods too expensive to be exported, while it was certainly cheaper to import foreign ones. Moreover, even if increased international trade flows may also result in the disappearance of some inefficient domestic firms, still they will have a general positive effect on the domestic economy, since the remaining firms will be forced to increase their productivities and adopt better technologies in order to compete in the new, enlarged market. Anyway, it is also important to underline that the rise in productivity may have a negative employment effect. That is not meant to invalidate what has been said before; it simply means that the relationship between trade liberalization and domestic gains is ambiguous, even if scholars tend to look at its advantages rather than disadvantages. Autarkical economies are not certainly a suitable project. But even more nuanced attempts at closing the economy tends to fail. Looking again at the experience of Latin America, countries such as Argentina that started to

⁸ Sometimes, an import-competing firm may even push for trade liberalization if the RTA is expected to be trade diverting, hence reducing competition from firms abroad.

⁹ Schneider C.J., *The Political Economy of Regional Integration*. In: Annual Review of Political Science, Vol. 20, 2017, p.5;

develop through the export of primary commodities, turned to an import-substitution strategy in the 50s and 60s. Import-substitution industrialization is meant to substitute imports with domestic production, adopting inward-oriented economic policies, such as protectionist measures to reduce imports and subsidies to local firms in order to increase their productivity and competitiveness. That model has been strongly advocated as the most suitable one for developing countries by the economists Prebisch and Singer¹⁰. Indeed, their thesis was that in the long run the terms-of-trade of primary commodities tend to deteriorate, damaging economies that revolve around such products. The deterioration of terms-of-trade means that even with stable volumes of exported goods, the acquisitive capacity of a country or its import capacity, will decrease due to the decreased price of the exported product that was expected to affect primary commodities. The resultant prescription was that developing countries had to adopt an Import Substitution Industrialization (ISI) strategy, in order to push industrialization and productivity, reduce their dependency on imported manufactured goods and avoid the trap of an economy solely focused on the primary sector. We can certainly assess that a certain degree of protection may be necessary for infant domestic industries, that otherwise will fail to reach the level of development necessary to compete in the world market. At the same time, historical examples demonstrate that ISI strategies are not a viable policy-making option in the long run, since domestic industries may benefit from protectionist measure and fail to become mature and competitive firms. It has become increasingly clear that indiscriminate protection of nascent industries yields few productivity gains, and that the benefits of that strategy are unlikely to offset its costs in terms of resource misallocation. By the contrary, trade liberalization tends to have a positive effect on allocation's efficiency, due to the allocation of domestic resources in the most productive sectors, fostering their development. Moreover, as said above, it has a positive effect on technological efficiency. For instance, one-third of the increased aggregate productivity that followed the process of trade liberalization in Chile is considered to be the direct consequence of increased productivity within plants¹¹. The incorporation of better technologies fostered by trade openness is not the sole factor to take into consideration, of course. Other elements have a positive impact on productivity, such as the leadership, management culture or the internal organization of the firm. Furthermore protection usually leads to a monopolistic structure of the economy, with no incentive for local firms to increase their productivity and great price distortions. The benefits of a more open economy were already recognized by Adam

¹⁰ Prebisch R., *Hacia una dinámica del desarrollo latinoamericano*. Suplemento de Comercio Exterior, Banco Nacional de Comercio Exterior, Mexico, 1963; Singer H., *The Terms of Trade Fifty Years Later - Convergence and Divergence*, The South Letter, 1998

¹¹ Pavnick N., *Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants*. Available at: <https://pdfs.semanticscholar.org/20ff/e80b1746fb63c442674ba0ba798072267291.pdf> [Last access: 15/03/2017];

Smith¹². Indeed, he argued that even a small domestic economy with a narrow market can benefit from trade liberalization and experience the gain of a more efficient division of labor, since any increase in production will open the possibility to export those goods that exceed the acquisitive capacity of domestic consumers. Trade liberalization is also said to foster economies of scale by lowering the overall cost, since firms that can now participate in the world market can also increase their levels of output. An economy will specialize in a narrow set of products that it can produce and export at a scale that results to be competitive in a context of open economy. The more efficient allocation of resources among industries will cause the exit from the market of the low-productivity firms and the increase in productivity and scale of the remaining ones. Moreover, some studies focus on the relationship between the degree of openness of an economy and macroeconomic instability. Indeed, a country that is highly dependent on trade will have a special interest in maintaining more or less stable the value of its currency since, as said above, an appreciated currency will cause the commercial balance to worsen. At the same time, some countries adopted a strategy of competitive devaluation to foster their exports, as was the case of Italy in the 80s. Anyway, competitive devaluations are not a successful strategy in the long run, because there will be also an increase in the prices of primary goods and intermediate inputs that are necessary to create more value-added. All this line of reasoning is valid for trade liberalization in general, and for the increased trade flows resulting from a RTA in particular. Of course, the benefits of entering such an agreement will depend on the level of trade diversion and trade creation due to the agreement itself.

2.2.2. Trade-creation and trade-diversion

The desirability of a RTA will depend on its degree of trade-creation and trade-diversion. Regional trade agreements are based on the elimination of tariffs among the parties, while simultaneously maintaining tariffs against non-members. They are permitted under Article XXIV of the GATT on territorial application, frontier traffic, custom unions and free-trade areas. The article states that countries can always join such agreements provided that they do not jointly increase their tariffs against the outsiders. When a RTA is finally formed, trade will normally increase, but the higher level of trade can be of two main types. We talk about trade-creation when a member country starts importing a product from another party to the agreement that it formerly produced for itself. In that

¹² Smith A., *An Inquiry into the Nature and Causes of the Wealth of Nations: A Selected Edition*, edited by Kathryn Sutherland, Oxford Paperbacks, 2008;

case, trade creation will bring benefits to both countries involved, as predicted by the Ricardian and H-O model: the importing country will experience an increased consumer surplus¹³, by importing a greater amount of a good at a lower price; the exporting country will experience a gain in producer surplus¹⁴ for the increased amount of sales. Non-members to the agreement won't be affected since the good was not traded before. The overall gains will be absolutely positive. Trade-diversion is a different phenomenon that, indeed, could affect the outsiders to a RTA. We speak about trade diversion when a member country starts importing a good from another member that he previously imported from a country outside the new economic region. A trade agreement is considered to be beneficial when the total amount of trade-creation exceeds trade-diversion. That was the case of Canada joining a free-trade area with the US, later on transformed into the NAFTA with the Mexican partnership. Indeed, Canada increased imports from the US by 54% thanks to the reduction of tariffs, which resulted in trade-creation. At the same time, Canada was now buying more goods from the US than from the rest of the world. This latter import reduction amounted to a 40% of trade-diversion. In order to evaluate the overall impact on Canadian trade, we should weight these numbers considering that imports from the US were 80% of Canadian imports as a whole, whereas imports from the rest of the world amounted for the remaining 20%.

$$80\% \times 54\% - 20\% \times 40\% = 35\%$$

The result of this operation indicates that the overall effect of the new trade agreement was trade creation¹⁵, a positive value of net economic welfare for a country joining a new regional bloc. Trade diversion will normally occur because the elimination of tariffs among member countries results in the possibility to import a good at a cheaper and more competitive price than if it were imported from the outside. Removing tariffs and barriers within a certain economic region enables a more efficient allocation of production among countries. If these benefits outweigh the costs of trade-diversion from non-members countries, then trade liberalization at the regional level will result in increased economic welfare for its members. Trade agreements tend to be more trade-creative than trade-diverting, and this is especially true for custom unions¹⁶.

¹³ Given by the difference between the price that a consumer is willing to pay for a certain good, and the price he or she actually pays.

¹⁴ The difference between the marginal cost of the producer and the price at which he or she sells the good.

¹⁵ Trefler D., *The Long and Short of the Canada-U.S. Free Trade Agreement*. The American Economic Review, Vol. 94, No.4, 2004;

¹⁶ Viner J., *Studies in the theory of internal trade*. New York, A.M. Kelley, 1965;

2.2.3. Further benefits of trade liberalization

Trade liberalization agreements have been said to have a positive impact on goods as well on capital flows among countries, especially in the case of FDI made by MNCs. Which variables will an investor consider prior to decide where and how to use his capital? This question is apparently related to various economic variables, but in practice we should keep in mind that economics and politics are highly intertwined, and cannot be considered separately when dealing with certain issues. Indeed, in order to guide an investment decision, it is important to look at both economic and political factors. The government's credibility and its commitment to an open and liberal economic paradigm are crucial variables to be considered. Particularly in the case of instable governments, one of the main fears of foreign investor could be the possibility of expropriation or government's intervention that may reduce their profits, damage their activity and ultimately turn their investment in a complete backlash. Unilateral commitment to the adoption of liberal and investor-friendly economic policies are not usually credible. Being part of a Preferential Trade Agreement (PTA) or RTA will certainly cause a country to be more attractive to foreign investors, since membership also implies the respect of certain standards, regulations and good practices. When economists analyze investments decisions they tend to concentrate on variables such as the size of a market, the availability of key resources or the cost of labor. Still, when a FDI takes place there is always a transfer of a share of bargaining power to the host country, which turns the evaluation of the credibility of policy commitments into a fundamental variable, too. Indeed, FDI are to be considered in a long-term perspective, also involving the evaluation of certain assets that cannot be easily moved without a considerable loss. When an investment is not completely mobile, there could be the incentive for the host government to use its share of bargaining power in order to obtain more benefits through sudden changes in regulations, fees, standards or the taxation system. A study conducted by Buthe and Milner¹⁷ demonstrated how FDI directed towards developing countries have grown almost in parallel with PTAs between 1970s and 1990s. Indeed, as said before, the problem of the credibility of the commitment is especially crucial for less developed country that have been known to be less stable, and hence less attractive to foreign investors. The study is based on the assumption that the higher the number of PTAs to which a country is party, the higher will be the inward of FDI. I personally assess that this is true also for RTAs, and that it is important to consider them in light of an economic as well as a political dimension. Entering a RTA may also be motivated by a status-seeking strategy adopted by a country and its willingness to be

¹⁷ Büthe, T. and Milner, H. V., *The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements?*. American Journal of Political Science, Vol. 52, 2008;

fully integrated in the international economic and political community. Having the obligation to comply with certain rules and adopt liberal economic policies, certainly increases both the credibility and the appeal of a country by reducing instability. For instance, the adoption and respect of the Copenhagen Criteria became an essential requisite to be admitted to the EU since 1993. Such criteria impose on all members political as well as economic obligations, such as the existence and functioning of a market economy and the ability to cope with market pressure within the Union. That means that any new member will have to be committed to economic stability, modernization, openness and transparency, making it a more attractive option for FDI or economic partnerships.

2.2.4. The “dark side” of RTAs

We have already noticed how trade liberalization will always create winners and losers. Anyway, some authors are sharply critical about regional or international trade agreements because they especially stress the distributive consequences of the latter and the resulting reallocation of economic gains to the already most powerful economic actors. That phenomenon is often accompanied by higher degrees of market concentration, which can ultimately damage the economy. According to these scholars, firms’ size matters, since the biggest and more productive ones will be the absolute winners of any process of trade opening and liberalization¹⁸. Melitz has been one of the main supporters of the idea that there is a strong link between firms’ heterogeneity and their participation in the global economy or, in a more restrictive view, in a regional trade block. In line with this model of heterogeneity, trade liberalization will have varying effect across firms: MNCs are predicted to be the main beneficiaries “since their market shares and profits increase with the expansion of trade induced by lower tariffs. The least productive firms see their market shares and profits shrink, and are eventually forced out of the market altogether”¹⁹. Moreover, it is argued that as an additional “dark side” of PTAs, there is also a higher degree of market concentration. I personally disagree with this view and I assess that even if trade liberalization has both good and bad consequences, the overall gains will be superior to the losses in the majority of cases. First of all, firms that will be forced to exit from the market are normally inefficient firms characterized by a low degree of productivity. Of course, if we look at the

¹⁸ Baccini L., Pinto P.M, Weymouth S., The dark side of international trade agreements. Working paper, available at: <http://wp.peio.me/wp-content/uploads/PEIO8/Baccini,%20Pinto,%20Weymouth%2031.1.2015.pdf>.> [Last Access 15/03/2017]

¹⁹ Ibidem, p.5

distributional consequences not among countries but within them, we can say that trade liberalization can have adverse effects on variables such as the employment level. But these disadvantages are normally short-term ones: thanks to the opening of the economy there will gradually be a reallocation of resources and factors of production, including labor, from the less efficient sectors to the most productive ones. That's not to be considered a disadvantage, because the economy as a whole will be more functional and more productive at the end of the process. Moreover, not all the inefficient firms will simply disappear from the market: some of them may even improve their economic performances, being forced to adopt new technologies, a more rational administration and a more dynamic managerial culture. Finally, I don't see market concentration as an absolute disadvantage in the context of an open economy. Indeed, one of the main consequences of such a phenomenon tends to damage consumers because of the increased prices due to the lack of competition, but that is mainly the truth in the case of a closed economy. With trade liberalization, firms will find themselves forced to compete not only with the others domestic firms, but also with international ones. If they engage in distortive market practices or if they impose a price that is too high compared to imported goods, they will equally lose their share of the market because consumers will turn their attention on goods from abroad. In conclusion, I still hold that trade liberalization will produce diffuse winners and concentrated losers, rather than diffuse losers and concentrated winners.

2.3. Different types of regional economic agreements

There are different prototypical examples of economic regionalism, ranging from agreements that mainly affect trade flows, to more complex ones that also involve new forms of integration in other sectors, with related increased benefits. The four ideal types are Free Trade Area, Custom Union, Common Market and Monetary Union. The first examples are still concerned with the will to foster trade among the parties: free-trade areas and custom unions. Free-trade areas comprise a group of countries that even if they eliminate tariffs and other barriers to trade among themselves, still they maintain their own tariff against the outsiders, without adopting a common one. That is the simplest form of economic integration, which allows increasing trade flows among the parties, but at the same time maintaining a complete degree of autonomy in defining policies to be applied to non-members. An historical example is the already mentioned NAFTA – North American Free Trade Agreement – created in 1994 by Canada, Mexico and the US. A more advanced type of economic integration is a custom union, such as the Mercosur. A custom-union is quite similar to a free-trade

area, but in addition to the tariffs' elimination among the members, the countries also adopt a common schedule of tariffs against non-members. This means that they all share a common set of rules when it comes to restricting trade with the outsiders. These types of agreements are characterized by a transfer of sovereignty regarding the elaboration of commercial policies to a common central authority. The fact that the parties to a custom union all adopts identical tariffs for goods imported from outside the union, means that there are no problems related to the issue of the rules of origin. That not holds true for free-trade areas, in which each country still maintains its own commercial policy with the outside. For instance, in the hypothetical case of a Japanese exporter that wants to sell its products in the U.S., he could choose to first export its good to Canada, if the tariff barrier its lower, and then shipping it to the U.S., since both countries are members of the NAFTA. To prevent such distortions, free-trade areas go hand-by-hand with rules of origin. Indeed, an outside country cannot simply choose the lowest-tariff country through which having access to the NAFTA market. A good can only be shipped duty-free if it is first incorporated into another North American product. Hence, rules of origin must specify how much of the production of a good took place in one of the NAFTA country²⁰. These very detailed rules explain how a non-NAFTA input must be processed in order to be shipped duty-free among the parties to the agreement. Rules of origin are irrelevant in a custom union with common external economic policies, since the good will receive the same treatment irrespective of its entrance point in the union. Anyway, countries cannot easily renounce to their sovereignty in the field of commercial policy, since this is a highly politically-sensitive issues. That's especially true for NAFTA members that have different economic structures as well as different local and powerful interests to protect, such as the ones of textiles producers in the U.S. A third example of economic integration is the creation of a common market: in that latter case we are going well beyond the field of trade liberalization explored until now. This higher degree of integration is reached when not only the free movements of goods its allowed, but also the free movement of factors of production (capital and labor) and services – the so called “four fundamental freedoms” of the European Union. Indeed, the creation of a common market was envisaged as a fundamental objective already with the Treaty of Rome. Article 2 states that “the Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.” A common market implies increased labor mobility, increased investment flows and fiscal spillover among the parties. At the same time, it is also required the adoption of a

²⁰ As determined by value added or the use of some key inputs.

common regulatory corpus, hence leading to an even a higher transfer of sovereignty than a custom union. Finally, the last step that can be taken in terms of economic integration is certainly the formation of a monetary union, which is a really politically-sensitive issue too, since it implies the complete abandonment of the sovereignty and control over monetary policy. Anyway, in spite of the controversial debate over the advantages and disadvantages of adopting a common currency, we can also assess that monetary unions help to reduce uncertainty, volatility and transaction costs, having in turn a good effect on trade and investments flows. In particular, currency volatility is considered to be one of the main factor that can discourage the movements of goods and capital. Moreover, currency-related transaction costs often result in a reduction of cross-border investments as well as labor flows. Furthermore, a single currency is also said to increase domestic economic stability, since the state government will loose its control over monetary policy, which entails the impossibility to print money in excess in order to finance government expenditure. Under the conditions of such a union, central banks cannot simply monetize the government's deficit. Of course, adopting a single currency also entail costs, such as the impossibility for the member states to use monetary policy in case of asymmetrical economic shocks. The idea that a monetary union will reduce speculative attacks is considered to vary accordingly to the size of the union itself. For a small union that largely depends on capital proceeding from a largest economy abroad the advantages may be insignificant.

3. IPE's main school of thought.

I locate this work in the field of IPE (International Political Economy) studies. This discipline originally developed as a subfield of international relations, gradually acquiring its own standing. It is characterized by a multi-disciplinary approach, assuming that a full understanding of certain issues is only possible through the integration of theoretical insights from economics disciplines and political science. It normally addresses issues such as hegemony, North-South relationship and international trade and investments flows. IPE is a discipline that acquired more and more importance through time, in parallel with the growing changes in international economic relations. Both globalization and the formation of regional blocs increase the interdependence among different economies, connected by economic flows, migrations and, of course, transfer of technologies and know-how. Moreover, there is a growing public awareness of the political content of certain economic decisions and of the economic consequences of certain political programs. Economy and politics have always been profoundly interconnected, but that is even more evident in

the modern globalized world. We can distinguish at least three main schools of thought: realism, liberalism and critical approaches. It is important to remind that the strict distinction among them it is maybe an exaggeration due to the evolution of each current and processes of cross-fertilization. Moreover, each of them can apportion something to the study of certain phenomena, since they all look at the same issue with a distinct perspective, by underlining distinct elements that are considered to be the crucial ones. Each of these schools of thought also addressed the issue of regionalism, so I consider them to be fully pertinent for the sake of this work. It is obvious that the analysis of each IPE School is meant to describe the main focal points and guidelines, and provide the picture of a general model that may serve as an heuristic element. At the same time, it would be a mistake to consider each current as impermeable from the outside as well as immune to internal fragmentation. Moreover, avoiding a rigid theorization may help to avoid reductionism and to appreciate all the distinct aspects of a multi-dimensional phenomenon, as regionalism is.

3.1. Realism and Hegemonic Stability Theory

Realism itself, one of the prototypical theories of International Relations (with its subsequent implications in the field of IPE), is characterized by a wide variety of approaches. Still, it is possible to identify some main theoretical pillars of classical realism, mainly thanks to the contribution of Hans Morgenthau and Raymond Aron. Realists start their analysis from the assumption that we are living in a context of international anarchy, with no centralized global authority. That means that each nation is facing continuous uncertainty and the driving force behind its behavior will always be the preservation of national interests. Another central pillar of realism is the importance of power that, however, is not exclusive of this school of thought²¹. The concept of power is, in turn, interconnected with national wealth, which is seen as the ultimate source of military power, essential to survive in the anarchical global context. Indeed, realism is a state-centric theory, which means that the basic units are nation-states and not supranational/international actors or sub-national ones. The realist school enjoyed a lot of success and approval in the past, but it seemed not suitable to explain “new” phenomena, such as the formation of international and regional agreements with related institutions, growing economic openness and an increasing collaborative attitude among states. In light of these changes, the theory itself underwent a process of internal revision and enrichment of its theoretical assumptions, leading to neo-realists approaches. One example is the HST (Hegemonic Stability theory), advanced as a possible explanation of successful

²¹ See, for instance, dependency theory.

cooperation at the international level. It was initially proposed by Charles Kindleberger to explain the collapse of international order in the interwar period, due to the decline of Britain and the unwillingness of the US, the rising hegemon, to undertake global commitments. The basic idea behind this approach is that power remains the ultimate determinant of the relationship among nation-states. The hegemonic and more powerful one will establish global economic rules and institutions that will serve its own interests and purpose, that will also be maintained as long as they are beneficial to it. For instance the ERP (European Recovery Program) as well as the support of the US to the European project of integration, are seen as justified by the threat of communism determined by the incipient cold war. In that context, supporting economic openness, international agreements such as the GATT and even regional projects at the European level, was fully coherent with American interests. Hence, under the HST, economic interconnections are means to the end of a hegemon, specifically its own self-interest. For that reason, the HST also predicts that economic openness will decline in parallel with the decline of the hegemon. To sum up “in such context, the global hegemon designs regimes which promote its leadership. At the same time, these regimes should suit other states and their economic interests to make them willing to maintain this order. That is why a leading power makes economic concessions to facilitate its political influence.”²² The realist paradigm, focused on power distribution, has also been used to explain the attempt by some revisionist power to modify the international economic order that is still based on US-led institutions, without a proper representation of the full spectrum of contemporary economic powers. That is the case, for instance, of the China- ASEAN free trade area. Furthermore, another of the main contribution to the neo-realist strand of thought has been the one of Kenneth Waltz’s structural realism. He sharply criticized his classical realist predecessors claiming that “neorealism contends that international politics can be understood only if the effects of structure are added to traditional realism’s unit-level explanations. More generally, neorealism reconceives the causal link between interacting units and international outcomes.”²³ That means that according to structural realism, the structure (anarchy) of the international system will constraint interacting states, characterized by different portfolios of capabilities, and it will determine the overall outcome of this interaction. Barry Buzan contributed to neorealism with its concept of regional security complex, defined as a set of states whose major security perceptions are so interlinked that their national security problems cannot reasonably be analyzed or resolved apart from one another. This idea is, in

²² Krasner S., *Structural Causes and Regime Consequences: Regimes as Intervening Variables*. International Organization. 36 (2), 1982, p.205

²³ Waltz K.N., *Theory, values and practice in International Relations*. In: Journal of International Affairs, Vol. 44, No. 1, 1990, p.35

fact, profoundly related to neo-realism as a whole, since regional security complex functions as small anarchical systems: strong states will create and preserve cooperative anarchies or mature regions, whereas weak states will create immature regions characterized by dynamics of conflict.

3.1.1. Liberalism and Neo-Functionalism

Liberalism has a slightly different approach, since it focuses not on the balance-of-power and balance-of-wealth but on the importance of promoting trade and economic openness as the basis for a more prosperous and peaceful world. These theory, that is probably the most influential one at the present day (with its variations and new developments) assumes that the interaction among states can be a positive-sum game, entailing benefits for all. Moreover, liberalists do not consider the state to be the central unit of analysis: is more, the state should maintain minimal its interference in the economy, simply providing the legal framework and infrastructures for the correct functioning of a market economy. Liberalism emphasizes the importance of international or supranational shared institutions. These have to promote free trade and free economic interactions among states. Liberalism underlines the economic benefits that will result from integration, as well as the political ones, because the more interdependent will be two or more actors, the less prone they will be to engage in a conflict. Liberalism, similarly to realism, is not an homogeneous theory, but it rather contains various sub-approaches under its umbrella. Anyway, a crucial point shared by all of them is the reliance on market forces and price mechanisms as the best possible way to organize both the national and international economy, in order to achieve a higher level of welfare and maximum efficiency. Hence, liberalism has been the rationale behind the institutional structure of the economy after the WWII, outlined in the Bretton Woods agreements. Moreover, it has been seen as the perfect theoretical base for policymaking in a new economic environment, characterized by the growing importance of transnational flows and ties. Liberal scholars stresses the importance of shared institutions as well as the role of the state, that always initiate the process of integration, even if the overall outcome escape from its full capacity of previsions and it is not immune from unintended consequences. Two of the main liberal theoretical contribution are functionalism and neo-functionalism. Functionalism has its founding father in David Mitrany, who saw the development of a functional system of interdependent units as the more effective path towards both international and regional stability. This was an approach strictly anchored to a Westphalian logic, hence cooperation and integration must be fostered in the framework of a peace-building project. Still, Mitrany believed that it was possible to maintain a separation between the economic and

political spheres. An organization must be created as an answer to basic functional needs, such as production and trade, going beyond the nation-state but not necessarily embracing a regional project. By contrast, Ernst Haas, is the father of the neo-functional approach. He refused the idea of separability of economy and politics and his main contribution in “The Uniting Europe” has been the concept of spillover. The spillover effect determines that integration in one economic area, will determine integration in further areas, in order to fully assure the goal that was set up in the first place, which means that raising interdependence may eventually lead to political integration. In other words, spillover can be defined as “the way in which the creation and deepening of integration in one economic sector would create pressures for further economic integration within and beyond that sector, and greater authoritative capacity at the regional level”²⁴. The long-term result will be a complex web of interdependence that will entail a higher degree of stability and prosperity. Nation-states will find themselves entangled in that complex network at the point that they will cede more authority and power to the regional organization, in order to support the widening of the scope of the integration process. Neo-functionalism also stresses the importance of regional or supranational shared institutions. The more the integration became profound, the more there will be a transfer of decision-making power to the latter institutions. Indeed, thanks to the spillover effect, integration will gradually proceed from issues of low-politics to the ones of high-politics. Anyway, Haas developed his theory mainly looking at the European experience. After the intergovernmental turn of the Union, with the introduction of qualified majority voting²⁵ he himself declared the obsolescence of neo-functionalism²⁶ and he even reached the point of arguing that the study of regional integration was no longer a subject in its own right, but rather an aspect of the study of interdependence (as theorized by Nye and Keohane). Another liberal contribution to the field of IPE and regionalism has been liberal intergovernmentalism, developed by Andrew Moravcsik. The theory is based on a three-level analysis, since it is focused on the formation of national preferences, the process of interstate bargaining and institutional choice. For each of these dimensions, Moravcsik analyzes alternative independent variables that will contribute to the final outcome of each stage. As far as the formation of national preferences is concerned, Moravcsik asks himself whether the driving forces behind the process are economic or geopolitical interests. Regarding the second dimension, he tries to define if the efficiency and distributional consequences of interstate bargaining are determined by asymmetrical interdependence among the member states or supranational entrepreneurship. Finally, looking at the third dimension, he tries to explain the

²⁴ Rosamond B., *Theories of European Integration*, St.Martin Press, New York, 2000, p.60

²⁵ The QMV system was introduced with the Single European Act (SEA) in 1986, since the practice of unanimity was contributing to a stalemate in the decision-making process and the process of integration itself.

²⁶ Ernst B. Haas, *The obsolescence of Regional Integration Theory*. Berkeley, University of California, Institute of International Studies, Research Series No. 25, 1975;

transfer of sovereignty to supranational or international institutions as the result of a federalist ideology, a centralized technocratic management or the need of a more credible commitment at the state level. Moravicks concludes that during the first stage, what really matters are economic rather than geopolitical interest. Interstate bargaining is influenced more by asymmetrical interdependence than by the presence of a supranational entrepreneur, such as the Commission in the European framework. Finally, member states to an agreement, decide to transfer sovereignty through two alternative mechanism: delegation or pooling (where delegation refers to the transfer of power to a supranational or international institution and pooling refers to the application of systems such as the QMV). Analyzing this third stage, he reaches the conclusion that states agree to transfer their sovereignty in order to obtain the benefits of a more credible commitment, ensuring the future respect and implementation of the agreement. Liberal intergovernmentalism, anyway, have been sharply criticized, especially by Beach, that underlines the importance of supranational and international institutions, and their role in reaching a Pareto-efficient outcome. Moreover, he also stresses the privileged access to information from part of such institutions; hence member states can reduce their bargaining costs if they rely on the expertise and assistance of these bodies. Maybe the weaker point of liberal intergovernmentalism as formulated by Moravicks is its exclusive focus on grand bargaining in the EU. Indeed, when it comes to issues of great importance that may affect national, member states will want to be strongly involved in any decision-making process. By contrast, in the day-to-day activity of the Union institutions matters, especially in terms of verification of compliance and implementation, but also at the level of policy-setting. A further approach is Liberal Regional Economic Integration, elaborated by Balassa. Its rationale is the expansion of the process of economic integration through subsequent steps that must be fully completed before reaching the next level, in order to avoid a misallocation of resources. In ideal terms, integration should start from a preferential trade area, which is seen as the laxer form of cooperation. In that framework, the spill-over effect is again considered as the most important explanatory factor of the deepening of the integration's process. Indeed, in ideal terms, after the PTA, integration should proceed in that way: a free trade area; a custom union; a common market; an economic union; an economic and monetary union and finally a complete economic union.

3.1.2. Critical approaches

The two big macro-categories of realism and liberalism are often referred to as problem-solving or rationalist theories. In spite of starting from different core assumptions they also share some of them. For instance, liberal theorists, when stressing the importance of institutions, are by no means

arguing that the state is an irrelevant actor. Indeed, even a neo-neo synthesis (borrowing both from neo-realism and neo-liberalism) has been developed. In contrast with problem solving schools of thought, the alternative is critical or heterodox IPE, mainly founded by Robert Cox, which focuses on the very nature of the existing order and the possibility to foster a structural change. Robert Cox himself coined the labels “problem-solving” and “critical” theory, in order to stress their very different approach to the same issues. In particular, he criticized rationalist theories because they provide the picture of a constant and immutable international order, precisely because they want to preserve their own interests and views. Critical IPE is about questioning the foundation of the existing order, analyzing the possibility of change. The state is no longer seen as the fundamental actor: it is rather the intermediate step between forces at the international and sub-national level. Indeed, Cox especially wanted to stress and explore the role of agency in structural changes. That means that critical theories are heuristic elements that help us to explore both top-down and bottom-up dynamics, and both formal and informal aspects of regionalism. The main contribution of critical approaches, however, has been their more nuanced theoretical apparatus, that allows to further expanding the focus of IPE studies outside the core, and especially Western Europe. One of the more fruitful approaches developed within the critical framework is the NRA – New Regionalism Approach. It has been developed by Bjorn Hettne within the UNU/WIDER (the United Nation University/ World Institute for Development Economics Research), and then enriched thanks to the contribution of important scholars such as Söderbaum. The basic assumption is that regionalization and globalization are intertwined phenomena, up to the point that regionalism today must be studied as qualitatively new, precisely because the context has changed. “Regionalism is a heterogeneous, comprehensive, multidimensional phenomenon, taking place in several sectors and often pushed (or rather constructed) by a variety of state, market, society and external actors both within and outside formal regional organizations.”²⁷ The state is gradually losing its exclusive role, and other actors within it are gaining strength and influence, fostering processes of market and society-induced regionalization. The NRA stresses both the unevenness of the globalization process as well as the possible role that may be played by actors in the civil society, focusing on bottom-up forces of regionalization. This emphasis on regionalism “from below” must be taken seriously in the contemporary era since, even if the state remains the most important decision-making unit, in a context of globalization also subnational actors (such as MNCs or NGOs) may build their own transnational networks and webs.

²⁷ Söderbaum F., *The International Political Economy of Regionalism*. In: Philips N., *The Globalisation of International Political Economy*, Basingstoke, Palgrave, 2002, p.13

3.2. Old and New Regionalism

The debate on the New Regionalism Approach is partially related, even if not overlapping, with the broader debate on the divide between “old” and “new” regionalism. Indeed, it is a widespread idea that there have been two big macro-waves of regionalization, the first one in the 50s and 70s (mainly in Western Europe) then halted by a period of so-called “Eurosclerosis”; and a second wave of relaunching of the regionalist project, whose beginning is especially marked by the SEA in 1986. Again, a rigid categorization must be refused, since many projects at the regional level were actually started during the first wave, and then simply actualized or relaunched. That means that there are both continuities and discontinuities between old and new regionalism, and maybe the more fruitful approach is to identify new patterns of regionalization co-existing with older forms (Hettne, 1999; Söderbaum 2004). Maybe one of the main differences that we can stress, rest in the fact that old regionalism was characterized by a body of approaches that were mainly peace-building ones. The central focus was on the need of transcending and go beyond the nation-state in order to avoid major crises or even wars. That, of course, was due to the specific context in which these theories developed. By contrast, new regionalism is an answer to a new context, characterized by the end of the bipolar world, replaced by an increasingly multipolar one²⁸ and the dynamics of globalization. Hence, modern regionalism is based on both an endogenous and an exogenous perspective it looks both as regionalism as it is shaped from within and as it is shaped from outside forces. Here again we can see an analysis that clearly develops on multiple levels, from the role of the agency to the forces of globalization. But in spite of these similarities, the NRA must not be seen as exactly overlapping with the debate on new regionalism at large. It is rather a specific theory or formulation.

To conclude this brief dissertation on the main schools in IPE, we can say that “understanding and explanation in this field of inquiry are... best served not by the dominance of a single accepted grand model or paradigm, but by the simultaneous presence of antithetic and conflictive ones that, while they may converge in certain aspects, diverge in so many others”.²⁹

²⁸ It is debated if we are living in a unipolar world, with the US as an hegemon, or in a multipolar one characterized by the presence of various great power with asymmetrical portfolios of capacities.

²⁹ Schmitter P.C., *Neo-Neo-Functionalism*. In: Diez T., Wiener A., *European Integration Theory*. Oxford, Oxford University Press, 2003, p.39

3.3. Competing regionalism

We should introduce the notion of competitive regionalism as an essential feature of the global economy in a post-hegemonic era and of new regionalism itself. Indeed, we can say that the US are currently declining from their role of hegemon in the international system. Even if they are maintaining an unparalleled global military presence, they are losing their hegemonic position in other spheres of power. According to Keohane³⁰ a hegemon is a country that is both able and willing to act as an international paymaster, by providing international common goods. Still, in the economic sphere, we are witnessing the gradual decline of the US. The latter is not simply the product of the relative American decline, but also of the relative “rise of the rest”³¹. The emergence of new centers of power makes it possible for the post-hegemonic world to be characterized by multipolarism and heterogeneity. This, in turn, has its implication for regionalism in the twenty-first century. New regionalism is also a competitive regionalism, characterized by the proliferation and coexistence of multiple FTA and regional arrangements. Competitive regionalism is an essential feature in Latin America, too. The region is characterized by the “competition between different ROs. They compete to be spearhead of regionalism in LA. However, despite LA’s weaknesses, changes, and retrograde moves, regional cooperation in LA, remains a permanent trend”³². The possible convergence between the Pacific Alliance and Mercosur, that will be analyzed later, could finally bring the region into a more cooperative than competitive dimension. New regionalism is shaped by both endogenous and exogenous factors, as pointed out by Mario Telò³³. Among the endogenous factors we have traditional power politics, such as the willingness of national leaders to use regional organizations as a platform to increase their global presence and bargaining power. At the same time, new features are also emerging: in particular the huge weight that private actors of the business community can have in shaping new regional projects that can be functional to their interests. At the systemic or endogenous level, the main force behind new regionalism is certainly globalization itself. “Regional trade liberalization and cooperation arrangements are seen as necessary intermediate steps, enabling nations and companies to cope with the risks and opportunities of the global market and to accept new multilateral rules”³⁴. Even if regional

³⁰Keohane R.O., *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton University Press, 1984

³¹Zakaria F., *The Post-American World*, W.W. Norton and Company, 2008

³²Santander S., in Telò M., *European Union and New Regionalism. Competing Regionalism and Global Governance in a Post-Hegemonic Era*, Routledge, 2016, p. 199

³³Telò M., *European Union and New Regionalism. Competing Regionalism and Global Governance in a Post-Hegemonic Era*, Routledge, 2016

³⁴Telò M., *European Union and New Regionalism. Competing Regionalism and Global Governance in a Post-Hegemonic Era*, Routledge, 2016, p.7

agreements can be seen as a reaction or protection against globalization, this work will be based on the idea that regional arrangements tend to be stepping stones rather than stumbling blocks for the survival of the multilateral trade and economic system. This is especially true if the proliferation of competing regional blocks is accompanied by an interregionalist approach, “understood as a formal relationship between organized regions”³⁵. The notion of interregionalism could be applied to the case of the PA-Mercosur rapprochement, to a perspective evolution of the PA-ASEAN relations, but also to an eventual revival and advancement of the negotiations between the EU and Mercosur.

3.4. Eurocentrism

If the European experience is often considered as the more prominent example of regionalism, it is not the only one. Indeed, during the “second wave” of regionalization, many other projects have been revitalized or expanded elsewhere, as in the case of the African Union, the North American Free Trade Agreement or the Mercosur. In spite of these new developments, studies on regionalism have been sharply criticized because of their eurocentrism. The European Union has been often treated as the sole “comparatum” in light of which it was possible to analyze alternative forms of regionalism. Such an approach may be a too reductionist one and a great weakness of studies conducted in this field. The European Union is certainly the more far-reaching and deep project of regionalization, but it is not the only possible model. Distinct theories have been developed through time, especially in the years of the so-called old regionalism, as prescriptive or descriptive one, but always having in mind the European experiences. With the new wave of regionalism there has been an attempt by various scholars to analyze the phenomenon in a way that can be suitable to describe other regional projects, and not only through a lens created for and from the European integration. The result has been that in many occasions regionalism elsewhere has been described as weak or not enough institutionalized, without comprising that there are, indeed, many different ways of interpreting and implementing regional projects. The EC/EU path has often been taken as the model to follow for any other process of integration that had the aspiration to be successful and far-reaching. I would refuse these posture, not trying to invalidate the importance of the European integration process of course, but simply arguing that not all regional projects can work in any region of the world: there are too much variables to be considered, in economic, political, social and even cultural terms. And even if eurocentrism was mainly a typical feature of the debate on old

³⁵ Hettne B., Ponjaert F., in Telò M., *European Union and New Regionalism. Competing Regionalism and Global Governance in a Post-Hegemonic Era*, Routledge, 2016, p. 116

regionalism, the current debate is still plagued by this reductionist vision. “Different types of Eurocentric generalizations continue to influence and shape the research field. To some extent, Eurocentrism has worsened compared to the early debate as a result of the consolidation of the EU. European integration in general, and today’s EU in particular, has become a marker, a model and a paradigm from which to theorize, compare and design institution as well as policy in most other regions of the world”.³⁶ By considering the EU as the sole possible model, the judgment of any alternative experience will be necessarily negative: they will be seen as atypical and divergent from the “orthodoxy” of regionalism itself. Many realist and liberal studies, in particular, have been characterized by a theoretical prejudice, a strong European bias, which resulted in various attempts of explaining variations from a “standard” case. But does this orthodox and standard model really exist? I would say that the panorama of regionalism is rather characterized by pluralism, that is not necessarily a problem, even for a comparative analysis. By contrast, recognizing that our object of study is plural and multidimensional, can even enrich our subsequent study, allowing for comparison among different projects and experiences that, even if they may seem profoundly different at a first glance, still they will share some important features. The possibility to compare distinct forms of regionalism will always depend on the research question. Still, eurocentrism resulted in false universalism, the practice of transforming experiences at a particular level in a general theory, virtually applicable everywhere. We should neither see the EU as a model, nor as anti-model. This dualistic conceptualization must be abandoned in favor of a new focus, not neglecting the European experience, but simply understanding that it is not the only possible outcome of a process of regional integration. And even when a project as a whole may seem completely different from the EU, we should neither define it as “weak”, “informal” or “loose”, nor claiming the complete impossibility of realizing a comparison. As said above, we have to carefully choose the research question and focus on the aspects that, in fact, can be compared, even if the overall picture does not match. Moreover, European-biased theories must be enriched with contributions and cross-fertilizations from theories that originated in other geographical and cultural contexts, such as open regionalism in Asia or Bolivarianism in Latin America. Furthermore, an even more dangerous approach has been to consider Europe as a political system “sui generis” or in its own right, generating the perception of a complete lack of comparable cases. I personally believe that comparison is among the more productive ways to address the problematic issue of regionalism. European integration studies and IR regionalism must become mutually reinforcing, increasing their dialogue and using a comparative approach that can focus on both continuities and

³⁶ Söderbaum F., *What’s wrong with regional integration? The problem of Eurocentrism*. European University Institute, Robert Schuman Center for Advanced Studies, 2013, p.10

discontinuities. The most fruitful approach would probably be to treat the EU as a “reference” rather than as a “model”³⁷.

3.5. WTO & RTA: a conflictive relationship

Regional trade agreements are permitted under WTO provisions. In particular, article XXIV allow for the formation of free-trade areas or custom union, provided that duties and regulations applied to non-members won't be higher or more onerous than prior to the new agreement. Paragraph 7 impose the duty to notify the eventual decision to join a free-trade area or custom union to the other contracting parties, with the obligation of providing all relevant information regarding the proposed union or area, too. The WTO contracting parties may also issue recommendations and the agreements will be analyzed by the Committee on Regional Trade Agreements, established in 1996. “The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations.”³⁸ Furthermore, article V acknowledges the possibility for WTO contracting parties to entry an agreement liberalizing trade in services, again with the prohibition of applying new or more discriminatory measures to any non-member. Article V bis even regulates the eventuality of drafting labor markets integration agreements. Looking at RTAs, it is paramount that the existence of GATT/WTO have not hindered their formation at all. Since the establishment of the WTO in 1994, over 400 agreements on trade in goods and services have been notified to the contracting parties, and they are increasing not only in number but also in depth and complexity. Regional trade agreements are an allowed exception to the WTO principle of non-discrimination. The debate on this topic revolves around the question of whether RTAs are stumbling blocks or stepping stones of a well functioning international trading system. One of the most important features of new agreements is their more extensive product coverage even if, some sectors, such as agriculture, remain especially delicate. They are also more far-reaching in terms of scope, ranging from trade in goods to trade in services, from intellectual property rights to investments. A growing concern is that RTAs may have an adverse effect on non-members, due to trade-diversion and a worsening of the terms-of-trade for countries that are not party to the agreement. Anyway, it is important to stress that the overall effect will vary on a case-by-case basis. For instance, the world imports' rate of growth amounted for 6% in the period 1990-1998. In spite of this, with the formation of Mercosur imports from non-members increased at 15%, a rate that was even superior to the world one. That means that Mercosur, at least in its first years of

³⁷ Telò M., *European Union and New Regionalism. Competing Regionalism and Global Governance in a Post-Hegemonic Era*, Routledge, 2016;

³⁸ WTO art. XXIV

functioning, increased both internal trade and the external openness of its members (Crawford and Laid, 2001). Some observers criticize the fact that when a RTAs occurs between developed and developing countries, there are huge asymmetries in terms of time framing, schedules and trade coverage, but I would argue that it is totally in line with the principle of special and differentiated treatment for developing countries. One possible negative outcome of the increasing RTAs could be the one of overlapping memberships, which may cause regulatory confusions or problems of implementation. One of the most sensitive points in this field concerns rules of origin (ROOs) that can take several different forms: a value-added criterion; a substantial transformation criterion; a CTH (change in tariff heading) criterion and a specified process one. The problem with overlapping agreements is that ROOs agreed upon under one of the latter could be different from ROOs agreed upon under another agreement. Moreover, these rules are not fixed ones, and they can change accordingly to the expansion and development of a specific arrangement. Hence, this can create a new climate of confusion and uncertainty and also increase costs for producers and the need for administrative surveillance. This plethora of divergent rules may affect the business community as well as the authorities in charge of implementing such legislation. The effects of entering a new RTA are also ambiguous in terms of the increased bargaining power of its members. It has been said that, especially in the case of small countries, participation in a RTA will enhance their bargaining power, allowing them to act collectively within a group and to claim rules and regulations that are suitable for themselves. Still, the other side of the coin is that the proliferation of RTA is increasingly damaging the international trading system and the well functioning of the WTO. Especially after the disagreements and difficulties that emerged during the Doha round of negotiations, the tendency may be to skip from the international to the regional level. That means that if a certain outcome cannot be reached through a comprehensive agreement within the WTO framework, a group of countries may decide to abandon any further negotiation, overcoming the obstacle through arrangements among a reduced group of actors. As it has been said: "If we do not get what we want in the negotiating agenda, why should we worry? We have our own RTA." Furthermore, RTAs may foster the tendency toward the so-called forum-shopping, which is the practice to submit a legal case to the court that is perceived to be potentially more favorable to the litigant. The problem of overlapping jurisdictions is almost unavoidable, due to the quasi-automatic nature of the WTO DSM (dispute settlement mechanism). Still, WTO members that are also parties to a RTA may decide to use the internal dispute settlement mechanism, generating a problem of horizontal jurisdictions' allocation. Certain issues may be brought before different adjudicating bodies that can also reach divergent or conflictive results, adopting rulings that sensibly differ.

Hence, problems can arise anytime that the DSB of the WTO has no exclusive jurisdiction³⁹. Moreover, there is no clear rule regarding overlapping jurisdictions and related priorities: even article XXIV of GATT does not even mention dispute settlement bodies created under the provisions of RTAs. Furthermore, the rules existing in general international law are not very precise and they are sensible to discretionary interpretations. For instance, we may talk of abuse of process in case of a state initiating a second proceeding on the same matter already examined in a previous one. In this latter case, a tribunal may decline its jurisdiction, but it is not obliged to do that. The evaluation will be on a case-by-case basis. To sum up, there are both positive and negative sides of RTAs considered in light of their effect on the international trading system. It is impossible both to argue that they only enhance the system and to argue that they only damage or hinder it. In general, supporters of RTAs claim that these arrangements can make trade even freer, generating more trade-creation than trade-diversion, and that they are usually “WTO-plus”⁴⁰. On the other side, there are those who are skeptical about RTAs, believing that they provoke the erosion of the open multilateral trading system by creating different trade blocs with increasing frictions among them.

3.6. The US in the Trump era: side-effects on LA regionalism

The United States has always considered their relationship with Latin America as a strategic priority. Their interventions in the region, especially along the twentieth century, caused a widespread sentiment of anger towards them in LA. Countries such as Nicaragua, Bolivia, Ecuador and Venezuela have been especially critical about US politics with their southern neighbors. Still, an anti-US rhetoric has been supported with vehemence by other countries in the region, accordingly with their political orientation. That was the case of Argentina during the Kirchners’ administrations, too. In spite of that, Latin America cannot completely disregard its ties (both in political and economic terms) with the US. That explains why this bilateral relation has been characterized by fluctuating phases. The Bush administration announced since its very inception that LA was among the main priority of the country’s external agenda. For the purpose of this work we will mainly consider the economic side of the coin. Hence, we should underline that George W. Bush gave a huge priority to the project of a Free Trade Area of the Americas (FTAA) to be completed before 2005. The FTAA was conceived as composed by all the North, Central and South American countries with the exception of Cuba. Still, events on both sides of the negotiations

³⁹ Article 23 of the DSU mandates exclusive jurisdiction in favor of the WTO dispute settlement body for WTO violations.

⁴⁰ Crawford J.A., Laird S., *Regional Trade Agreements and the WTO*. North American Journal of economics and finance, Vol.12, 2001

determined the failure of the project. Indeed, after the 9/11 attacks, the US external agenda became dominated by the overwhelming presence of the war on terror, sensibly reducing its focus on US-LA relations. At the same time, center-left governments in LA (especially in Brazil and Argentina) further contributed to the impasse of the FTAA. With the election of Barack Obama, the focus moved on the Trans Pacific Partnership (TPP), a project of an economic superblock including 40% of the world economy and a market of 800 million people⁴¹. The TPP was not only a matter of US-LA relations. On the contrary, the Obama program was mainly oriented toward the model of a “Pivot to Asia” strategy. That represented a huge change in the US external relations that had been traditionally characterized by a Middle East/European focus. Still, the TPP was highly supported by Chile, Mexico and Peru as part of a strategy of global insertion with a special attention given to the Asia-Pacific region. The protectionist rhetoric supported by the newly elected president Donald Trump emerged almost immediately with the withdrawal from the TPP. Such protectionism is both a threat and an opportunity for LA countries. It is a threat because the US represent a fundamental economic partner for its southern neighbors and especially for Mexico. But it is also an opportunity since it could push LA countries to better integrate among them and with other regions of the world. The Pacific Alliance rationale reflects this logic, as well as Trump’s ideology is among the factors that could push for a gradual convergence between the PA and Mercosur. Moreover, the US trade policy could have undesired side-effects, such as the one of “driving Latin America into China’s arms”⁴². Actually, China is consistently increasing its presence in the region, both in terms of commercial ties and investments (particularly in infrastructural projects).

4. Conclusion

The subsequent analysis of Mercosur and the Pacific Alliance will be developed in light of the aforementioned concept. If we define the region as an entity composed of multiple states that are not necessarily sharing a border and are not necessarily part of the same geographical area, we can conceive a project of convergence between the two regional blocs mentioned above. Indeed, Mexico is part of the Pacific Alliance and it is a North American country in strictly geographical terms. This argument has been often used by Brazil to advance the idea of South America as its

⁴¹ BBC Mundo, *Qué es el TPP, el gran acuerdo económico de 11 países del cual EE.UU. se acaba de retirar por orden de Donald Trump*, January 24, 2017

⁴² The Telegraph, *Donald Trump’s trade policy is driving Latin America into China’s arms*, January 17, 2017

exclusive sphere of influence. Still, Mexico is also part of Latin America, a wider geographical space with many cultural, historical and even linguistic traits in common. The focus will be on a project of economic integration. Indeed, even if Latin American countries must join their forces in order to fight against socio-political problems such as poverty and drug-trafficking, economic ties and the creation of regional value chains must be treated as a separated issue. Any agreement of Latin American scope must be trade-creative and this possibility actually exists, since the countries in the region are not economically integrated among them and their main trading partners are not parts of the region itself. A first step could be the creation of a FTA, since a Custom Union would also entail the adoption of a common external tariff, which is unthinkable considering the different degrees of openness of each single member country. LA must find its own path towards integration. The European Union can be used, in some cases, as a useful example. And still, Europe is not Latin America and vice-versa. Each region will develop internal ties according to its own internal features. For instance, a degree of institutionalization as the European one is not compatible with LA, being the latter a region characterized by a long-lasting history of presidentialism that hindered the creation of supranational institutions. Presidentialism is also one of the reason why the work will be focused on economic regionalism: integration driven by common economic concerns will be way easier to reach than any form of cooperation entailing a significant transfer of sovereignty or dealing with strictly political issues.

II. Mercosur: structure, development and achievements

1. Introduction

This chapter will deal with an analysis of Mercosur, its structure, achievements and main deficiencies. After a preparatory section containing an historical overview of LA regionalism, the first paragraphs focus on the conflictive bilateral relationship between Argentina and Brazil, which was the main axis around which Mercosur was born. Indeed, the organization was mainly formed thanks to the leadership of the two latter countries, while Uruguay and Paraguay firstly joined the bloc in order to increase their regional and international visibility and to access the Brazilian market. Then, the chapter will analyze the treaties and protocols that gradually shaped Mercosur's structure and objective. The foundational Treaty of Asunción envisaged a gradual integration that should have developed in three steps: at first, the creation of a free trade area; secondly the formation of a custom union and finally a common market. These objectives have not been reached in a satisfactory way, since the common market was never fully implemented and Mercosur is still defined as an imperfect custom union. The foundational treaty also gave birth to the two main organs of the organization, the Common Market Council and the Common Market Group, which both have an intergovernmental nature. Intergovernmentalism is inherent to the organization itself, since no transfer of sovereignty took place and there has not been the formation of supranational organs. The chapter explains intergovernmentalism as directly linked with presidentialism and the willingness of national leader to maintain the integration's development under their control. The dark side of this pure intergovernmental structure has been that, in many occasions, Argentina and Brazil used Mercosur as a forum to pursue their specific objectives, regardless of the smaller members' view. This resulted into a stalemate of the process, turning a profound rethinking of the organization into a necessity. Even the creation of a Mercosur parliament, the so-called PARLASUR, didn't result into any major improvement. Only Paraguay and Argentina are currently allowing for the direct election of its members. Hence, the parliament is not fully independent and it even lacks any binding power. It is, once more, the manifestation of the organization's executive-oriented nature. If pure supranationalism is not compatible with Mercosur's history and its members' needs, it should be desirable to at least evolve into a multi-level system of governance, with both supranational and intergovernmental features. The second section will focus on the paradoxical results achieved by the bloc. They are paradoxical because the main objectives of the treaty of Asunción, such as the creation of a common market, have not been reached. At the same time, integration proceeded in other fields that were not considered as a priority by the Mercosur's designers. In particular, economic integration advanced smoothly in non-sensitive

fields, while unilateralism prevailed when dealing with strategic sectors such as the automotive one or the production of sugar cane. Mercosur is currently experiencing a crisis of credibility and declining performance. Moreover, it has been further plagued by internal contrasts and the suspension of its newest member, Venezuela. Its current situation requires a rethinking of its mechanism and objectives. The possible convergence between Mercosur and the PA, that will be addressed in chapter IV, could be the catalyst of its internal metamorphosis under the leadership of committed presidents.

1.1. Brief overview of Latin American regionalism

The impulse for a growing integration among Latin American countries has its own roots in the struggle for the independence from the colonial powers. The independence of the U.S. set an important precedent that inspired the “libertadores” of the Southern part of the continent. The Panama Congress of 1826 can be seen as a first and failed attempt at Latin American union. It resulted in a clash between the supporters of a federation and those who wanted the formation of multiple nation-states following the European model. Bolivar was, among others, convinced that the best solution would have been the formation of a grand federation of Latin American states. Anyway, these aspirations were not translated into practice and the desire of independent sovereignty prevailed over any project of continental reach. The project of a Latin American Union was re-launched later on by figures such as Benjamin Vicuña Mackenna, but mainly as an answer to the threat coming from the U.S. and its Pan-American ideals, already introduced at the time of the Monroe doctrine. At the first Pan-American congress held in Washington between 1889 and 1890, a group of South American delegates under the leadership of the Argentinian Saenz Peña strongly opposed any advance in that sense. Still, this did not result in an enhanced cooperation among Latin American states, being the only exception the ABC pact, signed by Argentina, Brazil, and Chile in 1915. That was a pact aimed at promoting non-aggression and the peaceful solution of international controversies. In terms of economic integration, the first attempts at cooperating only took place after the WWII, also thanks to the role of the ECLAC – the Economic Commission for Latin America and the Caribbean, operating under the ONU’s umbrella. In the first stages, the ideas of the Argentinian economist Raul Prebisch have been very influential. Indeed, he argued that the division of international economy between a periphery and a center determined the need for Latin American countries to follow a path of development that diverged from the neoclassical theories of international trade. He prescribed the adoption of an ISI strategy in order to reach economic

stability while avoiding the negative consequences of terms of trade's worsening. These protectionist ideas lied at the heart of an inward-oriented development strategy of integration (*desarrollo hacia dentro*). Protectionism was the rationale of the *Asociación Latinoamericana de Libre Comercio* (ALALC), the regionalist project launched with the treaty of Montevideo in February 1960. Anyway, the implementation was made difficult both from internal and external reasons. The petrol shocks of the 70s, made a deeper integration even more complicated. In 1980 the ALALC was turned into *Asociación Latinoamericana de Integración* (ALADI), no longer with the aim of creating a big and far-reaching free-trade area. The new and preferred mechanism was to foster multilateral and more flexible forms of integration. The Cartagena agreement of 1969 gave rise to the Andean Pact, aimed at the creation of a custom union and the adoption of a common external tariff among Chile, Bolivia, Peru, Ecuador and Colombia. It further had the objective of harmonizing the economic policies of the member states and adopting severe rules concerning capital inflows from outside the pact. The group had to face enormous difficulties due to the huge divergence among their economic policies and structures. Moreover, the Pact was further weakened by the withdrawal of Chile during the Pinochet dictatorship. We have to wait until the 90s for the re-launching of the project under the name of CAN - *Comunidad Andina de Naciones*.

Protectionism had a positive outcome at the beginning, with a medium rate of growth of the GDP of 5,1% between 1951 and 1960⁴³. Still, the path of dependency from the developed world could not be completely stopped: the ISI strategy relied on the use of capital, intermediate inputs and machines that had to be imported, due to their non-availability in the internal market. Moreover the ISI strategy did not permit to profit from the opportunities offered by the dynamic rebirth of international trade in the aftermath of WWII. The high growth rate of the 60s and 70s were mainly due to the inflow of capitals deriving from the market of petrodollars, rather than due to internal development. Moreover, Latin American economies were similar both in terms of production's techniques and outputs. The result was that agreements such as the ALALC and the AP were neither entailing benefit, nor diversifying the economy: they were rather creating a higher degree of competition. The overall effect was "trade deviation" as described by Viner⁴⁴. For the reasons outlined above, the 80s are known as the "lost decade" in Latin America, since the region was affected by its internal as well as external contradictions and pressures. Regional public debt reached the amount of 30 billion dollars in 1981 and inflations reached unsustainable levels, too. That sanctioned the abandonment of the protectionist model and the embracement of a new regionalism. This new kind of regionalism was "new" in terms of economic policies and objectives

⁴³ R. Prebisch, "Hacia una dinámica del desarrollo latinoamericano", Suplemento de Comercio Exterior, Banco Nacional de Comercio Exterior, Mexico:s.a., 1963

⁴⁴ J. Viner, *Studies in the theory of internal trade*. New York: A.M. Kelley, 1965

and it was accompanied, and maybe made possible, by the changing international environment, characterized by the rise of globalization and the end of the bipolar world. Liberalization and openness were the new key-words. They were to be ascribed also to the Washington consensus, a prescriptive package to be adopted and respected by any country willing to obtain the financial and logistical support of international institutions such as the FMI. Even the ECLAC adopted a slightly different approach, promoting open regionalism as the most suitable solution for the region. The inward model of “*desarrollo hacia dentro*” was then substituted by an outward oriented one of “*desarrollo hacia fuera*”. New bilateral and multilateral agreements emerged, coexisting with the old, failed project. The result was an overall picture of confusion, with overlapping memberships and arrangements that has been described as a “spaghetti bowl”⁴⁵. For instance, Venezuela finally left the Andean Community in 2006, due to the alleged incompatibility between the membership of Peru and Colombia in the pact and their effort to conclude bilateral treaties with the U.S. The Andean Community and the Mercosur are the most prominent regional projects that emerged during these years and continue to last until now, even if with contradictory results. The AC was born in Trujillo in 1995, after the Quito vertex of the previous year among Venezuela, Peru, Bolivia, Ecuador and Colombia. It is currently organized around the Andean Integration System (SAI) and conformed by only four of the former members due to the Venezuelan withdrawal. Political tensions still hinder the full deepening of the integration process, especially due to the contrast between the supporters of a US- oriented strategy and the ones that advocate a higher degree of independence from the North. The Mercosur was born with the Treaty of Asuncion in 1991, but it is mainly the result of a progressive improvement in diplomatic relationship between its two more prominent members, Argentina and Brazil. Their presidents, respectively Carlos Menem and Fernando Collor, gave the greatest impulse to the project, which also included Uruguay and Paraguay from the very beginning and Venezuela since 2012. The organization was set up having in mind the model of open regionalism advocated by the ECLAC after its change of strategy. Anyway, as I will assess in my following analysis of the organization, the results have been often unsatisfactory. The economic progress of the region slowed down in 1998, after the unilateral decision of the Brazilian government to devalue its currency. Moreover, many observers express their doubts concerning the viability of a project that includes asymmetrical states in terms of economic size and competitiveness. The political instability of the area, especially with the recent episodes involving the Venezuelan President Maduro and the impeachment to the Brazilian Dilma Rousseff, even worsened the predictions concerning the future performance of Mercosur. The project of UNASUR started to be devised at the beginning of the new century, with the spread of a

⁴⁵ J. Bhagwati, US Trade Policy, The infatuation with FTAs. Columbia University, discussion paper series n.726, 1995

new paradigm of post-liberal regionalism, based on the idea that it is necessary to downsize the weight of the economic element, giving priority to other fields of integration, especially the socio-political one. Its direct antecedent was the *Comunidad Suramericana de Naciones* (CSN), created in 2004 after a presidential summit in Cusco, Peru. The main aim behind its formation was the integration of the two main regional blocks: the Mercosur and the Andean Community. In 2007 the name UNASUR was finally adopted. The following year a general secretariat was established in Quito and the constitutive treaty was finally drafted, even if it entered into force only in 2011. Among its objectives there are: the strengthening of South American integration and of a common identity; financial integration; energetic integration; promotion of cultural diversity; eradication of analphabetism; cooperation in the field of trade; industrial integration and creation of firms' networks, with a special focus on small and medium enterprises and the exchange of information in the field of defense. Analyzing this list of objectives, it is easy to understand how this project is aimed at fostering a multi-dimensional integration, exceeding the traditional economic sphere. The Pacific Alliance is the more recent experiment of regional integration, officially launched on April 28th, 2011. It will be also deeper analyzed in further chapters. It is comprised by Chile, Colombia, Peru and Mexico, and its objective are mainly about fostering economic integration and dynamism in the movement of goods, services, resources and people, with a special emphasis on increasing trade flows and partnerships with the Asia-Pacific region. Chapter II and III will enter in more details regarding the structure of both the Mercosur and the PA, allowing for a comparison among the two models and the results that they have respectively achieved. In the final chapter of this work, I will further analyze the possible role of Argentina as a bridge between the two regional projects under the leadership of President Mauricio Macri, also taking into account that the country has been accepted as an observer member of the PA in June 2016.

2. Antecedents – A conflictive cohabitation

In a certain way, the reasons that lie at the core of Mercosur's project are similar to the forces that pushed for European integration. Indeed, integration was seen as a way to mitigate traditional rivalries between two bordering and influential countries in the region, Argentina and Brazil. Hence, at the first glimpse, the similarity with the European Steel and Coal Community (ESCC) and the beneficial effects that it had on the Franco-German relationship is paramount. At the same time, it is not certainly possible to compare the outcome and results of the two processes of integration. Since the first years of independence from the European crowns, the two countries engaged in

various conflicts for territorial control and superiority. One of the major controversies was finally solved in 1825 with the creation of the independent state of Uruguay, in the disputed zone between the two countries. Anyway, that didn't mark the end of the animosities, since new tensions arose when Brazil finally recognized the independence of Paraguay in 1840 and after the war of the triple alliance in 1876. Such conflicts are not comparable with the major wars that resulted, among other reasons, from the conflictive relationship between France and Germany. Still, Brazil and Argentina never had a peaceful cohabitation. Political and economic rivalries were continuously interacting, especially in the XXth century. Argentina had a long-lasting privileged relationship with Great Britain, while Brazil was mainly under the U.S. influence, which was another important cause of tension (we should keep in mind that Argentina has historically been the main country in South America opposing North American interferences). Moreover, as said in the previous chapter, the model of economic development adopted by both countries, at least until the Great Depression, was based on the export of primary commodities. That created an additional realm for competition, since each country had an absolute advantage in the production on a large scale of certain products, such as tropical agriculture in the case of Brazil and temperate agriculture in the Argentinean one. The turn to an import-substitution strategy didn't foster economic integration at all, since it was accompanied by high protectionist measures that insulated domestic economies from each other. Isolation and mutual mistrust resulted in a complete lack of integration, even in physical terms. The first bridge on the Rio Uruguay that connected the two countries was only built in 1947. An insufficient physical integration, in turn, affects the level of economic integration due to increasing transportation and transaction costs, creating a self-reinforcing mechanism.

2.1. First attempts at cooperation

Attempts to collaborate were only sporadic and linked to the figures of specific presidents (such as Vargas and Peron or Kubitschek and Frondizi) without resulting in long-lasting improvements. Federico Pinedo, the Argentinean Minister of Finance, attempted to create an embryonic free-trade area, proposing the elimination of tariffs for new industries in 1940⁴⁶. Such proposal equally failed to be finally implemented. In spite of these unsuccessful bilateral attempts, some voices started to support a perspective of economic integration in the Latin American region already in the 50s. That was the case of the already mentioned CEPAL, within the framework of the United Nations. Integration among domestic economies was seen as the most suitable way to foster economic development and economies of scale. *La Asociación Latinoamericana de Libre Comercio*

⁴⁶ De la Balze F.A.M, *Argentina y Brasil enfrentando el siglo XXI*, Consejo Argentino para las Relaciones Internacionales, 1995;

(ALALC), created in 1960, gave birth to the first formal episode of economic cooperation between Argentina and Brazil, along with other Latin American countries, including Mexico. The underlying objective was the creation of a free-trade area within a term of twelve years, eventually followed by the development of a common market. It was further meant to harmonize the mechanism of bilateral trade agreements in the region with the rules of the General Agreement on Tariffs and Trade (GATT). Great expectations regarding this project already started to decrease in the second half of the sixties, after an initial growth in intra-regional trade and bilateral concessions. Indeed, Latin American countries were prone in granting concessions to each other only in non-crucial fields that were not highly protected. When it came to fundamental products that were considered of great national interest, economic integration resulted in a stalemate⁴⁷. ALALC's poor performance was also due to the great disparity among the members and the endemic economic instability of the region. All these factors had intertwined consequences that made it impossible to reach the full development of the project as it was initially conceived. The agreement that created the *Asociación Latinoamericana de Integración* (ALADI) in 1980 was signed having in mind a renovated attempt to economic integration. The latter was a less ambitious project, especially aimed at fostering integration and trade by providing an effective legal and normative framework. Anyway, the project was launched almost in correspondence with the Latin American debt crises of 1982, which made countries less prone to cooperate. In particular, any improvement in the bilateral trade flows between Brazil and Argentina was halted and affected by a regressive trend. Argentina started to have systematic trade deficit with Brazil, in spite of previous limited, but not insignificant, progresses⁴⁸.

2.1.1. Argentina and Brazil: strengthening bilateral cooperation

The decade of the 80s, in spite of being a very difficult economic moment because of the debt crises, was also characterized by a certain political rapprochement that was, in turn, the basis for any future attempt at economic integration since the two realms are mutually reinforcing. Indeed, the 80s saw the reestablishment of democracy in the region and a will to smoothen bilateral relationships. In that sense, the bilateral “Agreement on Cooperation for the Development and Application of the Peaceful Uses of Nuclear Energy”, signed on May 1980 by the Presidents Videla and Figuereido can be seen as the cornerstone of successive improvements. Without downgrading

⁴⁷ Selcher W.A., *Brazilian-Argentine Relations in the 1980s: From Wary Rivalry to Friendly Competition*, Journal of Interamerican Studies and World Affairs, No. 27, Summer 1985;

⁴⁸ Turriza, J., *Argentina-Brasil: la potencialidad de la cooperación bilateral*, in BID-INTAL, 1981;

the importance of these achievements, it is important to mention that “both governments’ attention was diverted on internal political and economic problems, and the South Atlantic War (1982) further reduced concern from bilateral relations.”⁴⁹ The nuclear rapprochement was allowed by the return of power in civilian hands in Argentina and Brazil, with the election, respectively of Raúl Alfonsín (December 1983) and José Sarney (March 1985). In November 1985, at a presidential meeting in Foz de Iguazú they finally adopted a Joint Declaration on Nuclear Policy and on the exclusive peaceful purpose of the respective nuclear programs. “It must be emphasized that nuclear affairs were not envisaged as isolated from the broader context of Argentine-Brazilian relations in general. On the contrary, the political leadership of both countries began to view the nuclear issue as one important part of the whole process⁵⁰.” Indeed, the two countries further launched the Program for Integration and Economic Cooperation (PICE) in 1986, in order to support integration and harmonization of economic policies. PICE was further aimed at the facilitation of trade and investments flows and joint programs in the field of biotechnology. On November 29, 1988, another important step was taken: the signing of a Treaty on Integration, Cooperation, and Development. The treaty was meant to set in motion a two stage process. During the first one, the main objective was to eliminate tariff and non-tariff barriers to trade in goods and services between the parties, within a maximum term of 10 years. It was further aimed at the harmonization of national policies, especially custom, industrial and transportation ones, but it even envisaged the coordination of monetary, fiscal and exchange policies. The second stage was mainly about the deepening of the process and coordination in other policy realms, such as human resources. The treaty also created a Commission for the Execution of the Integration, Cooperation and Development Treaty, co-presided by the Presidents of Argentina and Brazil. It is interesting to stress that the treaty received a huge domestic support: the Argentinean congress ratified it with the support of all political parties. All these agreements and the bilateral meetings that supported their ratification were seen as an effective way to promote mutual trust. The new Presidents, the Argentinean Carlos Menem (1989) and the Brazilian Fernando Collor de Mello (1990), followed the path of their predecessors and in November 1990 decided to issue a new Joint Declaration on Nuclear Policy. It marked some important advancement such as the creation of the Common System of Accounting and Control (SCCC). By the way, the main precursor of Mercosur has to be considered the Economic Cooperation Agreement no.14, signed in 1990, which also set a time frame for the creation of a common market. That was the ultimate long-term objective: granting the full free movements of

⁴⁹ Selcher W.A., *Brazilian-Argentine Relations in the 1980s: From Wary Rivalry to Friendly Competition*, Journal of Interamerican Studies and World Affairs, No. 27, Summer 1985, pag.46;

⁵⁰ Carasales J.A., *The Argentine-Brazilian nuclear rapprochement*, available at: <https://www.nonproliferation.org/wp-content/uploads/npr/carasa23.pdf> , pag.3;

goods, services, capital and people between the two countries. Hence, the Brazilian as well as the Argentinian Presidents have also been the two main figures that dominated the first phase of the Mercosur project. Regional integration never occurs in a vacuum: the European Union was not born all of a sudden, it has been the product of a long process of development, and even its previous stages were the outcome of gradual improvements that made it possible to expand cooperation and integration in a smooth and progressive way. The same holds for Mercosur: it was made possible thanks to the rapprochement between its two major members and the conscious effort to gradually move forward in the decade of the 80s. The adhesion of Paraguay and Uruguay allowed for an evolution from bilateralism to multilateralism.

2.2. Foundational Treaties and Protocols: The Treaty of Asunción

Mercosur was officially born with the Treaty of Asunción, signed by Argentina, Brazil, Uruguay and Paraguay on March 26, 1991. The treaty entered into force a few months later, on November 29. It is reasonable to assume that the two smaller members decided to join the bloc mainly because they feared being economically isolated and excluded as a result of the increased flows between the two larger countries of the Southern cone⁵¹. The Treaty of Asunción can be ascribed in the framework of the Treaty of Montevideo of 1980, which gave birth to the ALADI. Indeed, article 1 of the latter treaty stated that: “by this Treaty the Contracting Parties are continuing the integration process designed to promote the harmonious and balanced economic and social development of the region and, for this purpose, hereby institute the Latin American Integration Association (...). This process shall have as its long-term objective the gradual and progressive establishment of a Latin American common market.” The ALADI admitted Partial Agreements as a mean to reach the overall objective of a common market of Latin American reach, as stated in art 7 of the same treaty. Such agreements were defined as the ones in which not all the member countries participate. Still, they were fully coherent with the ALADI project, because their evolution was supposed to be toward multilateralism and the progressive inclusion of more members in the region. In light of the current events, we can affirm that this objective was only partially reached, being the membership of Venezuela under doubt and being Bolivia undergoing its process of adhesion. The Mercosur was an intergovernmental organization since its inception, lacking any supranational authority, as it will be clear after having explored its institutional structure. Its main problem is not only the lack of

⁵¹ Caichiol C.R., *The Mercosur Experience and Theories of Regional Integration*, Contexto Internacional, Vol.39, No.1, January/April 2017;

supranational features itself, but also the mismatch between the rhetoric and the practice. There has been the tendency among its members of emitting declarations and statements regarding the subsequent developments of the process that were never fully met by a correspondent institutional development. The paramount case is probably the one of the PARLASUR (Mercosur Parliament), a body with no powers beyond its very consultative nature. The Treaty of Asuncion gave to the organization's organs, since its beginning, the power of creating more or new ones, in order to allow the evolution and deepening of the integration project. New bodies have been created actually, as it will be detailed later, but their creation has been plagued by significant deficiencies⁵². Currently, the main problem of the organization is the mismatch between rising rhetoric and declining achievements, as lucidly stated by Andrés Malamud in its analysis of the first 15 years of Mercosur⁵³. Article 1 of the Treaty of Asunción, envisaged as its main objective the creation of a common market that should have been in place by December 31, 1994. Hence, the long term result should have been composed of multiple layers: the full mobility of goods, services and factor of production thanks to the elimination of tariffs and non-tariffs barriers; the adoption of a common external tariff; the coordination of positions in regional and international forums; the coordination of macroeconomic policies and sectorial ones in areas such as agriculture, transport and industry; the commitment by the member states to harmonize their legislation in order to allow for a fair competition and the deepening of integration. Furthermore, members decided to adopt a gradual approach, starting from a free trade area, then a custom union and finally a common market. In spite of that, results have been quite poor or at least fluctuating. We can affirm that the first stage was almost completed, thanks to the free movement of goods among member states with some exceptions. Looking at the second stage, the picture is quite different: Mercosur is usually defined as an imperfect custom union, since in spite of the adoption of a common external tariff in 1994 by a decision of the Common Market Council (CMC), there is a significant list of exceptions that hinders the development of the custom union itself as well as the tendency to change it frequently⁵⁴. Considering the third stage, results have been disappointing too. Which is the reason for such a declining performance? Is it due to the institutional structure? Or maybe is it the result of internal contradictions and international pressures? The next sections will analyze the institutional structure, one of the main weaknesses of the project as a whole.

⁵² Preusse H.G., *Mercosur – Another failed move towards regional integration?*, available at: <https://www.econstor.eu/handle/10419/47572> [last access 13/04/17];

⁵³ Malamud A., *Mercosur Turns 15: between rising rhetoric and declining achievement*, Cambridge Review of International Affairs, Vol.18, No. 3, 2005;

⁵⁴ Laens S., Terra M.I., *Deepening integration of Mercosur: dealing with disparities*, Inter-American Development Bank, 2005 and Peña F., *Precisiones entorno al debate sobre la unión aduanera y el Mercosur*, Semanario Del Comercio Exterior, August 2006

2.2.1. The embryo structure as defined by the TA

Chapter II of the Treaty of Asunción outlined the provisional structure of the organization. It was provisional since it was linked to the transitional phase that was supposed to last until 1994. The two main bodies were the Common Market Council (CMC) and the Common Market Group (CMG), both intergovernmental ones. The CMC is still nowadays the highest organ of the organization, with functions of political conduction and decision-making. Its intergovernmental nature is reflected by its composition. Indeed, article 11 of the TA established that the organ was to be formed by Ministers of Foreign affairs and the Ministers of the Economy of the member states. It was supposed to meet anytime its members deemed it necessary, but with at least one ordinary session per year. The intergovernmental logic is also quite clear looking at the rules for the presidency of the organ: “The presidency of the Council shall rotate among the States Parties, in alphabetical order, for periods of six months” (art 12). Furthermore, the decision-making process was based on the mechanism of consensus, with the mandatory presence of all the contracting parties. That is another clear sign that member states were neither ready nor willing to renounce to their sovereignty. The CMG was conceived as the executive organ of the organization. Among its main tasks there were monitoring the compliance of contracting parties with the treaty; proposing measures aimed at trade liberalization and coordination of economic policies; take all the necessary step to enforce decision adopted by the Council. This latter attribution seems to be a contradiction in terms, since the bodies of Mercosur lacked any real enforcement-power over the member state. Any member has the right to be represented in the CMG by four full members and four alternates each, representing the Ministry of Foreign Affair, the Ministry of the Economy (or its equivalents) and the Central Banks. It is interesting to notice that in spite of the huge asymmetries among the four founding members, there were no provisions concerning a proportional representation according to, for instance, the demographic or economic size of each country. Moreover, consensus was the logic behind the functioning of this latter organ, too. The Joint Parliamentary Commission (JPC) was the last organ created by the TA. Its subordinate role stood out clearly since it was not even mentioned in Chapter II, regarding the structure of the organization. Indeed, it was only mentioned in the last article of Chapter VI, regarding general provisions. This choice makes it paramount how the member countries wanted to keep the whole process purely intergovernmental. Furthermore, article 24 only recognized the need of creating a Parliamentary Commission in order to support the creation of the common market, but without saying nothing about its composition or

functioning. It is still more disturbing that, in the same article, the duty to inform the national assemblies about the evolution of the process was attributed to the respective national executive powers. It is disturbing since such an attribution seemed to be, at least in theory, a natural prerogative of the newly formed JPC. An administrative secretariat was further established, with basic tasks of logistic support, registering of documents and norms' publication. By the way, in this first phase of the Mercosur project, a contemporary analyst could have given the benefit of the doubt, maintaining a skeptical attitude and hoping for a more rational evolution in the future. And yet, in spite of the enlargement and enrichment of the institutional structure, there has not been any significant process and contradictions have slightly increased.

2.2.2. The Protocol of Ouro Preto (POP)

The Protocol of Ouro Preto (additional protocol to the Treaty of Asuncion on the institutional structure of Mercosur) was signed in 1994 in order to enhance the institutional design of the organization. It was adopted in compliance with article 18 of the TA, stating that the member states had to provide the organization with a permanent institutional structure, with clearly outlined functions and decision-making procedures of each body, before the 31st of December 1994. The original organs that formed the organization were reconfirmed, and the general scheme was completed with the creation of another intergovernmental body, the Mercosur Trade Commission (MTC). This latter organ was created with the task of assisting the CMG and ensuring the full implementation of the trade policy's instruments aimed at developing economic integration. It was established that it has to be formed by four members for each country plus four alternate ones. The decisions of the MTC take the form of Directives, being mandatory for member states. The POP also created an Economic and Social Consultative Forum (ESCF), aimed at representing economic and social actors. Hence, it is a consultative body aimed, at least in theory, at fostering the participation of civil society's actors in the integration process. It can only emit recommendations, with no binding nature at all. In relation to the other previous bodies, there were some minor changes: for instance, it was established that the CMC had to meet at least once every six months, and not once a year as before. Apart from that, the attributions of the organs have been expanded with the entering into force of the POP. Indeed, this latter Protocol, also granted the Mercosur a legal personality of international law, assumed by the CMC. The Council also gained the new function of negotiating and signing agreements on behalf of Mercosur with third countries, group of countries and international organizations (function that can eventually be delegated to the CMG). It

was also called upon to rule on proposals submitted by the CMG. Furthermore, article 9 of the POP stated that decisions of the Council are to be considered binding on the state parties. Even if the letter of this article seems to indicate an advancement regarding the efficiency of the organization, all the organs of Mercosur still lacks any enforcement authority. Moreover, as I will say later in detail, there are huge problems regarding a lack of symmetry and homogeneity in the application of Mercosur's norms at the national level. Article 15 also recognized a binding nature to the decisions of the CMG, which took the form of Resolutions. The JPC was finally recognized as a proper organ of the organization, representing the parliaments of the state parties. Its members, at that moment in equal number for each country, had to be appointed by national parliaments according to internal rules. Article 25 granted to the Parliamentary Commission the function of speeding up national internal procedure, in order to guarantee the simultaneous and harmonious entering into force of Mercosur norms at the national level. As we will see, the real power of the body remained minimal, and it still lacks the power to adopt any binding decisions different from a recommendation. Finally, the Mercosur Administrative Secretariat was established in Montevideo.

2.2.3. The Protocol of Olivos and the Dispute Settlement System

The Protocol of Olivos, was signed on the 18th of February 2002. It represented the acknowledgment of the fact that any process of economic integration aimed at being successful, also required the establishment of a more coherent and structured dispute settlement system. Indeed, before its entering into force, which occurred on the 1st of January 2003, the organization lacked any permanent tribunal to solve the controversies arising among the members in the interpretation and application of Mercosur law. The antecedent of the Protocol of Olivos (PO) was the Protocol of Brasilia, which entered into force in April 1993. It created a dispute settlement mechanism based on direct negotiations between the parties, the participation of the CMG as a conciliator and a system of ad hoc arbitration. Moreover, the PB already recognized the possibility of accessing the dispute settlement mechanism both to states and private parties. The Protocol of Olivos created a Permanent Tribunal of Review to hear appeals from ad hoc tribunals. Furthermore it introduced compensatory measures and mechanisms for challenging them. It finally entered into force the 1st of April 2004. The dispute settlement system can deal with all the controversies regarding the interpretation and application of all Mercosur legal sources, including the treaties and protocols but also the decisions of the CMC, the resolutions of the CMG and the directives of the MTC. With the entering into force of the protocol, a solution was finally found to the already mentioned phenomenon of forum

shopping, avoiding any risk of conflictive decisions taken in two distinct forums. Indeed, if a dispute is submitted within the framework of a specific forum, the parties won't be able to resort to another one later one. This measure was obviously necessary since all the member of Mercosur are also members of the WTO, hence certain issues regarding topics such as subsidies or quotas can often be adjudicated by both forums. The first step for the resolution of any dispute must be the direct negotiation between the parties, in order to reach a peaceful solution of the controversy. It is a mandatory step that cannot take longer than 15 days from the day the complaint is submitted to the other litigant. If an agreement is not reached, the parties have two options: either resorting directly to an ad hoc tribunal or asking for the intervention of the CMG as a conciliator between the litigants. A first instance of the dispute settlement process can also be the MTC, as established by the POP. It can be addressed whenever the dispute concerns a matter within its competence. If these procedures fail, the parties will resort to an ad hoc tribunal, whose creation does not require any special agreement between them. It will be composed of three arbitrators chosen from an already drafted list with members designated by each country. Each party will appoint one arbitrator, and the third one must be named by mutual agreement and cannot be a national of the countries involved, in order to ensure transparency and neutrality. They are expected to deliver their decision within a time frame of 60 days from the appointment of a chairperson. They can also adopt provisional measures if the continuation of an existing situation is considered sensible to cause an irreparable damage to one of the parties. Even if decisions of the ad hoc tribunals are considered binding and have the force of *res judicata*, they can be appealed to the Permanent Tribunal within 15 days from the decision's notification to the parties. The PTR is composed of one arbitrator per country, elected for a term of two years and an additional arbitrator elected by mutual agreement for a term of three years. The Tribunal will have 30 days to decide over the issue and the decision will have an immediate effect as *res judicata*. The PO also authorizes direct access to the PTR as the first and last instance of adjudication. Decisions of the Tribunal normally result in the adoption of compensatory measure in the economic sector that is the object of the dispute, but in case they prove to be ineffective, additional measures can be taken and extended to other sectors beyond the scope of the litigation⁵⁵. Private parties, natural and legal persons, can also present their complaints but only in an indirect way, by channeling them to the CMG through their national sections. The strengthening and rationalization of the dispute settlement mechanism is one of the main institutional achievements of Mercosur as stated by Arnold Christian and Berthold Rittberger when they affirm that "the reforms mark a significant advance in the legalization of this regional organization: a standing court with a more independent judiciary and improved access to the court's

⁵⁵ Vinuesa R.E., *Enforcement of Mercosur Arbitration Awards Within the Domestic Legal Orders of Member States*, available at: <http://www.tilj.org/content/journal/40/num3/Vinuesa425.pdf> [last access 10/04/2017];

jurisdiction were established. While the extent of legalization in the European Union – the most integrated regional integration scheme of all politically – is unmatched by other international or regional organizations, Mercosur’s DSS is more legalized than that of NAFTA or ASEAN⁵⁶. According to the externality theory, one of the reasons that can explain this effort of creating a more stable dispute settlement mechanism was linked with the economic crises at the turn of the millennium which provided the main impulse for a change. Indeed Mercosur contracting parties recognized the need to give a sign of increasing stability, effort and compromise within the bloc in order to enhance their international reputation and keep attracting trade and investment flows. Christian and Rittberger also assess that “delegating (small) portions of sovereignty by empowering the DSS was considered a credible (but costly) signal to transnational economic actors and international capital owners that their investments in the region would be legally secure and profitable.⁵⁷” Moreover, following the contracting theory, the smaller states such as Paraguay and Uruguay should have supported and welcome the strengthening of the DSS in order to ensure the certainty of and compliance with Mercosur legal sources. Having a reliable dispute settlement body to which resort can provide weaker countries in the bloc with an important strategic instrument, since they do not have the same leverage or bargaining power as Brazil and Argentina. But these two latter countries themselves recognized the need to reform the DSS in order to enhance its efficiency and reduce the transaction costs entailed by the previous mechanism. The PO also introduced a more efficient mechanism for the enforcement of the judgments. Within 15 days from the notification of an award the state must inform the other parties and the CMG, through the Secretariat, about the measures adopted in order to give execution to the ruling. The state benefiting from the award can even present a complaint if it considers that such measures are neither sufficient nor complete. In case of non-compliance it can also adopt unilateral compensatory measures, such as the suspension of concessions. Anyway, the Tribunal will retain the last word regarding both the legality and proportionality of the compensatory measures. Still, the main weakness of the system is that the enforcement of rulings still depends upon the unilateral state action through the adoption or modification of domestic provisions, and there is no possibility to enforce compliance if not through the adoption of countermeasures. Moreover, since the entering into force of the PO, the majority of the disputes among state parties have been resolved through direct negotiations, without resorting to the PTR. Hence, without underestimating the novelty of the DSS as outlined in the PO, we can still affirm that there has been a general reluctance of the member state to resort to it. Furthermore, the role of the Tribunal cannot be compared, of course, with the activism of the European Court of

⁵⁶ Christian A., Rittberger B., *The legalization of dispute resolution in Mercosur*, Journal of Politics in Latin America, Vol.5, No.3, 2013 pag.98;

⁵⁷ Ibidem, pag.124;

Justice and its role in consolidating the integration process through landmarks rulings. The ECJ has been able to adopt a model of integration through law: for instance, it is well known that the principle of direct effect of EU legislation was not outlined in the foundational treaties. It was rather the result of the Van Gend and Loos ruling of 1963. The Mercosur Permanent Tribunal does not have a similar role of policy innovator.

2.3. The reason behind the intergovernmental choice: Presidentialism and conflictive interests

The choice of an intergovernmental structure for Mercosur is directly linked with presidentialism, being the latter the form of government of its member countries. Mercosur has even been defined as an example of “interpresidentialism”⁵⁸, a specific kind of intergovernmentalism. Indeed, not only the Presidents of the member states have played an essential role in foundational moment as well as in the subsequent phases of development, but there is also a high degree of politicization of Mercosur issues in the national sense. In other words, intergovernmentalism matched with presidentialism has led to “a political way of dealing with issues, instead of a legal one”⁵⁹. Presidentialism as a form of government is characterized by the preeminence of the executive and a more limited role of the legislative body. This feature is clearly reflected in the institutional structure of Mercosur: indeed, as I will explain later, even the creation of PARLASUR has not been matched by a fully significant role of the newly created institution. Institutional weakness and intergovernmentalism allow the Presidents of each member state to maintain their leadership and pursue their goals. Furthermore, the members of each of the organization’s bodies are, first of all, representatives of each member state: they don’t act as independent and “communitarian” actors, but they respond to national executives and are subordinated to the pursuit of national interests. The situation is exacerbated by the adoption of decision through consensus. The same cannot be said about the European Union, since it mixes both intergovernmental and supranational features and it has incorporated in its decision-making process the qualified majority voting (QMV) system. In the Mercosur there is no analogy with figures such as the European Commissioners that are appointed to act in the interest of the Union and independently from domestic interests and concerns. Mercosur representatives are strongly linked with the different branches of domestic executives and

⁵⁸ Malamud A., *Presidential Diplomacy or Presidential Democracy? The institutional Underpinnings of Mercosur*, prepared for delivery at the meeting of Latin American Studies Association, March 2003

⁵⁹ Gorneman C., *Institutions and Politics of Mercosur*, available at: <http://international-trade.blogspot.com.ar/> , pag.5

even the members of technical bodies and committees are appointed by the main Mercosur bodies, which are all intergovernmental. Moreover, at least until the admission of Venezuela in 2006, the asymmetry among the members was quite paramount and it entailed the practical irrelevance of the veto power of the smaller ones. Indeed they lacked any leverage because of the internal bloc's asymmetries. Being the smaller and weaker members of Mercosur, both Uruguay and Paraguay give a great importance to accessing the huge Brazilian market and, to a smaller extent, the Argentinean one. In some cases they sacrificed their instances in order not to lose their access to the neighboring markets⁶⁰. That means that the most sensitive and important issues have been usually dealt with by bilateral negotiations among the executives of Argentina and Brazil. With the incorporation of Venezuela and the future adhesion of Bolivia, the burden of consensus in the decision-making process will probably increase in a significant way. With the document "Relaunching Mercosur" a process of institutional revision started in 2000, with the subsequent restructuring of the Secretariat, the creation of the PTR and of the PARLASUR. But apart from some limited improvement, the enlargement of the institutional panorama was not accompanied by a deepening of integration or an evolution in a more supranational sense. Those who should support a supranational structure are the smaller states, which with the current intergovernmental institutional design have little bargaining power. By contrary, bigger states are expected to support this model of interpresidentialism and light institutionalism. According to authors such as Roberto Lavagna, another collective actor that could be interested in a supranational evolution of the system is the private sector, in order to benefit from an environment characterized by a higher degree of certainty for their investments⁶¹. By contrary, the intergovernmental structure is protected by the state sector, since it allows for the pursuit of short-term and immediate national interests. From these features it results that Mercosur need to move from strict interpresidentialism toward the adoption of some supranational characteristics, even without embracing full supranationalism. This could give new flexibility to the organization, going beyond the consensus logic that was suitable only in the initial stage, when Argentina and Brazil were clearly dominating the bloc, acting for the pursuit of their common and shared interests. Moreover, a supranational structure and an increased role of technical bodies can also enhance the transparency of the organization and ensure a more stable economic environment, which could result really attractive for foreign investors. If the members of the bloc really want to avoid a paralysis of the project they should go beyond the politicization of national issues at the communitarian level and reach some compromises in order to completely fulfill the project's objectives as they were conceived in the very beginning. The

⁶⁰ Khan S.R., *Regional Trade Integration and Conflict resolution*, Routledge, 2009

⁶¹ Lavagna R., *La Agenda Futura del Mercosur: la insostenible levedad de las propuestas*, Archivos del Presidente, n. 5, July-September 1999, pp. 121-130

tendency to act unilaterally and the overwhelming role of the executive must be tempered in order to improve the performance of the bloc. That is not to say that Mercosur should become a fully supranational organization or that it should adopt the same model as the European Union. Among the other features of the region, presidentialism is one of the main ones, with deep historical and cultural roots, which make it difficult to follow an evolution in that sense. Still, creativity and flexibility must be the tools to find an alternative path that can be suitable for the bloc, in order to increase its efficiency and credibility without losing its identity.

2.3.1. The legislative realm: lack of direct effect of Mercosur norms

Being Mercosur organs intergovernmental bodies, their decisions (decisions of the CMC, resolutions of the CMG and directives of the MTC) have neither direct applicability nor direct effects in the member states. As such, each country must internalize Mercosur norms and transpose them into the domestic legal system. This is a mandatory step, and only after that the norms of the organization will be fully converted into sources of rights and obligations both for the states and legal or physical persons at the particular level. Each member country will internalize the norms following its own rules and procedures, with the subsequent fragmentation and lack of certainty. Article 41 of the POP lists all the legal sources of Mercosur: the Treaty of Asuncion together with its protocols and complementary instruments; all the agreements drafted and signed into the framework of the TA and its protocols; the decisions, resolutions and directives respectively of the CMC, CMG and MTC. With the POP, member states tried to adopt a procedure that could speed up the transposition of Mercosur norms into domestic legal systems. The process is outlined in article 40 of the Protocol, and it is divided into three stages: in the first stage, once a norm has been approved, member states will have to adopt all the necessary measures to incorporate it into the domestic legal system. Additionally, they will have to communicate to the Administrative Secretariat which kind of instruments they decided to adopt in order to give execution to the norm; when all the member states have notified that they have incorporated the norm into the respective domestic legal system, the Administrative Secretariat will inform all the member states; A norm will enter into force simultaneously in all the member states 30 days after the communication by the Administrative Secretariat. All the members are also committed to publicize the new norm or norms through their official press. It is quite evident that all the process can be halted even by the non-compliance of a single contracting party. The procedure set out in article 40 is linked with article 42

of the POP which states that: “The decisions adopted by the Mercosur organs provided for in Article 2 of this Protocol shall be binding and, when necessary, must be incorporated in the domestic legal systems in accordance with the procedures provided for in each country's legislation”. By the way, the problem is always the same: such an article has no value if not accompanied by any enforcement capacity of the organization over its members. It remains at a purely rhetorical level and there is not an equivalent body to the EU Commission, which acts as an independent guardian of the Treaties and which can even act *motu proprio* to guarantee the enforcement of the communitarian law. Indeed, Mercosur has been characterized by a poor record of proper and fast incorporation of the norms. That is not a minor problem, neither from the political nor from the economic point of view. The lack of legal certainty and the slowness of the bureaucracy contribute to a lack of transparency and credibility, but also the resulting picture is one of an instable environment, which can discourage foreign investors and enterprises. A new effort was made in 2000 with the Decision 23/00 of the CMC, which introduced a list of exceptions covering certain kinds of norms that do not require any incorporation into domestic legal systems. That is the case of norms regarding the internal functioning of Mercosur bodies, but also of provisions that have a similar content and scope to national ones already into force. This was a valuable attempt to speed up the whole process and make it more coherent; still the lack of application of Mercosur law remains a significant plague of the organization, since there are too many acts with no practical effect. The situation is even worsened by the asymmetries among the national legal system and the hierarchic value assigned to international treaties and agreements. For instance, the Argentinian Constitution establishes that international treaties have a superior hierarchic value than national law. By contrary, the Brazilian Constitution contains no reference at all to this issue. In the practice the Federal Tribunal is in charge of solving an eventual conflict, normally applying the principle of *lex posteriori derogat lex priori*. Furthermore, Bouzas⁶² found out in its analysis of Mercosur legislation that the whole system is even plagued by drafting deficiencies and overlapping or contradictions among different legal instruments.

2.3.2. The creation of PARLASUR

The creation of PARLASUR and the substitution of the previous Joint Parliamentary Commission were also seen as an answer to the problem outlined above. The preliminary project about the

⁶² Bouzas R., Fanelli J.M., *Mercosur: Integración y crecimiento*, Fundación Osde, 2001

creation of a Mercosur Parliament was approved in 2004 and submitted to the evaluation of each national President. The Constitutive Protocol of the Mercosur Parliament was finally approved in 2005, through the CMC's decision 23/05. It is a unicameral organ, with the task of representing the people of Mercosur, according to article 1 of the protocol itself. Anyway, even if the Parliament was created in order to solve some of the internal deficiencies of the bloc, in certain sense it has become a manifestation of these deficiencies themselves. Indeed, even if at the beginning it was composed by members of the national parliaments, the idea was to gradually move toward their direct election by universal suffrage, similarly to the EU mechanism introduced in 1979. In spite of that, it is interesting to notice that only two countries are currently allowing for the direct election of its PARLASUR representatives: Paraguay, since 2008, only one year after the first reunion of the Parliament in Montevideo; and Argentina, with the first having taken place in 2015. Once more, the whole picture of Mercosur members is one of inconsistencies, with each state acting without a real coordination with the others. Moreover, until the whole members of the PARLASUR won't be fully independent ones, it will be impossible to define such an institution as a mean to counterbalance the excessive power of national executives that is characteristic of interpresidentialism. This latter element is due also to the fact that PARLASUR is currently lacking any significant power, being a mere consultative body with the power of issuing non-binding acts such as recommendations. As noticed by Gerardo Caetano⁶³, Mercosur remains an executive-oriented organization that prioritizes celerity in the decision-making process over the legitimacy of the process and the internal balance among all the Mercosur bodies. In order to increase the significance and weight of the Parliament into the institutional design it would be necessary to guarantee its autonomy, without transforming it into a mere duplication of domestic parliaments, which are of course strongly linked with national executives. If we look at the attributions of PARLASUR, we can notice that without a substantive change, this latter institution will maintain a low-profile one and it will have a small significance in the overall institutional balance. In the legislative field, as said above, it can only adopt non-binding acts such as recommendations and declarations; it can submit draft proposals to the CMC but the latter is not obliged to consider them; moreover, in order to speed up the transposition of Mercosur norms into domestic systems, it has been established that PARLASUR can make suggestions to the CMC regarding legislative projects. If these suggestions are taken into account, the bill must be considered by national parliaments with an accelerated procedure, being submitted within 45 days to each domestic assembly. The latters will then have to consider the bill within a time frame of 180. By the way, the very nature of the

⁶³ Caetano G., *Las instituciones en los procesos de integración regional*, Temas Magazine, Buenos Aires, 2000

Parliament remains merely advisory, and the CMC is free to disregard its advices over legislative proposals. Hence, we are really far from a mechanism similar to the EU co-decision which, with some exceptions related to specific matters, places on an equal footing the parliament and the Council. PARLASUR also has some supervisory attributions (I would underline the word “attributions” since at the present moment we cannot talk of proper powers or competences), but again it lacks any binding authority, making it impossible for the institution to be inserted in a mechanism of internal checks and balances. It would be interesting, for instance, to explore the possibility of the Parliament of having access to the Permanent Tribunal, granting it a decisive oversight power. Again, it is not to say that the European model is perfect or suitable for any region in the world but if a supranational evolution of the central Mercosur bodies such as the CMC is improbable because of interpresidentialism, it would be interesting to consider, at least, a supranational evolution of the Mercosur assembly, giving more balance and coherence to the bloc itself. It is also important to remember that the European Parliament itself, along with the Commission, had an important advisory role in the creation of PARLASUR. Moreover, there is a low level of socialization and identity-building regarding both the external and internal dynamics of PARLASUR. People are usually unaware of its activities and the members of the Parliament are not so easy to identify, since they belong to national assemblies with the exception of Paraguay and the recent exception of Argentina. National political institutions remain the main arena, as well as national interests remain the main concern. Only fully autonomous deputies could develop a new attitude and start to think within a regional perspective. This could really foster the advancement of the integration process and its modernization. Hence, it is at least desirable that the mechanism of direct election of PARLASUR deputies will be soon implemented by all member states. Indeed, the Constitutive Protocol of the Parliament prohibits the simultaneous hold of two or more charges in different institutions. That means that its member will become fully autonomous, marking the logical impossibility of being a member of the national and regional parliaments at the same time. PARLASUR is also quite disregarded by the other institutions, with the exceptions of the ones that represent civil society’s actors and are probably aware of the potential of the regional assembly, in spite of its current weakness. That’s the case of the ESCF but also of the forum *Mercociudades*, representative of local governments. It is interesting to stress this point, since PARLASUR is perceived as a potential platform to advance different issues and demand, probably because the other institutions of the regional bloc are perceived to be too closed, self-referential and far from the civil society itself. If the regional bloc really wants to improve its performance following its own recipe for success, maybe it should consider a more supranational evolution of the regional parliament, with more significant competences and the overcoming of national affiliation in favor

of regional logics and aims. The mechanism could be set in place by starting to cultivate a more horizontal rather than vertical relationship between the Parliament on the one hand, and the CMC, CMG and MTC on the other hand.

2.3.3. Possible solutions to the vicious cycle of Presidentialism

According to Felix Peña, the debate over the future of Mercosur revolves mainly around the methodological question (how to cooperate) rather than the existential one (whether to cooperate or not) with the exception of Venezuela, the member that is posing the more serious challenges to the bloc, casting doubts over the benefits and possibility of cooperation itself⁶⁴. The whole of the literature on the topic practically agree on the idea that it is necessary to modify the current logic and structure of the regional bloc in order to avoid the complete discredit of the project itself. Still there are divergences regarding the solution that has to be adopted and the organ or organs that must be interested by the more profound changes. In its current situation, Mercosur is not credible neither at the political nor at the economic level. It has to embrace a certain level of reformism to raise its credibility to act as a bloc in international forums and arenas. A reform is also the sole way to make the Southern market attractive for an outside observer. Forms and procedures, institutional forms and outcomes, politics and economy are all interconnected. It is not possible to believe that a real change can be achieved without taking significant steps in that sense, as well as it is naïve maintaining any willingness to foster the change only at the rhetorical level. Supranationalism can be seen as a possible solution to overcome this stalemate: it has obvious advantages, such as the increasing credibility of the commitment, more transparency and more certainty that regional objectives will always have the priority over national one. Supranationalism also reduces the prisoner's dilemma and both the advantages and possibility of cheating in the pursuit of short-term and state-specific objectives. Supranationalism would also reassure the smaller members of the bloc that their interests will always be considered when drafting the agenda of the organization, without being prisoners of the political leadership exercised by the main partners. Mercosur is a regional organization, but also a paradoxical one since the overwhelming presence of national executives results in sub-optimal outcomes. The organization seems not to be shaped by permanent regional interest with a long-term view, but by national ones that disregard common interests as well as

⁶⁴ Peña F., *Contributions to the debate on the future of Mercosur: how to achieve gains in flexibility and predictability that are credible?*, available at: <http://www.felixpena.com.ar/index.php?contenido=negotiations&neagno=report/2016-12-flexibility-predictability-credible> [last access 10/04/2017];

common threats and opportunities. Still it is not simply possible to apply the supranational recipe as an ideal-type without taking into consideration historical and fundamental features of the members of the bloc, especially Presidentialism, as mentioned above. Still, the moment is now mature for a change, considering that the external and international panorama has sensibly changed with respect to the one that characterized the beginning of the process. The rapprochement between Argentina and Brazil took place in an uncertain international environment, characterized by the sunset of the bipolar model and the emergence of a new and still undefined one. Now that globalization has fully opened its wings and its effects are paramount, it is necessary to adapt to the new context if the objective is to profit from the increasing transnational flows of goods, capitals, services and people. As well as it is necessary for Mercosur to adopt a clear identity and a common posture in international forums if it wants to increase its leverage and bargaining power. This can only be reached by overcoming its internal weaknesses and contradictions. This must be the outcome of a gradual process, of course, as stated by Bouzas⁶⁵ who is not in favor of a disruptive change but he rather advocates the need of a gradual deepening of the process. But which kind and degree of supranationalism are suitable for the Mercosur? And is supranationalism really necessary? It could be necessary to avoid a complete paralysis of the bloc and at least to move from an “imperfect” to a “perfect” custom union. This is due to the fact that supranationalism would entail the independence of representatives from sectarian and national logics, adopting a true regional perspective. There are even some authors that are in favor of the application of a full supranational model, such as Iris Laredo⁶⁶. She proposes the supranational evolution of the central organs of the bloc, the CMC, CMG and MTC that should be composed by officials that must be independent from their national governments. I would argue that such a view is quite unrealistic, because even if the international context has changed, there are still some important internal constant. Presidentialism is deeply rooted in Latin American history and it is quite an utopia to think that Presidents will renounce to their sovereignty all of a sudden, loosing control of a process that until now has advanced mainly thanks to presidential willingness as a driving force. Claudio Gorenman⁶⁷ believes that the more suitable solution could be the gradual advancement toward a multi-level system of governance, characterized by both supranational and intergovernmental feature. This is probably the most suitable solution for all the reasons listed above. An idea could be to grant new powers and a real standing in the decision-making process to the Parliament, without modifying the

⁶⁵ Bouzas R., Fanelli J.M., *Mercosur: Integración y crecimiento*, Fundación Osde, 2001

⁶⁶ Laredo I., *Pautas para el diseño de un nuevo paradigma para la integración regional*, UNR, Rosario, 1997

⁶⁷ Gorneman C., *Institutions and Politics of Mercosur*, available at: <http://international-trade.blogspot.com.ar/> [last access 09/04/2017]

intergovernmental logic behind the other institutions⁶⁸. At the same time, the latter should start to cultivate a more productive and horizontal relationship with the Parliament itself, which otherwise would be deprived of significance. It would even be necessary to create a proper Court of Justice or modify the PTR in that sense, since up to now it has no sufficient competences to fulfill the role of an agent of change⁶⁹. A multi-level and mixed system with supranational and intergovernmental features and an increased role of the judicial could really enhance Mercosur's performance. Even in the European Union sensitive issues are dealt with following an intergovernmental logic: it is not about going fully supranational, but Mercosur must acknowledge that the two models are not necessarily mutually exclusive. The member states of the Southern Market have never completely embraced the model of open regionalism. They have rather acted under the paradigm of closed regionalism, maintaining a protectionist attitude any time integration was about to expand to some sensitive sector, with powerful local interests at stake. That is paralyzing and inconsistent with the reality of the world economy. Presidentialism and national interests have been the rationale behind the continuous postponing of any major change that resulted in the current rigidity of the organization. It is for that reason that I will later analyze the strategy of the current Argentinean president Mauricio Macri, who seems to be supportive of a more open and liberal model, eventually following some lessons that can be derived from the performance of the Pacific Alliance. In spite of that, I still assess that any real change must be supported by a structural one and by institutional innovation. A process of transformation that must be different from the solutions adopted until now, since deepening integration does not mean simply adding new bodies to the institutional design if these are semi-powerless institutions, such as the current Parliament and Tribunal of Mercosur. The creation of such institutions should be, at least in theory, the signal of an important willingness to foster change and innovation but “in the case of Mercosur one can deduce by the powers given to these bodies that the Member States have aimed to satisfy political actors, rather than create a reliable institutional framework. (...) There has been no real commitment from the Member States to make a substantive institutional development⁷⁰. A Parliament with expanded competences could be an excellent counter-balance to the unmatched power of national executives, and also an instrument to increase the representativeness of the organization and its democratic legitimacy. A proper Court of Justice, made up by independent and qualified members, could act as a dynamic actor in order to foster the enforcement and harmonization of Mercosur norms. It could eventually

⁶⁸ Cabrol C., *El parlamento del Mercosur: su limitado rol en el marco de una estructura institucional intergubernamental*, available at: <http://www.ceipa.edu.co/lupa/index.php/lupa/article/view/130/255> [last access 08/04/2017]

⁶⁹ Garriga A.C., *Análisis institucional del Mercosur*, Studia Politicae, No.3, 2004

⁷⁰ Gorneman C., *Institutions and Politics of Mercosur*, available at: <http://international-trade.blogspot.com.ar/>, pag.20-21

act as a supervisory body too, and even increases the weight of the Parliament in the balance of power if the latter is granted the possibility to access the Court and present its complaints. The vicious cycle of presidentialism must be stopped since “in Latin America, presidents of the member countries have been decision-maker, dispute settlers and negotiators at the same time⁷¹”. Their omnipresence make it impossible to reach fruitful results when common objectives are curbed by national concerns.

3. A gap between rhetoric and practice

The foundational Treaty of Asuncion reflected a neo-liberal ideology, aimed at reaching macroeconomic stability and the implementation of an open trade policy. The signing of the Protocol of Ouro Preto, which should have marked the end of the transitional period, only apportioned minor structural changes and granted Mercosur a legal personality under international law, allowing it to act as a single entity. The problem has been the mismatch between the objectives set out in the treaty and the lack of a proper structure to support such achievements and goals. During the first years of existence of the organization, achievements were limited to the reduction of intra-regional tariffs, since it was conceived as a transitional period and a first step toward a real integration, that should have been turned into reality by the year 1994. There was actually an increase in trade during the first half of the 90s, sustained by a clear willingness of the two major partners to move forward. Optimism about the advancement of the integration was diffused, but the process actually slowed down after the approval of the POP. Things started to be even worse after the 1999 Brazilian crisis and the subsequent devaluation of the currency by 40% of its value, followed by the adoption of a floating exchange rate. Such measures exported the costs of the crisis also to the other neighboring countries, causing a worsening of the regional terms-of-trade and resulting into a contagion effect. The discouraging picture was finally completed with the Argentinean crisis of 2001. With the two major members affected by internal imbalances, the whole bloc showed its weaknesses since national interests were prioritized more than ever over regional cohesion. The relaunching of the project proved to be hesitant: as said above, the institutional innovations resulted in the creation of semi-powerless bodies, even if Brazilian President Lula da Silva (elected in 2002) declared its commitment to treat Mercosur as a priority. With the election of President Kirchner in Argentina, a leftist axis was formed with Brazil: an axis that was oriented toward the inclusion of a

⁷¹ Bakker F.E., *Economic asymmetry and institutional shortfall in Mercosur: predictions for deepening Mercosur integration*, Master thesis, Centre International de Formation Européenne, 2013, pag.27

social dimension in the regional agenda, but that was also nationalist and quite critical of neo-liberal recipes. By the way, looking at the history of the organization, a lack of coherence and a volatile conduct have been the norm, regardless of the political inclination of the President. The main and faster advancements have been related to the creation of a free-trade area: already by 1997 most of intra-regional tariffs were removed. Still, until 2010 imported products had to pay a double duty: when entering the Southern Market and when crossing its internal borders. The double duty is now expected to be fully removed by the year 2019, almost thirty years after the foundation of the bloc! Coherence has been also absent regarding the Common External Tariff (CET), which changed frequently and according to national interests of the stronger members. Uruguay and Paraguay have usually been the sole voices in favor of lowering it and maintaining it stable. There has not been a real coordination of policies in fields such as investments and exports. Domestic rules are neither fully nor sufficiently harmonized, especially when it comes to sensitive areas or sectors in which powerful interest groups are involved. As said by Oliver Stuenkel: “Mercosur is less about opening up but actually about protecting Brazilian and Argentine industries from global competition⁷²”.

3.1. A paradoxical result

The 26th of March 2016, Mercosur turned 25. By analyzing its achievements, the result is quite paradoxical. As noted by Andrés Malamud, the main achievements have been in the realm of high politics since “Mercosur have turned an area of low mutual confidence and historical rivalries into an area where inter-state violence has been ruled out (...) and today the Mercosur region is a nuclear-free zone with no arms race⁷³”. The organization also contributed to give a new credibility to the recently restored democracies of the region, even if a democratic clause was finally adopted only in 1998. In spite of this, the overall project set out in the Treaty of Asuncion was not fully implemented. It is paradoxical that the main economic objectives set out in the treaties have not been fulfilled, while integration proceeded in sector such as education or social security. For instance, Mercosur citizens can cross borders within the bloc and can also travel to associate countries such as Chile, Colombia, Ecuador and Peru with no need of their passports. The members also signed a residence agreement, in force since 2009, in order to facilitate people’s mobility and to strengthen the integration process. Moreover, the multilateral agreement on social security allows

⁷² Renwick D., *Mercosur: South America’s fractious trade bloc*, Council on Foreign Relations, October 2016;

⁷³ Malamud A., *Mercosur Turns 15: between rising rhetoric and declining achievement*, Cambridge Review of International Affairs, Vol.18, No. 3, 2005, pag.6;

workers to exercise their right to retirement benefits having worked in any of the member countries. The latter was an important achievement that helped making cross-borders people flows easier. At the same time, it is also an example of Mercosur's inefficiency in implementing its norms, since it was signed in 1997 but it is in force only since 2005. *El Fondo para la Convergencia Estructural del Mercosur* (FOCEM) was further established as a fund for structural convergence aimed at reducing asymmetries within the bloc. The fund is operative since 2006 and it is financed through apportions from each members countries that varies conversely with their degree of development: the more developed members will apportion an higher portion of the funds, while less developed ones will receive a greater share. FOCEM is a mechanism to finance varied projects, especially in the field of infrastructures and social policies. In 2015, the CMC decided to extend the functioning of the fund during 10 years more. Financing the improvement of infrastructures is a winning strategy, since it entails a reduction of transaction costs and it increases the competitiveness of Mercosur economies. The project that created a common Mercosur driving license was approved in 2014. Even if it is not fully implemented yet, it would be another factor that will facilitate cross-borders flows, by harmonizing regulation on vehicles' transit. Another important advancement is the creation of a committee for the regulation of drugs' prices. That's a crucial point since great portions of the population are still plagued by a lack of access to proper cures and remedies. In their first joined negotiation, Mercosur members together with Chile, Peru and Suriname have been able to save approximately 20 million dollars in the acquisition of darunavir, a drug used for the treatment of AIDS⁷⁴. Such achievements cannot be disregarded but it must be underlined that they are unexpected spillovers that were not even mentioned in the founding Treaty and its Protocols. By contrary, the objectives that were more or less clearly defined in the Treaty have been implemented with a poor record. As said above, Mercosur is not a common market, it is not a perfect custom union and even the implementation of the free-trade area has been not completely satisfactory and plagued by a long list of exceptions. The situation is exacerbated by the tendency of national presidents to act unilaterally, especially in times of crises. Hence, integration proceeded in those unexpected fields because they involved no sensible sectors, considered as priorities or fundamental national interests. The picture is slightly different when looking at sectors such as corn sugar and automobiles, since they are highly protected and, indeed, they have been often a reason of strong disagreement.

⁷⁴ Ministerio de la Salud Argentino, *Mercosur y Estados Asociados definieron compra conjunta de un medicamento para tratar VIH*, available at: <http://www.msal.gob.ar/prensa/index.php/articulos/lista-de-slide-de-destacados/2964-mercursos-y-estados-asociados-definieron-compra-conjunta-de-un-medicamento-para-tratar-hepatitis-c>

3.1.1. The integration's stalemate in strategic sectors

When it comes to the automobiles' sector "cars are believed to be for Mercosur the equivalent to coal and steel for the early European Community. This is so for it is the sector in which intra-industrial complementation have developed most, and also because it is a dynamic sector as regards the expansion of both investments and labor markets"⁷⁵. It is a field that involves very sensitive issues, mainly for Argentina and Brazil. In order to understand its economic weight, it is sufficient to mention that this industry accounted for half the increase of the whole Argentinean production between 1990 and 1994. In the first years since the foundation of Mercosur, intra-regional trade related to the automobile-sector increased significantly thanks to the elimination of tariffs. However, Argentina and Brazil were still applying their national regimes and only in 1994 the CMC issued the decision of elaborating a Common Car Regime to be set in place before the deadline of January 2000. Decision 29/94 was accompanied by the commitment of both countries to avoid introducing unilateral restrictions on trade within the bloc. The situation changed only one year later, when Brazil's economy starts to show dysfunctional signs as a consequence of the Mexican crisis. The country announced that he was going to introduce limits to automobiles' imports, amounting to a reduction of 50% of the previous import level. The Brazilian decision was not accompanied by any exception regarding Mercosur members. That was not only against the Treaty and the POP, but also in contrast with the compromise that the country itself had assumed one year before. The Cardoso's administration justified the measure precisely in light of the POP, as a measure to restore equilibrium between imports and exports. After several bilateral meetings, Cardoso excluded Mercosur countries from the application of the quota, but a Common Car Regime still needed to be negotiated⁷⁶. It is important to underline, once more, how the crisis was completely handled through presidential meeting, with no involvement of technics or economists. The agreements were dominated by politics in spite of being related with economic and industrial issues: the procedure was presidential diplomacy and the result was the maintenance of the status quo ante. Another critical point since the inception of Mercosur was sugar, and again Argentina and Brazil have been the main actors of the dispute, having a huge productivity-gap between them. The differential in productivity is not due to a technology gap, but it is rather the result of Brazil subsidizing sugar cane's producers. Sugar-subsidies have a long lasting history in the country. They

⁷⁵ Malamud A., *Presidential Diplomacy or Presidential Democracy? The institutional Underpinnings of Mercosur*, prepared for delivery at the meeting of Latin American Studies Association, March 2003, pag.19

⁷⁶ Mera L.G., *The Brazilian Automobile Regime: Explaining Brazil's defection from MERCOSUR Treaties in 1995*, University of Oxford, January 2000

were first set in place in 1975 after the first oil crisis, since cane alcohol can be used as a proportion of gasoline. The military government launched the Pro-alcohol program and its subsidies distorted both costs and prices, boosting-up the sector in an artificial manner⁷⁷. Argentina's sugar cane production cannot be compared to the Brazilian one in terms of industry's output. Still it is a sector dominated by powerful interests since its production is mainly located in the poor Northwestern provinces, whose economy highly depends on sugar cane. Hence, Brazil always pushed for the inclusion of sugar into the FTA, but it always met the opposition of Argentina aimed at protecting its own national producers, that would not survive to an open competition with their giant neighbor. In 1994, the CMC created an ad hoc committee to study a proper strategy in order to include sugar into the custom union. It was aimed at liberalizing sugar cane's trade within the bloc as well as to reduce the asymmetries between national sectorial policies. The first crisis occurred in 1997, when Argentina started charging imports of Brazilian sugar with the same tariffs as extra-bloc countries. The measure was justified by the distortion created by the Pro-alcohol program, but it was finally lifted by the Menem's administration during the same year. In spite of this, the Argentinian Senate rejected the Presidential veto on the provision, supported by a previous pronouncement of the House. Bilateral meeting between Menem and Cardoso did not reach any solution to the problem. A new critical moment arrived in 2000, when the Argentina's congress extended the validity of a 1992 decree establishing a protectionist regime for the sugar industry and that was supposed to expire precisely in 2000. Argentinean President De la Rúa declared that its government was not going to support this controversial bill, acting unilaterally not only at the Mercosur's level but also at the national one, disregarding the Congress's voice. He vetoed the law and then issued a decree with the same content, only in order to move the center of the negotiation from the Congress to the bilateral meetings with its Brazilian counter-part. The two cases mentioned above, both shows the inadequacy of Mercosur when it comes to negotiate on sensitive issues and the inability to cede a certain share of sovereignty and effectively coordinate economic and industrial policies. This was not only due to the tradition of presidential diplomacy but also to the institutional deficiencies and the lack of any veto-player that could have blocked the bilateral logic of negotiation.

⁷⁷ Banco Interamericano de Desarrollo, *Asymmetries in Regional Integration and Local Development*, 2005

3.2. The economic performance

We can analyze the economic performance of the bloc by dividing its history into three main periods: the first decade (1991-1999), the crisis years and finally the last post-crisis decade⁷⁸. The first period was quite successful, sawing an increase in trade, both intra-regional and international; hence the overall effect was most trade creating than trade diverting. Trade within the bloc grew from 4 billion dollars in 1990 to 20 billion in 1997. Moreover, Mercosur signed important trade agreements with Bolivia, Chile, Israel and Peru. In 1999 it started negotiating with the European Union, even if reaching an agreement proved to be more difficult than it was expected. A part from the gains in the field of trade, that was also a decade of capital availability and massive FDI. The investment portfolio was diversified in terms of sectors, while funds proceeded mainly from Europe. Still, Mercosur remained an imperfect custom union and even an incomplete free-trade area, where the norm was to apply a national-based or case-by-case logic. That was the hummus that multiplied the already adverse effects of the subsequent economic crisis in Brazil and Argentina further exacerbated by the lack of coordination within the bloc, making it impossible to adopt a coherent set of macroeconomic policies that eventually could have mitigated the worst consequences. Intraregional exports fell from 25% to 11, 5%. Imports fell too: from 21% to 17%. The economies started to recover only in 2003, along with intra-regional trade and capital flows. In spite of this, trade disputes grew between Argentina and Brazil, being a characteristic of all the subsequent decade. For instance, Brazil adopted a unilateral trade policy against third countries, even applying anti-dumping restriction to China without a previous consultation with the members of the bloc. The Kirchner's government in Argentina eliminated automatic import licenses for a long list of products in 2011. This not only damaged domestic economy by causing delays and increasing transaction costs, but it also contributed to a 15% decline of Brazilian exports. Cristina Kirchner even imposed quotas or licenses on Brazilian imports, openly in contrast with the aims of the TA. Tensions increased to the point that Brazilian Senator Katia Abreu, defined Argentina as the sole obstacle to Mercosur in 2013. The lack of coordination is interrelated with the lack of integration: this also entails that Mercosur countries are losing the benefits that would be implicit in the creation of value-added supply chain at the regional level. Indeed, in contrast with the current prices' tendencies, the price of primary commodities soared in the 2000s, reinforcing even more the Latin American tendency to rely on commodity exports with an inexistent or low value-added. The regional organization passed to be more and more a political club, not adequately concerned with fostering economic ties. The Uruguayan vice-president Astori publicly stated that Mercosur

⁷⁸ Banco Interamericano de Desarrollo, *Mercosur Report n. 14*, February 2010

countries “never made it to the common market, the custom union is totally destroyed and the free trade zone is not working because there is no free transit of goods and services. Mercosur is in a state of inactivity, virtually total⁷⁹”. In 2014, intra-regional trade was only 14% of its members’ total trade, reaching the paradoxical outcome of a regional bloc that was practically more trade-diverting than trade-creative. This is also in sharp contrast with other, more successful projects: in its few years of existence, the Pacific Alliance already made it possible to eliminate tariffs among the members on 92% of their total trade. The PA is exercising an enormous pull on Mercosur, but more positively we can think of it as a new impulse to reforms and improvements in the Southern Common Market. It could even help to understand the advantages of adopting a fully common trade strategy with third countries and of fostering transnational economic ties, since the PA is mainly focused on the Asia-Pacific region. By analyzing in deeper detail the last available data on the Mercosur’s performance, the picture is not especially encouraging even if financial institutions, especially the BID (*Banco Interamericano de Desarrollo*) are quite hopeful due to the change of leadership both in Argentina and Brazil. The international context of the years 2015/2016 didn’t help, since it has been characterized by a low rate of growth of the main economies and by a contraction of world trade. The rate of growth of global GDP was 3,1%, inferior to the one of the previous year but especially to the average rate of growth of 2003/2008 (4,8%). Similarly, global trade contracted by 11,2% in 2015 and 5,1% in 2016. At the specific level, Latin American countries lose some dynamism, and the situation in the Mercosur bloc has been worsened by macroeconomic instability and the political crisis in Brazil and Venezuela. Another factor of concern is the reduction of primary commodities’ prices, since they constitute an important share of South American exports. In the period 2015-2016, Brazil and Venezuela both suffered a contraction of their GDP and Paraguay, Uruguay and Bolivia showed a slower rate of growth. Only Argentina performed better compared to previous years. Inflation is another plague of the majority of Mercosur countries, especially in Venezuela but also in Argentina with an overall inflation of 40,1% in 2016. In the latter country a change of government occurred in December 2015. The new administration of Mauricio Macri made some important advancement, such as the deregulation of the exchange market⁸⁰, but also the elimination of export duties, introduced in 2011 by the former government, protectionism-oriented. Export duties are maintained only for soy beans and soy by-products. Furthermore, cross-border transfer of funds won’t require any previous approval from the tax authority. In the first semester of 2016, economic activity suffered a contraction, but this is mainly due to the renewed flexibility of the exchange-rate and the subsequent devaluation. Last but

⁷⁹ Mercopress, Uruguay “can’t ignore Mercosur reality” and is applying for full Pacific Alliance membership, June 5th, 2013;

⁸⁰ Allowing the peso to trade with a floating exchange rate

not least, Macri's administration announced its commitment to make the national institute of statistic (INDEC) more transparent, after the publication of wrong economic data under the Kirchner's government. Recent data confirm that recovery is finally under way, since the economy further recovered at the end of 2016. As said above, Brazilian political uncertainty has been matched with the economic one. Economic activity contracted both in 2015 and 2016. Only in the first semester of 2016, the contraction amounted to 4,6%, due to the reduction of investments and consumption. The country closed the year 2015 with a commercial superavit, but this can be explained in light of the imports' reduction, which in turn is determined by the deterioration of economic activity. The first data of 2017 show that recovery is hampered by the contraction of industrial outputs and the fall in business confidence. Paraguay maintained a moderate rate of growth, while the Uruguayan one is in a trajectory of deceleration. The most severe difficulties affected Venezuela, and the situation is not expected to improve in the short-medium term. Venezuelan petrol prices fell both in 2015 and 2016 while inflation soared, reaching 480% in 2016 according to IMF's data. Bolivia has been affected by the fall of primary commodities' prices but it performed quite well. In this context of external and internal economic fragility, the overall Mercosur trade contracted, too. 2016 has been the 5th consecutive year of exports' reduction. Imports also fell because of economic contraction, as showed in the table. In particular, Mercosur's exports and imports fell by an interannual percentage of respectively 22,4% and 20,4%. Data for the II semester 2016 are not available yet. Still, exports and imports continued falling with respect to the I semester of the previous year.

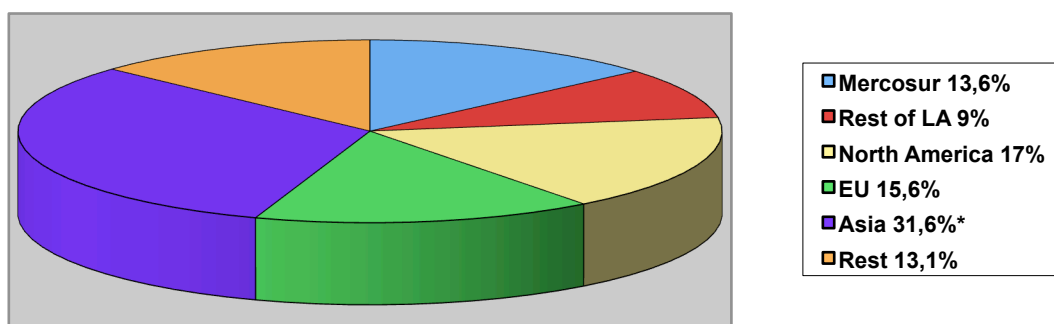
EXPORTS - 2015	EXPORTS – I semester 2016	IMPORTS - 2015	IMPORTS – I semester 2016
-22,4	-10,3	-20,4	-22,0

*Percentage of variation

** Source: BID – Mercosur economic report No.21

Moreover, it is important to notice that after 26 years of activity, extra-regional trade still represents the 86% of the total Mercosur trade.

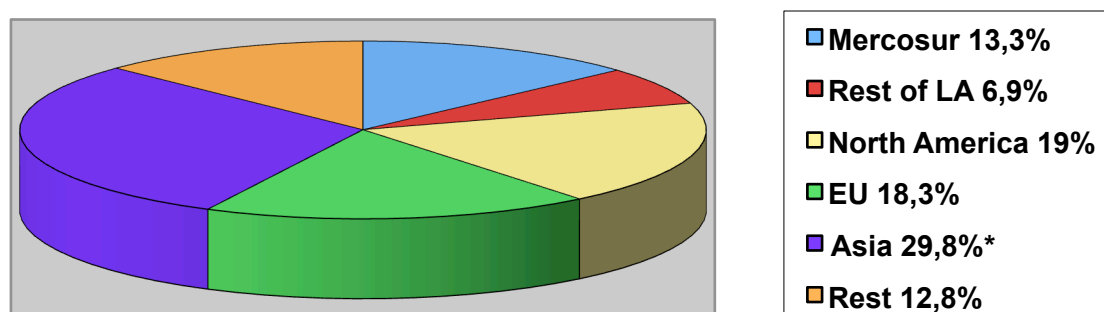
EXPORTS – 2015



*Middle East excluded

** Source: BID – Mercosur economic report No.21

IMPORTS – 2015



East excluded **Source: BID – Mercosur economic report No.21

*Middle

Furthermore, the relative weight of the regional market differs sensitively from member to member, being higher in the smaller partners and more marginal in the bigger ones. Bolivia is not included in the above statistics, waiting for the full approval of its membership. Still, the contraction of trade flows between the latter and Mercosur, amounted to 28,6% in 2015. In the latter two years there have also been less FDI's fluxes, even in Brazil that is traditionally the main receptor of capital flows, approximately the 71,6% of the total of Mercosur. Mercosur's investments abroad, including intra-zone flows, amounted to 13.599 US\$ of which 13.489 US\$ were Brazilian investments. All

these weaknesses and the economic instability at the national, regional and international level contributed to the stalemate of the internal agenda. There have not been significant advancements, and discussions mainly revolved around previous pending issues or short-term ones. In July 2015 the CMC gave to the CMG the task of drafting a list of proposals to increase intra-regional trade, having the member countries identified a list of 80 tariff and non-tariff barriers that still need to be removed. Among the contested measures there were important restrictions imposed by Argentina, which have been finally removed thanks to the Macri's presidency. This latter change, resulting from a unilateral action, may explain why the members gradually lose their interest in focusing on the remaining barriers, too. Trade in services was further interested by a contraction.. Moreover, since the foundation of the organization it has been a weak sector, characterized by little advancements. The Montevideo Protocol on Trade in Services of 1997 only entered into force in December 2005. Still, Paraguay never incorporated the Protocol, and Venezuela it's not obliged to do that according to its Adhesion Protocol. During the Uruguayan Presidency there have been two reunions of the Group for Normative Incorporation (GIN) in April and June 2016. Bolivia didn't assist, even if it was allowed to do that. These meetings may signal a willingness of the group to finally improve their record in the implementation of Mercosur's legislation. Additionally, there is not yet a common policy regarding public purchasing. The related Protocol subscribed in 2006 never entered into force. A common policy is lacking even in the field of investments: The Colonia Protocol regarding investments among the members (1993) and the Buenos Aires Protocol on third countries' investments never entered into force. Each member of the bloc is maintaining its own national policy regarding foreign investments and is pursuing independent bilateral investment treaties (BITs). Hence, looking at the whole picture, after 26 years of Mercosur's existence, there is still a lot to do to turn the group into a well-functioning and integrated area. Some progresses have been registered in the field of the FOCEM structural fund. In 2016, Paraguay will be the beneficiary of a huge transport's infrastructure project, and new efforts will be made in the rehabilitation of Uruguayan railroads. The improvements of transport may incentive integration and reduce transaction costs, but it will have little significance if not accompanied by the improvement of the normative framework and institutional structure as well.

3.3. Is it possible to reconcile asymmetries and deepen integration?

All South American countries are linked with Mercosur, either as members or associate. The latter is the case of Chile, Ecuador, Colombia, Peru, Guyana and Suriname. Associates can participate in the reunions concerning topics of shared interests but they lack voting rights, and even if they have

a preferential trade access to the market, they are excluded from the custom union. The potential of the bloc is huge: its full members cover an area of approximately 15 million km², rich in natural resources and with a population of more than 295 million of people. It also possesses other important assets, such as cultural, linguistic and ethnic pluralism. Still, Mercosur is characterized by huge asymmetries among its members. More than 75% of the whole bloc's population is concentrated in Brazil and the country has historically been the strongest economy and the one with the higher international profile and prestige. In spite of this, Brazil is also plagued by huge internal asymmetries and loads of people living under the poverty line. The whole region is further affected by an insufficient infrastructure in certain areas that entails higher transaction and transportation costs, and internal asymmetries are not an exclusive characteristic of Brazil. The latter is the less dependent on intra-regional exports; hence it always had the possibility of acting with a major autonomy, pursuing independent actions and bilateral agreements with third countries outside the organization. It also used to have the tendency to disregard the smaller members and their interests or prerogatives. This attitude is due to the fact that Brazil has always been the major regional power in the Southern cone and it perceives itself as having a natural right to leadership. In light of its recent political and economic crisis, it would be interesting to analyze if Argentina could eventually supply this power vacuum. During the presidencies of Nestor and Cristina Kirchner protectionist policies prevailed, with the aim of supporting national industries in the recovering process after the 2001 crisis. The potential of Mauricio Macri as an agent of change is still unclear, but this issue will be analyzed in chapter five. Uruguay is the smallest member, but it also has the strongest liberal tradition and willingness to turn Mercosur more effective. Uruguay is actually considering membership in the Pacific Alliance, considered as a project with greater potential than Mercosur. It is working in order to strengthen its bilateral relationship with PA's members, being already an associate member of the latter organization. For instance, it recently signed a new bilateral treaty with Chile containing investment provisions, but the bilateral rapprochement with the PA bloc is not a novelty: former president Mujica already defined Mercosur as a "stalled pachyderm"⁸¹. Paraguay is maybe the weakest members of the regional bloc, but its economy is also the most open one. It is also an observer of the PA, taking the latter as a point of reference and maybe considering a future membership. The admission of Venezuela into the bloc was seen as an asset in the relationship with the U.S. because of its oil reserves and its large economy. Actually, it made Mercosur more unstable rather than stronger. The enlargement was mainly motivated by political considerations without an accurate analysis of costs and benefits. Finally, Bolivia is currently undergoing its admission procedure. In 2016, it performed better than other commodity-dependent

⁸¹ Mercopress, Mujica says Mercosur is a stalled pachyderm and needs trade accords with third parties, March 2, 2013

countries in the region but it still has internal weaknesses such as a low rate of tax collection and increasing public expenditure. With a new country joining Mercosur, the risk is to remain locked again into a complete stalemate: until consensus will be the rule of the decision making-process, more members will also mean higher difficulties in reaching agreements. Still, enlargement is not the sole Achilles' heel to be addressed. After 26 years since the foundational Treaty of Asuncion, its objectives have not been fully accomplished yet. A profound rethinking of the organization is needed, as well as a process of self-criticism that would eventually lead to the acknowledgment of the need to downgrade executives' role. "Economic interdependence is needed for further integration. However, each of the member states of Mercosur follows their own economic policy and use Mercosur to fulfill national economic interests"⁸². It is necessary to create proper institutions to deal with the coordination of macroeconomic policies, avoiding new protectionist turns. Adding a supranational dimension while deepening the institutional structure would be beneficial, too. Furthermore, representation of civil society should be increased, eventually focusing on the role of PARLASUR. This would allow adding a bottom-up dimension to integration while restraining the most problematic features of interpresidentialism. Moreover it is necessary to solve the tension between broadening and deepening: broadening means to expand the coverage of the pact, including new countries in the bloc; deepening means to go further with the integration process, adopting new rules and provisions. Broadening and deepening are not mutually exclusive; still it is difficult to adopt both strategies at the same time. If it is already complicated imposing new rules on the present members, it is even more difficult imposing new rules while accepting new members. Indeed, joining countries are required to adopt adjustment measures in order to obtain the expected, but yet unrealized, benefits of membership. Deepening and broadening at the same time entails even greater sacrifice, making membership less attractive. Mercosur can actually offer benefits to other South American countries, such as access to some of the biggest markets in the Southern Cone. At the same time it is currently under pressure, especially because of the rising of the newly created Pacific Alliance, which is achieving optimal results and that will be analyzed in the following chapter. Hence the PA represents a competing bloc and a new challenge, since it is considered as the best alternative by countries outside Mercosur as well as by some Mercosur members themselves, especially Uruguay and Paraguay. Listening to the instances of these two smaller members and accepting their proposals regarding the deepening of integration and a possible supranational evolution, may avoid a dismemberment of the bloc. Actually, even if Uruguay and Paraguay will finally become full members of the PA, it is unrealistic to think that they will leave Mercosur, since they cannot ignore the relationship with their neighbor countries.

⁸² Bakker F.E., Economic asymmetry and institutional shortfalls in Mercosur: prediction for deepening Mercosur integration, Master Thesis, Centre International de Formation Européenne, 2013, p.52

Still, such an event could further weaken the Southern Market, making it possible to the smaller partners to move their main focus away from an organization that is not coherent with their expectations.

4. Conclusion

Mercosur could even be defined as a successful experience if compared with other failed project of integration in the region. But the poor record of Latin American integration is not a justification for the weaknesses of Mercosur that must be successful in its own standing, regardless of useless comparisons. Any advancement requires a rethinking of the organization, addressing its main critical points. According to Jeffrey W. Cason⁸³, there are three major weaknesses. Two of them are inherent to any process of integration: the already mentioned tension between broadening and deepening and the need to coordinate macroeconomic policies. The other one is specific to the Mercosur experience: the Brazilian unwillingness to renounce to a certain share of sovereignty, since it tends to see the Southern cone as its natural sphere of influence. The Brazilian devaluation of 1999 is a clear example of both the second and the third criticism identified by Cason. It showed the complete lack of macroeconomic coordination, as well as the tendency of Brazil to act unilaterally if required, regardless of the consequences on its partners. Some observers propose the adoption of a common currency to address the need of macroeconomic coordination. Still, the bloc is not ready for such an enormous step and it is plagued by too much instability. The adoption of a common currency must be the outcome of a long, productive and sustained process of integration. It is not possible to envisage such a change without addressing other current problems. Mercosur must show its willingness of improving its performance through gradual reforms avoiding inter-presidential clashes and political stalemates. Mercosur has to stop operating through diplomatic rather than juridical procedures. Finally, it must be considered that popular participation has always been weak: there are no channels that can properly represent civil society's actors, that actually prefer to lobby top national-government officials rather than Mercosur ones operating in Montevideo. Nothing like a common identity emerged, and Mercosur symbols are neither widely used nor recognized as representative by people in the region. Moreover, optimism during the first decade of implementation was mainly related to a huge mismatch between what people thought Mercosur should be and what actually was (and is). Some have described the project as an

⁸³ Cason J.W., *The Political Economy of Integration: The Experience of Mercosur*, Routledge, Reissued Edition, 2013

institutional mimesis, taking inspiration from the EU experience. Still, looking at the practical outcome is easy to understand that no mimesis occurred. Mercosur institutions are weak and up to now the normative realm has been inefficient and characterized by huge implementation gaps. Finally we must keep in mind that interdependence is a prior condition for successful integration. Hence, without downgrading the importance of high-politics achievements in the bloc or unintended spillover-effects, it is necessary to multiply the economic ties within the region, starting from the more simple levels and then following the path of a higher integration's degree. The following chapter will deal with a similar analysis of the Pacific Alliance, its structure and achievement. The present and the following chapter will be preparatory for the analysis of a possible convergence between the two blocs that will be treated in chapter four.

III. The Pacific Alliance: the most recent attempt at LA regionalism

1. Introduction

The following chapter will deal with an analysis of the Pacific Alliance, the most recent example of Latin American Regionalism. The description starts with an overview of its direct antecedents, the Latin American Forum of the Pacific Rim as well as the Andean Community. Indeed, fractures in the two aforementioned blocs contributed to consolidate the shared vision of the current members of the Alliance and provided the new project with a strong basis. The chapter also describes the founding documents of the PA and its institutional structure. The Alliance adopted a model of light institutionalization and, until now, it has been free from being manipulated by national presidents for short-term concerns. A specific paragraph is dedicated to observer countries, since the PA is a unique case in the whole panorama of regional experiences. Indeed, it has an unusual balance of four members and 49 countries with observer status. The fact that states from all over the world submitted their request to become observers also shows the degree of curiosity raised by the project and its enormous potential. The strengths of the Alliance are explored across the chapter. Among its major achievements there is the creation of a stable and investor-friendly environment. Indeed, starting and conducting a business in the PA is way easier than doing the same in one of the Mercosur's members, as underlined by the World Bank Ease of Doing Business Index. Moreover, transaction costs decreased and transparency increased with the creation of a joint Stock Exchange, the Integrated Latin American Market (MILA). The business-friendly policy is also reflected by the creation of a consultative body formed by entrepreneurs from the four countries, the Business Council of the PA (CEAP). Despite its mere consultative nature, its members really helped the Alliance's organ in drafting their policies. What is unprecedented in the history of LA regionalism is also the bloc's effort to adopt joint positions in their foreign relations and their sustained activity of "PA branding". Indeed, Chile, Colombia, Peru and Mexico tend to participate with joint delegations to international events and fairs, while diffusing their image as promoters of free trade and investment flows. Still, their main strategic asset is probably their focus on the Asia-Pacific region, which is also justified by current changes in the international environment that are gradually causing a shift of power from the Atlantic to the Pacific. The last part of the chapter deals with the main deficiencies of the Alliance, in particular its low degree of internal trade integration, both at the intra-industry and inter-industry level. Intra bloc trade only represents 3% of the total, even if we must keep in mind that the result is heavily influenced by the commercial relationship of Mexico

with the U.S. Moreover, while internal integration in the field of trade is quite poor, we can see the signs of a de facto integration in the realm of investment flows. Indeed, intra-Alliance FDI's flows gradually increased, and this is mainly due to a bottom-up dynamic fostered by local multinational corporations, the so-called multilatinas.

2. The Pacific Alliance: a brief overview

The Pacific Alliance (PA) is the most recent experiment of Latin American regionalism, since it was officially formed on April 28th, 2011. It was born thanks to an agreement between Mexico, Colombia, Peru and Chile and it is currently considered as the most promising and dynamic regional bloc of the zone. It is the product of increasing divergences among Latin American countries regarding the most suitable economic model to be applied in order to reach a long-lasting development. It can also be described as the resurgence of the open regionalism's paradigm, while other LA regional blocs became more and more closed and dominated by political rather than economic concerns. Even if a unique definition of open regionalism is lacking, we can define it as "external liberalization by trade blocs, that is the reduction of barriers on imports from non-member countries which is undertaken when member countries liberalize the trade among themselves"⁸⁴. Since its inception, PA's members announced their commitment to a project of "profound integration", by this mean underlining the novelty and the rationale of the newly formed alliance. It is an open and non-exclusive project of integration, emerging from a shared willingness to foster free trade as a model of development, but also the free movement of capitals, services and people. Even if it is quite a recent creation, its prestige is already internationally recognized. Indeed, apart from certain deficiencies that still need to be addressed, the regional bloc is recognized as open, stable and democratic. The objectives pursued by the Pacific Alliance may seem similar to the one of Mercosur and other regional projects: still, they are pursued through different means and with a special emphasis on the Asia-Pacific region and the strategic importance of being part of global value-chains. Moreover, it must be underlined that the attractiveness of the bloc resides not only in its importance as a producer but also as a potential consumer, accounting for more or less 3% of the world population. Furthermore, its inclusive model is also reflected in the number of observer countries of the organization, with no parallels in other regional experiences. To sum up, the PA pursues two different but not mutually exclusive objectives: from the internal point of view it is aimed at creating a common market (not accompanied by the adoption of a common external tariff);

⁸⁴ Frankel J.A., Wei S.J., Open regionalism in a world of continental trade blocs, International Monetary Fund Staff Papers, vol.45, n. 3, September 1998, p.441

at the external level, it has the aspiration of becoming a dynamic platform for economic projection and creation of ties with third markets (without the mandatory prerequisite of geographic proximity).

2.1. Antecedents

The PA, as well as other regional blocs such as Mercosur, was not born in a vacuum. It is the product of subsequent evolutions that gradually led to the consolidation of the project. Furthermore, it can be considered as a pragmatic answer to the failure of previous experiments of Latin American regionalism and as an alternative to the current stagnation of Mercosur. Probably its most direct antecedent is the Latin American forum of the Pacific Rim, an initiative launched in January 2007 in order to form a bloc of all the countries in the region bordering the Pacific Ocean, and hence having different possibility of economic projection from their Atlantic counterparts. It was formed by 11 members, a number that is largely exceeding the current membership of the PA: Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Peru and Mexico. By the way, the PA is also the by-product of an identity crisis within the Andean Community, due to the signing of bilateral trade agreements by Colombia and Peru with the U.S. These actions were perfectly legal and admitted within the very same framework of the AC. In particular, Decision 598 of July 2004, allowed member countries to negotiate trade agreements with third countries, preferably through a joint effort, but not necessarily: it was even possible to negotiate bilaterally in case other collective efforts appeared to be less viable. Still, 2006 was a year of profound crisis within the bloc. Bolivia and Ecuador expressed their dissent regarding the bilateral strategies pursued by Colombia and Peru, reflecting divergent policy options. Furthermore, Venezuela left the bloc while seeking accession to Mercosur. The Peruvian President Alan Garcia Perez repeatedly tried to attract Chile again, making it join the AC after the withdrawal of Venezuela. Still, these efforts remained frustrated and Garcia Perez decided to pursue an alternative strategy, being the main driving-force behind the meeting of Santiago de Cali that gave birth to the Latin American Forum of the Pacific Rim. That was a sort of PA's embryo, since the underlining rationale was the adoption of joint policies in order to strengthen the relationship between its members and the Asia-Pacific region, in the field of trade as well as scientific and technological cooperation projects. Fractures gradually emerged again, especially between Nicaragua and Ecuador on the one hand, and Mexico, Colombia, Peru and Chile on the other hand, the latter group trying to foster a greater model of economic openness. In light of this unsuccessful outcome, it was

again the Peruvian President Alan Garcia that took the initiative by writing a private letter to its counterparts in Colombia, Chile, Ecuador and Panama, inviting them to form an area of “deep integration”. Later on, the invitation was extended to Mexico, too. The project of the PA was finally launched by all the aforementioned countries, with the exception of Ecuador en Panama, through the declaration of Lima of April 28th, 2011. The leaders of each of the member countries regularly met approximately every six months since the signature of the Lima declaration, demonstrating their commitment to the deepening of integration and economic openness. A High Level Group (HLG) was formed in order to formulate a coherent Framework Agreement for the newly formed Alliance. Even if the Lima summit was led by the head of state of the member countries, the High Level Group was a more technical body, integrated by the trade and foreign ministers. Finally, four technical groups were formed, one for each member, with the task of assisting the HLG in drafting the agreement. The PA acquired legal personality after the signature of the Framework Agreement just mentioned above, on June 6th, 2012. Moreover, starting from May 2011 the MILA (Latin American Integrated Market) finally became operative. It was launched in 2009 as a joint action of the Santiago, Colombia and Lima stock exchanges, as an integrated regional market to trade equities. That is not a feature of minor importance, since it helps understand that PA’s members are granting a special weight not only to trade, but also to investments and capital flows, following the path of modern and dynamic economies. The Mexican stock exchange also joined in 2014, resulting into an integrated stock market of the PA. It offers a platform for clearing and settlement operations entailing, at the same time, an important reduction of transaction costs; it offers investment opportunities in more than 700 companies from the four member countries; it avoids duplication of processes in each country and provides for harmonized standards. The overall market capitalization was of 729 billions USD\$ by the end of 2016, the greatest share coming from Mexico (334 billions)⁸⁵.

2.2. The founding documents of the PA

The project was formally launched with the Lima Declaration, adopted during the first presidential meeting held in Lima on April 28th, 2011. It was signed by President Alan Garcia, mentioned above and by the Presidents of Colombia (Juan Manuel Santos Calderón), Mexico (Felipe Calderón Hinojosa) and Chile (Sebastian Piñera Echenique). It reiterated the members’ commitments to some of the goals already set in the framework of the Pacific Rim forum, such as creating a

⁸⁵ Source: www.mercadomila.com

platform for dialogue with the Asia-Pacific region and making the bloc more competitive and attractive for foreign investors and enterprises. Moreover, it further recognized that integration was not taking place in a complete vacuum, since it was consistent with already existing FTAs signed by each of the members. The document officially granted to Trade and Foreign Ministers the task of drafting a Framework Agreement to be submitted to the Presidents in December of the same year. Indeed, the Lima Declaration is a very simple document containing no provision regarding the subsequent structure of the organization. It was mainly aimed at signaling a political willingness and commitment to reach certain objectives in a cooperative manner but without defining the exact instruments to be set in place. The Framework Agreement resulted, as mentioned above, by the joint effort of the High Level group and the technical committees. Panama was already mentioned as a country having an observer status. Moreover, the inclusive model of the PA is already quite clear by looking at the final statement of the declaration, affirming the possibility of joining for any country supporting the view of the Alliance, with no further requirement such as geographical proximity. The Framework Agreement was finally signed on June 6th 2012 in the city of Paranal (Chile). It only entered into force on July 20th, 2015; still the member states already deepened their cooperation and implemented measures without the agreement being formally into force. Hence, in spite of the delay, the PA has already reached significant achievements, as it will be analyzed later. Article 2 reaffirms the open and inclusive nature of the organization, outlining a really basic set of prerequisites to be considered as potential members: a democratic constitutional order, the separation among State's powers and the protection of human rights and fundamental liberties. Article 11 further introduces another condition: aspiring members must be already part of a FTA with each member state conforming the Alliance. Hence, virtually any state of the world could submit its candidature for membership according to the letter of article 2 and 11, provided that it already has certain economic ties with the members themselves. Objectives are defined in the following article and divided into three subgroups⁸⁶:

- Building an area of deep integration guaranteeing the free movement of goods, services, capitals and people;
- Fostering growth, development and competitiveness;
- Turning the group into a platform of political as well as economic cooperation and as the basis for a worldwide oriented projection, with a special emphasis on the Asia-Pacific region.

Hence, the objectives outlined above were perfectly in line with the statements made by the member countries in the very first place during their first joint summit. Furthermore, they are also

⁸⁶ Article 3 of the Framework Agreement

the concretization of the original Pacific Rim Forum's aims, after the failure of this latter experience due to internal divisions. The Framework Agreement also recognizes that each member country already adopted open economic policies before the creation of the bloc, by subscribing important bilateral and multilateral trade agreements. Hence, article 8 states that any decision or agreement adopted in the PA framework will not invalidate or modify previously existing arrangements. The Framework Agreement also expressed the commitment to create a dispute settlement mechanism. Finally, article 17 recognizes as observer members not only Panama but also Costa Rica, two countries that already adopted an economic paradigm in line with the one of the PA. It is curious to notice that an Additional Protocol to the Framework Agreement was adopted even before the entering into force of the latter, having been signed on February 10th, 2014. After the presidential Summit held in Mérida on December 4th of the same year, the resulting declaration reaffirmed all the commitments enlisted above, but also formally launched integration efforts in further areas, such as e-commerce, sanitary and phytosanitary measures, a platform of student mobility and infrastructural interconnections.

2.2.1. The Additional Protocol to the Framework Agreement

The aforementioned protocol is a long and detailed document, formally defining some of the essential features of the new integration process. It entered into force on May 1st 2016, defining a wide set of trade-related issues. The latters, as said before, do not invalidate previous agreements but are rather coexisting and complementing them. It was designed to ease the achievements of objectives such as fostering intra-bloc trade and investments, economies of scale and increasing competitiveness. With its definitive entering into force 92% of the goods traded within the bloc became tariff-free. For the remaining ones, tariffs will be eliminated within a framework of 3 to 6 years, with the exception of sensible products that will enjoy an extended horizon of 17 years. Sugar and its by-products are excluded from the preferential treatment, demonstrating once more how this sector is highly protected by powerful interests, as in the case of Mercosur. A mechanism regarding rules of origin has been set in place, too. It is a flexible one, acknowledging some structural deficiencies within the bloc: for instance, in the textile sector a special committee will evaluate the possibility of granting a special treatment to producers that find it necessary to import a certain input that is not available in any of the member countries. Article 4 of the Protocol especially deals with rules of origin, listing not only all the products that can be considered as produced within the bloc, but also all the operations that, even if performed within the territory,

does not confer PA origin. A special committee was further created, in order to remove technical or non-tariffs obstacles to trade. Both in the case of tariff and non-tariff barriers, the private sector had an important role in pushing cooperation and integration. Indeed, it is certainly a more influential actor than it is in the Mercosur's framework. Custom cooperation has been another field explicitly addressed in the Additional Protocol. In order to avoid useless costs and speed up the whole process, the Protocol suggests the adoption of international standards and automated procedures. The document further provides for a fruitful exchange of information among national custom authority, in order to foster their capacity of control and investigation over custom infringements. Moreover, it prescribes the adoption of agreements of mutual recognition of economic operators authorized in each party to the AP. The e-commerce sector has been further regulated, with no tariffs applied to digital products. In some cases, the Protocol deepened agreements already in force among the parties, such as in the field of investments' protection and trade in services. The whole Protocol is, in fact, aimed at creating a more stable environment that may especially result attractive for foreign economic operators. In the field of trade, it is also important to underline the efforts in harmonizing the functioning of the *Ventanilla única de comercio exterior* (VUCE), an instrument aimed at facilitating trade by adopting standardized information and fostering the electronic exchange of the latter. Hence, this latter process of harmonization is a multi-level one, not only in the realm of processes themselves but also in the semantic field, in order to make the exchange of information more fluid and rapid, avoiding confusions and misunderstandings. Chapter 6 address sanitary and phytosanitary measures. That is an especially sensitive field, in particular for Chile, a country with strict standards also with other bordering countries outside the bloc, such as Argentina. Harmonizing norms in this field is seen as a mean to foster the protection of human, animal and vegetal health and the ecosystem in general. At the same time it will ease trade in agricultural and livestock products, avoiding the improper use of sanitary and phytosanitary rules as an unmasked trade restriction. Hence, it is interesting to stress the point that the Protocol is trying to avoid the adoption of measures that may hinder trade, even if justified as a mean to protect national interests. This latter phenomenon has repeatedly plagued intra-Mercosur trade, with the adoption of non-tariffs barriers of different types, especially by Argentina.

2.3. The institutional framework⁸⁷: the role of Presidents in a non-politicized bloc

The institutional structure of the PA is even simpler than the one of Mercosur. In spite of that, the bloc has reached important objectives in its first years of activity, mainly thanks to the strong commitments of the Presidents in the four member countries. The successors of the four founding heads of state maintained a strong willingness to push the whole process ahead, reaffirming their faith in the strategies and values of the Alliance. The latter lacks a permanent secretariat and works through the joint activity of ministries and technical agencies. The heads of state remain the driving forces behind the process, regularly meeting in presidential summits with the objectives of reviewing the integration process and propose new mechanism and strategies to reinforce integration. The role played by national Presidents in the bloc may suggest a similarity with Mercosur and its logic of functioning. Nonetheless, the PA is not as politicized as its counterpart in the Southern Cone: it has certain deficiencies to be addressed and it is far from being perfect, still is not used as a mean to reach particular interests and the rationale behind the project is supported by a strong and credible national commitment. Lacking a permanent secretariat, the pro tempore presidency rotates among the members year by year. Among the main Presidential Summits it is worth remembering the following:

- Lima, Peru, April 28, 2011. The Heads of State of the four founding members established the Pacific Alliance through the homonymous Declaration.
- Merida, Mexico, December 4, 2011. The Presidents of the four Pacific Alliance countries agreed to sign a Pacific Alliance Treaty within six months.
- Antofagasta, Chile, June 6, 2012. The four countries formally entered into the Framework Agreement creating the institutional basis of the Alliance and establishing future patterns and requirements.
- Cartagena, Colombia, February 10, 2014. Members signed the Additional Protocol of the Framework Agreement for the Pacific Alliance.
- Punta Mita, Mexico, June 19 -20, 2014. The four presidents announced the approval to incorporate the Mexican Stock Exchange into the common stock exchange, the Latin American Integrated Market, or the *Mercado Integrado Latinoamericano* (MILA). Other significant results of the summit included the launch of the PA scholarship program.

⁸⁷ Information in these paragraphs has been obtained from the PA website at <http://alianzapacifico.net>

2.3.1. The Council of Ministers and the High Level Group

The Council of Ministers is the other main body conforming the institutional structure of the PA. It is comprised by the Ministers of Foreign and Economic Affairs in each country and it is responsible of adopting decisions or approve programs and activities that are needed to pursue the objectives of the Alliance. It further provides the political guidelines of the integration process. The High Level Group is comprised of the Foreign Affairs and Trade vice-ministers. It evaluates and controls the progresses of 22 technical working groups, each one focused on a different topic (not necessarily an economic or trade-related one). The HLG is also in charge of identifying new areas of integration and it has the task of drafting proposals for partnerships with other regional groups or organisms. The technical working groups address specific issues related to a multi-level integration process, some of them already covered by provisions in existing FTA's that, as mentioned above, are not invalidated but rather complemented by the creation of the PA. The technical group on Institutional Affairs deals with conflict resolution and, among other issues, with rules and procedural guidelines regarding the Alliance's internal bodies. It is interesting to notice that a specific group on Regulatory Coherence has been set in place. It is aimed at avoiding bad practices that can result in a stalemate of the process, dealing with issues such as transparency, simplification of government regulation and evaluation of regulatory impact. A proper functioning of such a group may avoid some of the main deficiencies that plague other processes of regional integration, mainly the Mercosur. Another fundamental working group, linked with the very nature of the organization itself, is the Trade and Integration Group, mainly focused on the elimination of tariff and non-tariff barriers to intra-bloc trade. Hence, it not only deals with tariff elimination but also with a multiple set of rules, such as phytosanitary standards and customs cooperation. Furthermore, Business interests are directly represented in the Business Council Committee of Experts, acknowledging the crucial role played by the private sector in any successful integration process. The Services and Capital Group further deals with services and investments flows among the member countries. The creation of the Group on Fiscal Transparency shows the commitment of the bloc to the creation of a stable environment for local and foreign investors, as well as their willingness to fight bad practices and tax evasion. Moreover, together with these working groups that are related to more or less "traditional" issues addressed in any framework of regional integration, there are some technical bodies that reflects the very modern nature of the PA, such as the Communication Strategy Group that designs the strategies of communication of the bloc as such, increasing its global presence and recognition. Looking at social rather than strictly economic issues, after the X Presidential

Summits, a working group was specifically created to deal with the issues of gender equality, incorporating this new focus in the activities of the organization.

2.3.2. Observer Countries

While Costa Rica and Panama are expected to be the future new members of the bloc⁸⁸, having established the roadmap for their full membership, one of the most singular characteristic of the PA is the disequilibrium between the number of proper members and the number of observer countries, with no parallels in other experiences of regional integration. Indeed, the balance is quite unusual with four full members and 49 observers at the present time⁸⁹. Observer countries can take part in meetings in which they are invited by consensus and they only have the right to speak, lacking any formal voting rights. Still, if an observer country already has FTAs with at least two members of the organization, it may request full membership, setting in motion the official procedure for the admission. “The Observer Country must comply with the conditions to begin its accession process into the Pacific Alliance within one calendar year from the date of acceptance of its application to become candidate.”⁹⁰

⁸⁸ Indeed, Articles 2 and 11 of the FA, regulating the admission of new members, do not contain specific requirements regarding the geographical location, which means that a candidate which is not located on the Pacific Rim can be accepted if it complies with the other membership requirements.

⁸⁹ Germany, Austria, Australia, Belgium, Canada, China, South Korea, Costa Rica, Denmark, Spain, United States, Finland, France, Guatemala, Ecuador, El Salvador, Georgia, Greece, Haiti, Honduras, Hungary, India, Indonesia, Italy, Israel, Japan, New Zealand, Morocco, Panama, Paraguay, the Netherlands, Poland, Portugal, the Dominican Republic, the United Kingdom, Singapore, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey, Uruguay, Paraguay, Egypt, Romania, Ukraine, Slovakia, Norway. Source: <https://alianzapacifico.net/en/paises/#paises-observadores> last access: June 4th, 2017.

⁹⁰ Article 8 of the Guidelines on the Participation of Observer Countries in the Pacific Alliance, available at: https://alianzapacifico.net/wp-content/uploads/2016/06/Guidelines_Participation_Observers.pdf last access: June 4th, 2017.



Source:

<https://alianzapacifico.net/en/paises/>

The huge number of observer countries confirms, on the one hand, the bloc's commitment to the values and strategies of an open regionalism and, on the other hand, the interest that the Pacific Alliance has raised worldwide. Moreover, being an observer country entails specific advantages related to the possibility of a future full membership or at least a privileged access to the Asia-Pacific trade flows. Some active economies have expressed an unofficial willingness to join the bloc, even if up to now these statements did not result into a formal admission procedure. That was the case of Canada in 2013 and of New Zealand in 2015⁹¹. Even if these countries did not submit for full membership, still their interest is a further confirmation of the excellent reputation that the PA is currently building and the expectation of future growth in comparison with other frustrated intents in Latin American History.

2.4. The full members of the PA: socio-economic potential

The four founding members of the PA share a uniform economic vision and parallels objectives, as well as socio-cultural characteristics and the same political system. All these factors of convergence certainly help their process of integration, including the use of a common language that ease the communication among the members and the exchange of both information and human capital. The more prominent member of the bloc is Mexico, which is for the PA something similar to Brazil within the framework of Mercosur. But even if Mexico is the most powerful economy in many aspects, it is worth underlining that the other members are strongly committed to the integration

⁹¹ Lallande J.P.P., *The Pacific Alliance: Improving trade and cooperation between Latin America and Asia-Pacific*, ISA Asia-Pacific Conference, Hong Kong, June 2016, p.15;

process and they obtained meaningful advancements, especially Colombia and Chile. Mexico actually ranks 15th in the World Economies ranking by GDP published by the World Bank.⁹² It is the main receptor of FDI in the bloc and it is also one of the more open economies in the world, perfectly in line with the strategy pursued by the Alliance. The main sectors of its economy are manufactured goods, petroleum products, minery but also the automotive industry. Still, as it will be explored later in greater detail, it is the member who is less integrated with the rest of the bloc, also due to its membership in the NAFTA and its close relationship with the U.S. Chile is also acknowledged as a growing and responsible economy worldwide. Indeed, it was the first South American country to become member of the Organization for Economic Cooperation and Development (OECD) in 2010. In particular, its reputation is linked to the fiscal stability that characterized the country in the past years. It is also a modern economy centered on services, which accounts for 74% of the whole Chilean economic activity. Still, its economic performance in terms of GDP is not yet comparable with the one of Mexico, since the country ranks 42 in the World Bank's ranking of world economies by GDP⁹³. Colombia is probably showing the most impressive development relatively to its point of departure. Its economy even proved to be resilient to the last petrol shock thanks to macroeconomic and structural reforms and the proactive presidency of Juan Manuel Santos, who started his second term in August 2014. The greater dynamism has been characteristic of three major fields: financial, construction and commercial setting, mitigating the crisis of the extractive industries. President Juan Manuel Santos further contributed to the creation of a stable environment in the country through the negotiation with the Revolutionary Armed Forces (FARC-EP - Fuerzas Armadas Revolucionarias de Colombia-Ejército del Pueblo), whose activities significantly plagued the country in the past years, especially in rural areas. Peru is probably the country that showed major asymmetries with the other members at the moment of joining the bloc. Still, "over the past decade Peru has been one of the region's fastest-growing economies, with an average growth rate 5.9 percent in a context of low inflation (averaging 2.9 percent)"⁹⁴. The rapid growth helped to mitigate the national poverty rate, creating the conditions for further improvements. Moreover, Peru can count with important mineral resources and strong commercial ties with advanced economies, such as China, Japan, USA and Canada. It is also important to underline that the PA's members as a whole account for over 50% of Latin American

⁹² Source: World Bank, data available at: <http://data.worldbank.org/data-catalog/GDP-ranking-table> last updated: April 17, 2017.

⁹³ Source: ibidem

⁹⁴ Source: World Bank, available at: <http://www.worldbank.org/en/country/peru/overview> last access: June 4, 2017

external trade and 35% of its overall GDP. Furthermore, as an aggregate, the PA is the 8th largest economy in the world.⁹⁵

3. Factors of competitiveness

As outlined above, the PA is an economic bloc with a huge potential supported by a parallel willingness of its member to foster the development of this initiative. Some of its factors of competitiveness are the result of pre-existing features and characteristics, while others resulted from a deliberate strategy adopted by its members. Being world's eighth-largest economy it also has a clear competitive advantage for international firms and investors. Moreover the four countries have a population of approximately 218 million people. This population on the one hand plays on the supply-side as a young and skilled labor force; on the other hand it pushes on the demand-side constituting an attractive and large market, sustained by a gradual growth in purchasing power. The Pacific Alliance countries also have extensive natural resources that help to support economic sectors such as mining, forestry, energy, agriculture fishing and even tourism. Still, even if most of their export is still commodity-based, these countries are also increasing their regional and global presence in terms of manufacturing, automotive industry and services. Furthermore, the creation of the MILA as a joint stock exchange market also contributed to give dynamism and stability to the financial sector.

3.1. A stable environment for foreign investments

As outlined also in the previous chapters, investors' decisions are not simply guided by the presence of certain resources, a huge market or a skilled labor force. A decision to invest is the product of an overall analysis of macroeconomic as well as socio-political factors. In this latter aspect, PA's members certainly retain an advantage in comparison with Mercosur. Their democracies are stable and the past years have not seen crises comparable with the ones currently affecting Brazil and especially Venezuela. Furthermore, the presidents of the four members strongly support the values and strategies outlined in the founding documents of the PA. There are not cases of abrupt changes

⁹⁵ Source: Pacific Alliance Business and Investment Guide, available at: [http://www.ey.com/Publication/vwLUAssets/Gu%C3%ADa_de_la_Alianza_Pac%C3%ADfico_2015_2016/\\$FILE/EY_guia_alianza_pacifico_2015_2016_ingles.pdf](http://www.ey.com/Publication/vwLUAssets/Gu%C3%ADa_de_la_Alianza_Pac%C3%ADfico_2015_2016/$FILE/EY_guia_alianza_pacifico_2015_2016_ingles.pdf) last access: June 5th, 2017

or of Presidents completely disregarding the organization's rules in order to pursue national or short-term interests, as in the case of Cristina Kirchner suspending automatic import licenses, creating a significant delay in custom operations and closing up the Argentinean economy. Moreover, inflation is consistently controlled in the PA's members, while it has been a significant plague in the countries of the Southern Cone. Even Peru, a country with a relative weak economy, managed to reach an inflation level that has been the lowest in Latin America in 2016. Apart from these broad aspects, world rankings also support the prestige of the PA, both at home and abroad. That's the case of the Ease of Doing Business Index, elaborated by the World Bank according to an analysis of the regulatory environment⁹⁶ of 191 countries worldwide. Mexico, Colombia, Peru and Chile respectively rank 47, 53, 54 and 57 over 191⁹⁷. It is obvious that there is still a lot of space to progress and improve the regulatory environment in order to be fully attractive. But it is also quite evident that a foreign investor seeking opportunities in Latin America will not decide to invest in countries such as Argentina and Brazil, that rank respectively 116 and 123, performing even worst than countries such as Lesotho, Uganda and Swaziland. By looking at the Economic Freedom Index of the Wall Street Journal-Heritage Foundation, the picture for the PA is even more promising, especially due to the excellent position of Chile among the top 10 countries, together with economies such as Hong Kong, Singapore and Switzerland⁹⁸. The index is elaborated thanks to four main indicators: rule of law, size of government, regulatory efficiency and open markets. In the Chilean case, the main features which confers such dynamism and stability to the economy are regulatory transparency, a strong protection of property rights and the stability of the judicial system. Hence, the economic environment in the PA seems to be more stable than in other Latin American countries and even if there is still a lot to do, it is possible to affirm that the four members are currently following the right path. This stability is one of the main reasons why business actors are looking to the PA's performance with increasing interest.

3.1.1. The role of the private sector

The Pacific Alliance also created a Business Council (*CEAP-Consejo Empresarial de la Alianza del Pacífico*) in 2011, which shows the willingness of the organization to treat the private sector as a fundamental interlocutor since its very inception. The Council is formed by entrepreneurs of the

⁹⁶ Looking at elements such as construction permits, regulations to start a business activity or taxes.

⁹⁷ Source: Ease of Doing Business Index, benchmarked to June 2016, available at:

<http://www.doingbusiness.org/rankings> last access: June 5th, 2017.

⁹⁸ Source: Economic Freedom Index 2017, available at: <http://www.heritage.org/index/ranking> last access: June 5th, 2017

four members countries and it is a body with a consultative nature. In spite of that, entrepreneurs strongly cooperate with the promotion of the PA's objectives and they issue recommendations on both government's practices and projects involving third markets, especially in the Asia-Pacific region. Another sign of this openness toward the private sector is the presence among the technical working groups of a body in charge of studying the activity of Small and Medium enterprises operating within the bloc, accompanied by the establishment of a funding mechanism and business development centers especially oriented toward the formation of skilled workers to be employed in that sector. The mutual exchange of information, ideas and projects between the public and private sector is a crucial element and one of the keys of an integration process aimed at being successful. Moreover, this approach is coherent with the gradual ascent of Latin American MNEs, also defined as "multilatinas". Lourdes Casanova Seuma⁹⁹ distinguishes three phases of their development: a first phase (1970-1990) characterized by their expansion in their natural markets (the nearest ones); a second one (1990-2002) dominated by a huge wave of privatization, especially in the field of communication, energy and financial services; the current phase, started in 2002, characterized by their gradual global presence. The dialogue between the private and the public sector is even more significant in the case of the PA, since the four members possess many strong and growing multilatinas, mainly based in Mexico. Mexican enterprises have been protagonists of huge operations of merger and acquisition, such as the acquisition of Carso Global Telecom by *América Móvil*, controlled by the Mexican entrepreneur Carlos Slim. Another successful example is the Bimbo Group, nowadays the most important Baking Company in the world according to brand positioning, volumes of production and sales, operating more than 100 trademarks. This is not to say that similar huge enterprises are absent in other Latin American markets and especially in the framework of Mercosur. Still, PA's entrepreneurs, as said above, have a huge advantage in terms of stability of the macroeconomic environment and access to new markets, thanks to the openness of their national economies. Moreover, the CEAP proved to be a powerful instrument to interact with the public sector, in spite of its mere consultative nature. In that sense, PA's economies seem to be working under the double diamond model as elaborated by Moon, Rugman and Verbeke¹⁰⁰. With the proposal of this new model, they stated that any model analyzing a nation's global competitiveness in a context of globalization would be incomplete without the incorporation of multinational activities. Successful national economies must work through a model of systemic competitiveness, characterized by the interplay of enterprises and governments, private and public sector. The latter relationship is behind the rationale of the PA and may led to a high degree of

⁹⁹ Seuma L.C, *El Ascenso de las Multilatinas en la Economía Mundial*, ICE, Marzo-Abril 2011, n° 859.

¹⁰⁰ Moon H.C, Rugman A.M, Verbeke A., *A generalized double diamond approach to global competitiveness of Korea and Singapore*, International Business Review, 1998, n°7, pp. 135-150.

innovation in the region. Even if some aspects still need to be fully developed, such as the cooperation between universities and firms, PA's members already are leaders in the Latin American region regarding the development and application of patents. Chile is, once more, the country with more promising features, such as an already existing cooperation between universities and industries, governmental support to advanced technology products and the highest degree of patents' production in the region; Mexico is the PA's member with the highest share of investments in R&D; Colombia is improving its performance, mainly thanks to government's support; Peru is the less competitive and innovative member at the present moment, and this is mainly due to a deficient education system that created a mismatch between supply and demand in the labor market. To sum up, in spite of some deficiencies that still need to be addressed, the PA has already a competitive advantage compared to other Latin American countries, which is impressive considering its youth as a proper organization. The cooperation between the private and the public sector also provides an excellent point of departure for future developments and further hybridization among the different social and economic actors.

3.1.2. A trans-Pacific cooperation

It is quite evident that the main economic and geopolitical axes are undergoing a global transition from trans-Atlantic relationship to trans-Pacific ones. This gradual shift obviously entails new perspective and opportunities for a trans-Pacific and South-South economic cooperation, especially after the failure of the Trans Pacific Partnership (TPP). In particular, it is worth to explore the implications of deeper relations between the PA and the Association of South-East Asian Nations (ASEAN), since three members of the former (Chile, Mexico and Peru) and four of the latter (Singapore, Vietnam, Malaysia and Brunei) were among the original signatories of the TPP. If we consider Latin America as a whole, trade between this region and Asia has quadrupled since 2004. Asia is currently the second-biggest trading partner of Latin American countries after the U.S., having supplanted Europe. The fact that LA-Asia trade has soared is especially due to the presence of China attracted by Latin American natural resources as well as by this huge market for its products. "Chinese investment in Latin America has increased, too, though the figures are murky because China parks much of its capital in tax havens in the British Virgin Islands and Cayman Islands before investing it. According to the UN's Economic Commission for Latin America and the Caribbean, since 2010 China has been investing about \$10 billion a year in the region"¹⁰¹. Still,

¹⁰¹ The Economist, Latin America: Pacific Pumas, November 13th 2014

the most interesting future scenario seems to involve a bilateral cooperation between the PA and the ASEAN, with growing meetings between the two parties. Cooperation was officially launched in 2014, with the first Ministerial Meeting held on the sidelines of the annual UN General Assembly. The first proper meeting between the representatives of the two blocs has been held on May 25th 2015. The resulting declaration¹⁰² identified has priorities the promotion of investment and trade flows, even if up to now the ASEAN's share of PA trade is still marginal compared to the U.S., the EU and the Chinese giant. The two organizations are both formed by developing countries, which adopted a common model of open regionalism with a special focus on public-private partnerships and SMEs. There are also some important differences, of course. The ASEAN is more institutionalized than the PA, whose functioning is based on presidential meetings or "*cumbres*" and a rotative presidency. ASEAN is more complex from the institutional point of view, having created a General Secretariat located in Jakarta, Indonesia. Moreover, the latter organization is not comparable with the PA in terms of numbers. It is true that the PA represents half of Latin American trade, 35% of its GDP and more than one-third of all the population in the subcontinent. Still, ASEAN population triples the PA's one as well as its GDP is almost the double of the latter. Furthermore, ASEAN members are far more integrated among them than the four members of the Alliance and the Asian bloc is expected to become the fourth world economy before 2050¹⁰³. In spite of that, it has already been said that the PA's huge potential is universally recognized and it has reached many important advancements even being a relatively "young" organization. Hence, these differences between the two organizations are not necessarily an obstacle, as shown by the more recent advancements in their integration. Indeed, the main orientation of the PA toward its Asian partners has been part of its rationale since the very inception of the organization, adopting a "Pivot to Asia" strategy similar to the one followed by the Obama's administration, more Pacific-oriented than Atlantic-Oriented. In September 2016 the two blocs adopted the "ASEAN-Pacific Alliance Framework for cooperation" identifying four key areas: economy, science and technology, education and sustainable development. These are supposed to be the foundation for a future more comprehensive partnership. On May 3th 2017, a third meeting took place between the Committee of Permanent Representatives of the ASEAN and the Group of External Relation of the PA. The parties renewed their commitment to cooperation and recognized the potential of the initiative, with a special focus on public-private partnerships, support to SMEs and creation of Global Value

¹⁰² Co-Chairs' Statement of the 1st Meeting between the Committee of Permanent Representatives of ASEAN and the Ambassadors/Representatives of the Pacific Alliance, ASEAN Secretariat, Jakarta, 25 May 2015, Available at: [http://www.asean.org/storage/images/2015/May/Press_release/CPR-PA%20Co-Chairs%27%20Statement%20\(25%20May%20-%20Final\).pdf](http://www.asean.org/storage/images/2015/May/Press_release/CPR-PA%20Co-Chairs%27%20Statement%20(25%20May%20-%20Final).pdf) last access: June 5th 2017

¹⁰³ *The Nation, Asean Could Be the World's 4th-Biggest Economy*, November 12th 2014, available at: <http://www.nationmultimedia.com/news/business/aec/30247614> , last access June 5th 2017

Chains (GVCs). A multilateral agreement has not been adopted yet. Still several BITs and FTAs that could serve as the ground for a future multilateralization link the two blocs. In particular, in relation to trade, nine FTAs are already in place and three more are being negotiated. The Colombian President Juan Manuel Santos has given a special impulse to this process. During its administration it opened six diplomatic representations in ASEAN countries, two of them (Singapore and Vietnam) jointly with Mexico and Peru¹⁰⁴. The President has even defined the PA's pragmatic approach as a "third way: market where it is possible, the State when it is necessary"¹⁰⁵. The ASEAN-PA cooperation will meet some important difficulties, especially low mutual cultural awareness, the different institutional complexity in each organization and, of course, high transaction costs. Still, opportunities are worth trying to overcome these obstacles: an effective integration and the formation of global value chains would entail economic growth and diversification in both blocs, making them less dependent on major economic powers. At the same time, ASEAN members could have a special interest in reducing the Chinese influence in Latin America by disputing its trade and investments shares. Moreover, apart from the bilateral meeting that recently took place between the two blocs, Singapore, Thailand and Indonesia are already observers in the PA, and the major economies of the two organizations, Mexico and Indonesia, are already member of the G20, which entails the possibility of presenting their instances in an important global economic forum.

4. A theoretical framework: open regionalism?

The PA is considered as one of the main examples of open regionalism, based on export promotion rather than import substitution, combining regional integration with extra-regional openness. The Alliance is certainly a project that identifies as the main priorities both trade and investments, but it is also a multi-level process of integration with varied objectives enumerated in article 3 of the Framework Agreement. The PA is aimed at building an area of "deep integration in order to progressively reach the free movement of goods, services, capitals and people"¹⁰⁶. Still, strictly economic objectives are complemented with other ones that are necessary in order to support the whole process, such as migratory cooperation or coordination against trans-national crime. The choice for a model of open regionalism is perfectly coherent with the actual panorama of

¹⁰⁴ García A., *La Alianza del Pacífico: plataforma de proyección global*, Revista Mexicana de Política Exterior, n°106, January-April 2016, pp. 49-66

¹⁰⁵ El Espectador, *Alianza del Pacífico se postula como una "tercera vía" para el crecimiento regional*, July 3rd 2015, available at: <http://www.elespectador.com/noticias/elmundo/alianza-del-pacifico-se-postula-una-tercera-via-el-crecimiento-570139> last access: June 6th 2017

¹⁰⁶ Framework Agreement of the Pacific Alliance, Article 3.a.

globalization and increasing interconnections and it is also consistent with the existing multilateral trading system: as said in previous chapters, such projects of regional integration are stepping stones and not stumbling blocks of the global system centered on the WTO. In that sense, the PA has received a lot of attention from intellectuals and media worldwide, having been considered as the first real example of open regionalism in Latin America, especially in comparison with Mercosur. While the first is market-led, the later is policy-driven even if in both cases there has not been a real transfer of sovereignty from national governments to regional institutions. Vivares, Cvetich and Torres¹⁰⁷ state that in the Latin American case a transfer of sovereignty is not a *conditio sine qua non* for a well-functioning integration: this view is solely the consequence of what they call the “European Iron Cage of Regionalism”. Indeed, the PA is still a young project, with a reduced number of members and with the prioritization of economic objectives over political ones. Hence it does not really make sense to judge it in light of the European experience, which is older, comprehensive and all encompassing. The main vocation of the PA is to foster economic growth and integration: other socio-political objectives are instrumental and serve to support both internal integration and exogenous projection, mainly Pacific-oriented. The PA’s regionalism is coherent with the paradigm of open regionalism also because it is aimed at internationalize the members’ economy; it applies the MFN clause which is one of the distinctive traits of modern multilateral FTAs; membership will be granted to any country that will recognize and respect the values and strategies of the Alliance, regardless of its geographical location. That is true also in the case of Colombia and Peru, which are currently members of both the PA and the Andean Community (AC) together with Bolivia and Ecuador. Even if the AC is a more conservative bloc, especially due to the political and economic orientation of these two latter members, this is not an obstacle to the activity in the PA. The AC is rather a strategic asset for Colombia and Peru that can maintain their Andean trade links while exercising their global projection through the Pacific Alliance. Ecuador and Bolivia can, in turn, obtain indirect benefits from the PA thanks to the Andean free-trade zone. Hence, even if the AC is a structure that is becoming more and more exhausted, it does not represent a challenge for the existence and functioning of the PA. At the same time, the latter can be considered as profoundly different from Mercosur because of the policies implemented and also from UNASUR and ALBA, which are sensibly more political-oriented. In spite of its light and flexible institutional structure, the PA is actually consistent with its objective and with the model of open regionalism and there is no mismatch between rising rhetoric and declining achievements as in the case of Mercosur. Its activities are pragmatic and trade and investment oriented, allowing for a

¹⁰⁷ Vivares E., Cvetich K., Torres Lombardo P., *Enfoques y cárceles conceptuales en el entendimiento de los Nuevos Regionalismos Latinoamericanos*. In Bonilla A., Alvarez I., *Desafíos estratégicos del regionalismo contemporáneo: CELAC e Iberoamérica*. FLACSO, San José, 2013

greater flexibility in the relationship with third parties, both observers and non-observers countries. The Alliance can count with multiple advantages, but especially the common vision shared by its four members that is unparalleled in other Latin American experiments of integration. It has been already mentioned how, for instance, Uruguay and Paraguay often have divergent opinion compared to their Mercosur's partners. An open, transparent and world-oriented logic is at the very core of the project, also taking inspiration from the successful reforms implemented by Chile in the past decades.

4.1. The notion of Strategic Regionalism

Despite what said above, some authors such as Rojas and Terán¹⁰⁸ believe that the concept of open regionalism cannot capture the very essence of the PA. For that purpose they support the concept of strategic regionalism as the most suitable to describe the logic of the Alliance. Strategic regionalism can be defined as a strategic answer given by the States to the globalization's logics¹⁰⁹. Its main characteristic is its emphasis on the partnership between the States and national enterprises. The State maintains its central and predominant role, but national entrepreneurs and firms are essential for an effective implementation of their policies. Following this view, the PA is not simply trade-oriented but it also adopts a strategy of global insertion based on strategic national sectors and MNEs, which are undergoing a process of internationalization. Indeed, in spite of their light institutional structure the PA members decided to create the aforementioned CEAP, which has played more than a mere symbolic role. It has been both a receptor, by implementing the policies of the bloc, and also a proactive actor, proposing different strategies and activities to strengthen the whole process. Hence, the concept of strategic regionalism is an appropriate umbrella-term to capture all the different nuances of the PA: some of them related with the traditional paradigm of open regionalism; and other ones that are more innovative and coherent with the current economic environment. In a globalized world there is neither space for an exclusive state-led activity nor for a huge regulatory corpus that will end up repressing business rather than stimulating it. It is not possible to ignore the private sector if the final objective is to build up global value chains and to stimulate intra-industry trade. The focus that the PA places on both small and medium enterprises and on the so-called multilatinas can be a successful strategy in the long term, especially if the bloc

¹⁰⁸ Rojas D., Terán J.M, *La Alianza del Pacífico: nueva muestra del regionalismo en América Latina*. OASIS, 2016, n°24, pp. 69-88

¹⁰⁹ Briceño Ruiz J., *Ejes y modelos en la etapa actual de la integración económica regional en América Latina*. Estudios Internacionales, 2013, n°175, pp. 9-39

will manage to strengthen its cooperation and economic linkages with the other side of the Pacific.

4.2. A changing international environment

The new international scenario is posing both challenges and opportunities for Latin American countries and, in particular, for the members of the Pacific Alliance that can profit of new strategies for international insertion. The aforementioned shift of global politics and economy toward the Pacific is quite evident. The eyes of the world are now directed towards the events in the South China Sea and those involving North Korea and its growing tensions with Japan and bordering countries. Asia's growing economic power is a fact, too. While Europe is facing serious challenges with the refugees' crisis and its internal problems, especially after the Brexit, Asian countries are continuously growing and constructing new transnational relations. China is especially interested in building commercial and investment ties with Latin America, due to the availability in the latter region of land, raw materials and food. It is not surprising that it is already the first trading partner of Chile, representing 28,2% of total Chilean exports, while the U.S. is its second commercial partner with a share of exports of 14.2%¹¹⁰. The U.S. is still the main trading partner of Mexico for obvious reasons, mainly the membership in the NAFTA and geographical proximity. Still a new scenario is emerging after Trump assuming the presidency of the country. He is considering raising taxes applied to Mexican imports, he withdrawn from the project of the TPP and he is adopting postures that may lead to an increasing international isolation of the U.S., such as the decision to oppose the Paris Agreement on Climate Change. Obviously, no country in the world can disregard completely its relationship with the U.S. Still, the latter is no more the sole paymaster supporting a global order universally founded on Western values, as in the post-Bretton Woods scenario. Most of the fast-growing Asian economies are adopting a model that is slightly different from the mainstream one based on the pillars of democracy, human rights and rule of law. And if the Western political and economic domination is now under dispute, this probably entails the possibility for Latin American countries to obtain consistent benefits by re-orienting their view towards Asia and reducing their dependence from major economies. By the way, the main challenge is represented by the fact that Latin American economies have usually profited from the export of basic commodities. Still, their price is volatile and a country aimed at be successful must recognize the need to diversify the economy as fast as possible. It is not about completely disregard the production and export of commodities: the point is to expand other economic sectors and find a

¹¹⁰ Trade Map, International Trade Centre, www.intracen.org/marketanalysis

place in global value chains, exploiting growing industries such as the automotive one (that is particularly strong in Latin American countries) and the electronic industry. From that point of view, the members of the PA still have a lot of work to do. Still, their postures and their contacts with the ASEAN show a possible evolution in that direction, and at least a willingness to do so. “The first and indispensable condition is a strong and sustained political impulse...It has to be a sustained capacity for presidential leadership of the actions aimed at materializing the will to achieve an effective economic cooperation- which for obvious reasons implies the political cooperation as well- between the countries participating in the corresponding process”¹¹¹. Political leadership is one of the main valuable assets of the PA’s members, especially in the case of the Colombian president Juan Manuel Santos and the Chilean Michelle Bachelet, who are continuously showing their commitment to the values that lies at the core of the Alliance itself.¹¹² It is also important to underline the need of focusing both on trade and capital flows, not only relying on the former but also stimulating as much as possible the latter. Financial markets are fundamental cornerstone of our modern economy and the PA seems to be, once again, on the right path. This is due to the creation of the MILA as a mean to grant stability and reassure investors while reducing transaction costs, as well as to the web of BITs that the four countries signed with different partners worldwide and that can possibly serve as a basis for a future multilateralization.

5. Achievements and challenges

This last part of the chapter will deal with the main achievements of the PA so far and the future challenges ahead. While the Alliance has already reached many objectives as set out in the Framework Agreement and Additional Protocol, it seems that it has achieved better results in terms of international reputation and insertion rather than in relation to the degree of internal integration among the members. Indeed, while in general terms internal flows of trade, services, capital and people actually increased, the PA’s members did not manage, up to now, to build proper value chains and increase internal exchanges, mainly due to the fact that these countries are not natural trading partners.

¹¹¹ Peña F., *Latin America in an uncertain and turbulent world: is an effective and sustainable regional economic cooperation possible?*, February 2017, available at:

<http://www.felixpena.com.ar/index.php?contenido=negotiations&neagno=report/2017-02-latin-america-in-an-uncertain-and-turbulent-world> last access: June 6th 2017

¹¹² In later chapters the potential role of the neoliberal Argentinean president Mauricio Macri will be explored as well, in the framework of a possible convergence between the PA and Mercosur.

5.1. Achievements: trade liberalization and promotion

After the entering into force of the Additional Protocol to the Framework Agreement, the Alliance's members managed to eliminate internal tariffs on 92% of goods, expecting to eliminate remaining tariffs on sensitive goods before the end of 2020. Moreover, the flexibility of the organization allowed all the members to maintain all the previously signed FTAs as well as to negotiate new ones with third countries. Indeed, the PA is aimed at creating a free-trade area but not a custom union: the lack of adoption of a common external tariff is another important factor granting flexibility and easing decision-making processes. They all have entered into FTAs with all other Alliance countries and also with the United States, Canada, and the EU. Moreover, they also have multiple FTAs with Asian countries, further strengthened by the ongoing negotiations with ASEAN and the fact that the bloc is the first one explicitly including among its aims the focus on another region of the world (apart from its direct predecessor, the Pacific Arc). All the members adopted common Rules of Origin to increase commercial integration and they eased even more the process through the adoption of an Electronic Certificate of Origin. Customs operations have been greatly facilitated and automatized. The efficiency of the process has been strengthened thanks to custom cooperation, transparency and information exchange. PA's members also addressed non-tariff barriers to trade and, in particular, sanitary and phytosanitary standards, analyzed in great detail in order to avoid their improper use as unmasked trade restrictions. Finally, the trade promotion agencies of the four members, ProChile, ProMexico, Proexport Colombia and PromPeru, are continuously working together and launching joint activities in many different countries worldwide, such as Australia, South Korea and the United Arab Emirates.

5.1.1. Financial Market and Financial Transparency

The Alliance has also aimed at increasing its attractiveness at the eyes of foreign investors, while intra-regional trade in services and capital flows are mainly promoted by the working group on Services and Capital. As said before, in 2011, Chile, Colombia and Peru created a joint stock exchange market, the MILA. Mexico finally joined in 2014, turning the MILA into the largest stock exchange market in Latin America, as well as the most suitable alternative to the Brazilian Bovespa. Moreover, the MILA offers the advantage of being diversified, differently from a one-country based stock exchange market. Indeed it can offer opportunity to invest in sectors ranging from services to

mining and manufacturing. The leaders of the four countries also continuously express their full commitment to fiscal transparency and the fight against tax evasion. For this reason, they are currently working toward the full harmonization of national legislations, with the final objective of achieving an automated information exchange in this field.

5.1.2. Movement of people

The free movement of people was also among the original objectives of the Alliance as set out in the Framework Agreement. Indeed, free mobility may increase the opportunity of exchanging students, intellectuals, businessman and contributing to innovation and growth in all the countries conforming the bloc. The member countries gradually eliminated the requirements of visas for unpaid activities between one another, firstly declaring such intent in the June 2012 Chilean Summit. Furthermore they are increasing the exchange of information among custom authorities and they are considering the possibility of creating a single Pacific Alliance Visa, in order to allow businessman to clear immigration for all the four countries at their first port of entry into the bloc. In this framework we should also consider the launching of a scholarship program, granted reciprocally. The seventh edition of the Alliance's Student and Academic Exchange Platform was launched in august 2015, being aimed at undergraduate, doctorate, researchers and teachers. Several priority areas have been identified, such as international trade, political science, environment, business and finance. Every year 100 scholarships are granted by each country to its counterparts. In November 2014 a PA's Working Vacation Program was further launched and directed to people between the age of 18 and 30. Each country must provide 300 annual working visas for each partner.

5.1.3. The political realm

All these aforementioned achievements of course contribute to the excellent reputation of the PA abroad and the interest that it raised since its very beginning. But the prestige of the bloc is also due to political factors, such as the fact that the four countries are recognized as mature and stable democracies, that their presidents are truly committed to deepen integration and openness and that this attitude even survived changes of presidency. Moreover, the four Presidents regularly meet in

presidential summit in which they usually establish a clear set of objectives with precise timelines, and they also review the achievements of the aims expressed in previous meetings. Consensus is not only eased by the reduced number of members, but also by the adoption of the so called “harvest” approach, which entails the refusal of package deals and the preference toward smaller and gradual advancements, in order to speed up the process and avoid oppositions. It is interesting that up to now none of the negotiated issues has caused something similar to a mass protest. The four moderate governments are adopting a pragmatic approach, which is evident also considering that the various working groups started to work on single sets of issues even before the entering into force of the Framework Agreement. Before the entering into force of the latter, they even signed the Additional Protocol, entailing a greater liberalization, especially in terms of tariffs’ reduction.

Promotion Agencies	Institutional Issues	Trade and Integration
Business Council CEAP	Public Purchasing	Cooperation
Mine Development	Institutional Matters	Communication Strategy
Innovation	Regulatory Improvement	People Movement
Intellectual Property	SME’s	External Relations
Services and capital	Fiscal Transparency	Tourism
Gender	Cultural	Laboral
Environment & Green Growth		

Table 1- PA Working Groups. Source: Pacific Alliance Website <https://alianzapacifico.net/en/que-es-la-alianza/#estructura-y-organigrama>

Furthermore, there has been a gradual increase in the number of the specialized working groups, that now cover several different areas including Mining Development, Small and Medium Business and Fiscal Transparency. In table 1 it is possible to have a complete panorama of the technical working groups, which are covering a wide and complete set of issues, amounting to 22 different specialized committee.

5.1.4. Representation abroad and international cooperation

The PA’s Foreign Relations, which means its unitary position as a group before international third parties, is regulated by Article 9 of the Framework Agreement, stating that “the Alliance will promote initiative and guidelines on issues of regional and international interest and it will try to build up ties with States and international organizations.” There has been a significant effort made by the four members for their joint participation in trade, investment and tourism fairs worldwide,

amounting to approximately one hundred different ones. This aspect of “soft” foreign policy is considered, among other activities, as an attempt of creating a PA brand or at least an effort of nation branding through a regional organization.¹¹³ It is certainly true that such activities also have the effect of “brand promotion” by increasing the visibility and reputation of the bloc abroad. Creating joint diplomatic embassies and diplomatic representations abroad it’s another way to strengthen the global presence of the Alliance. A joint embassy of the four members is active in Ghana since November 2013. Other joint embassies are in operation in Singapore (Mexico and Colombia), Azerbaijan (Colombia and Mexico), Vietnam (Colombia and Peru), Morocco (Chile and Colombia) and Algeria (Chile and Colombia). The bloc’s members also signed agreements for trade representations in countries such as Turkey and Morocco. Alongside with this initiative, we must consider the aforementioned ministerial meetings with their ASEAN counterparts, as a mechanism to build trans-Pacific ties. In spite of that, the PA also took part into three important collaboration projects, all aimed at reinforcing their relationship with the global north. In 2014, member countries signed an agreement with the OECD for the promotion and increased competitiveness of SMEs. In 2015 they also took part into the U.S. project International Diaspora Engagement Alliance (IDEA), aimed at promoting young entrepreneurship, innovation and philanthropic activities¹¹⁴. Finally, it is worth mentioning the United Kingdom’s Chevening Scholarship that is offering opportunities to PA’s students to study in the best British universities since 2015. A new willingness to reinforce connections with Mercosur emerged after the election of Michelle Bachelet as Chilean President in December 2013. Chile is, for obvious geographical reasons, more interested in improving relationship with its neighboring countries Argentina and the giant Brazil. Still, Michelle Bachelet and Mauricio Macri could be the two main authors of a possible convergence, or at least some form of cooperation, between the two organizations.

5.2. Challenges

The PA is obtaining optimal results if we consider its relative youth. In spite of that, there are still significant challenges ahead: the success of the bloc will mainly depend by the way it will tackle them. First of all, some internal problems must be dealt with. Even if the four countries are moderate democracies, led by leaders of increasing prestige, they cannot ignore the importance of

¹¹³ Nolte D., *The Pacific Alliance: Nation-Branding through Regional Organisations*, GIGA Focus Latin America, N°4, August 2016.

¹¹⁴ Website: <http://www.diasporaalliance.org>

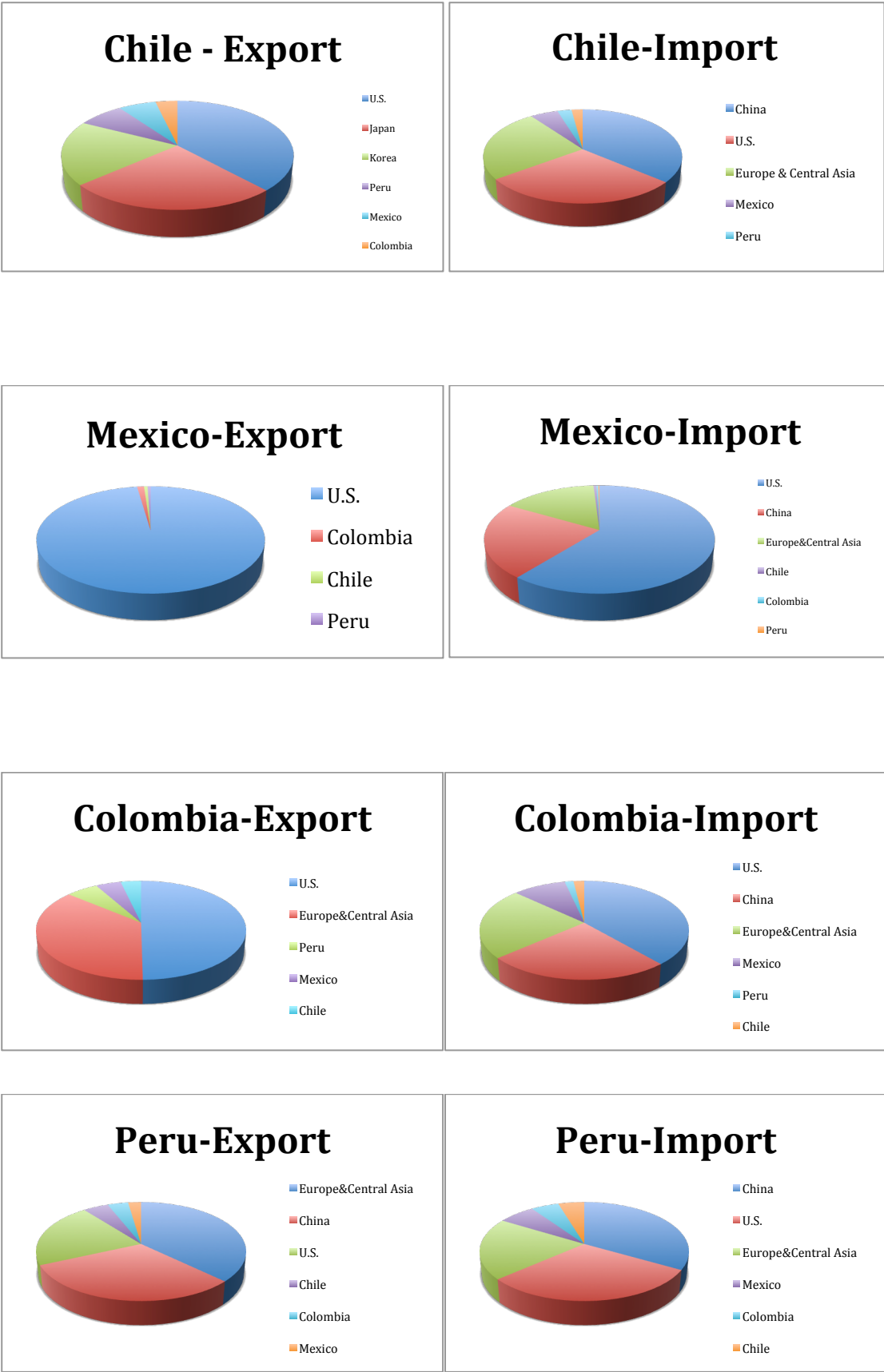
addressing certain internal issues, especially drug-related crime in Mexico and the Colombian peace process between the government and the Revolutionary Armed Forces. Moreover, they have to deepen their relationship with ASEAN, since up to now there has not been any formal agreement and the latter is not among the first major trading partners of the bloc. The PA must also be cautious regarding the admission of potential new members, since the priority must be deepening integration among the existing members rather than admitting new ones. In case of membership's extension, PA countries must also be cautious in the choice of their new partners, in order to avoid an integration's stalemate as in the case of Venezuela joining Mercosur. Up to now, only Costa Rica is advancing in its incorporation process, following the guidelines provided by the Alliance. Still, the main challenge of the bloc is, paradoxically, trade integration. Since trade is also the main focus of the organization, the issue will be analyzed in greater detail.

5.2.1. Trade integration: Is the PA too much outward-oriented?

As said above, the PA represents approximately 50% of the total trade of Latin America and the Caribbean but, in spite of that, Chile, Colombia, Mexico and Peru have little trade relation among each other. This is certainly not due to barriers to trade, since the great majority of goods traded within the bloc are already tariff-free. The main causes are the overwhelming presence of China and the U.S. as commercial partners and the fact that the members of the PA themselves are not natural trading partners. Even if the percentage of intra-PA trade has been affected by an upward variation of around 20,11% from the year 2010 to 2014, the share of intra-bloc trade compared to the total is still minimum, with an average value of 3% over the total¹¹⁵. Mexico is the main exporter of goods towards its partners, while Colombia is the main importer. The outward-looking focus of the PA is quite evident, since the main commercial partners of the members are still the United States, China and the European Union¹¹⁶. Even Mercosur is paradoxically more integrated with PA's members, especially due to the commercial relationship between Chile and Mexico, on the one hand, and Brazil on the other hand. In 2015, none of the PA's members was among the three first trading partners of one of the other constituents of the bloc. The following graphs show the unbalance between each country's share of trade with partners outside the PA and its share of trade within the

¹¹⁵ Prado Lallande J.P., *The Pacific Alliance: Improving trade and cooperation between Latin America and Asia-Pacific*, ISA Asia-Pacific Conference, Hong Kong, June 2016, p.5.

¹¹⁶ Blanco Estévez A., *La Alianza del Pacífico: Un largo camino por recorrer hacia la integración*, in Woodrow Wilson Center, Latin American Program, January 2015, p.4.



¹¹⁷ All the data (2015) proceeds from WITS/World Bank statistics, available at: <http://wits.worldbank.org>

The lack of internal trade integration in the PA is paramount from the analysis of the above graphs, being the most exceptional case the one of Mexico, since 81,24% of its exports its directed towards the U.S., which in turn supplies 47,39% of the imported goods. As said above, Colombia is the country that imports more goods from its partners in comparison with other PA's members (7,13% from Mexico). The lack of internal integration can also be noticed through an analysis of the Gruber&Lloyd Index, measuring intra-industry trade, which means the exchange of goods within a same industry and between two different countries. Country with a similar economic structure and similar factor endowments can still engage in intra-industry trade in case of economies of scale, specialization or markets that works under imperfect competition. Blanco Estévez¹¹⁸ analyzes intra-industry trade in the PA using the methodology proposed by Gruber and Lloyd. The index ranges from 0 (the highest degree of inter-industry trade) and 1 (the highest degree of intra-industry trade). A value of the Index superior to 0,33 indicates the actual existence of intra-industry trade. In the case of Mexico, the value of the Index is always inferior to this critical number; hence there is no evidence of this kind of trade integration with the rest of the PA. Still, there is evidence of intra-industry trade between Colombia and Chile (Index=0,59), Colombia and Peru (0,42), Chile and Peru (0,43). The existence of these commercial ties could be the basis to strengthen integration and even create regional value chains or regional clusters. The goods that are actually involved in intra-industry trade are mainly manufactured goods of low/middle technology, especially spare vehicle parts.

5.2.2. Investments' flows

As Cracau and Duràn Lima argue, "Flows of foreign direct investment (FDI) of the group represent a high proportion of both inward and outward FDI of all countries of Latin America and the Caribbean (43% and 96%, respectively). Participation in FDI inflows is more homogeneous than in the case of FDI outflows, where Chile and Mexico lead the list of investing countries in whole Latin America and the Caribbean"¹¹⁹. The main FDI sources for PA countries are the U.S. and the European Union. Still, despite the limited integration in trade in goods, FDI linkages among the members are growing. The intra-bloc export of capital involves mainly Chile and Mexico, being Colombia and Peru, in turn, FDI destinations (even if Colombia is now increasing its role as capital-exporter). This upward shift in FDI flows is the result of the growing internationalization of Latin

¹¹⁸ Blanco Estévez A., *La Alianza del Pacífico: Un largo camino por recorrer hacia la integración*, in Woodrow Wilson Center, Latin American Program, January 2015, p.8

¹¹⁹ Cracau D., Duràn Lima J., *The pacific Alliance and its economic impact on regional trade and investment. Evaluation and perspectives*, ECLAC- International Trade Series, Nà128, December 2016, p.25.

American MNEs or Multilatinas. The position of Mexico and Chile as the main FDI-exporters and Colombia and Peru as FDI-importers is consistent with the performances reached by the multilatinas in each country. Indeed, the Multilatinas Ranking 2016¹²⁰ evaluates the Latin American enterprises which are more internationalized and includes, in the first 50 positions, 13 Mexican enterprises, 12 from Chile, 4 Colombian ones and 3 from Peru. Nonetheless, Colombia has been recently defined as the “new star” of Latin American MNEs, mainly due to the excellent performance of three Multilatinas: ISA (18°), Sura (29°) y Bancolombia (63°)¹²¹. Meanwhile, the growth of Chilean enterprises is less spectacular and the tendency is toward the maintenance of previous positions. Anyway, it is interesting to notice that the first three positions of the ranking are occupied by Mexican or Chilean Multilatinas (MEXICHEM, CEMEX and LATAM), with Brazil appearing only since the fourth position.

6. Conclusion

The overall panorama of the PA is positive and promising. Still, the four countries must maintain their efforts and commitment in order to advance with the integration. Indeed, they adopted a model of open regionalism, aimed at internal integration as well as external projection and openness. The PA is making sustained effort to act as a bloc in its foreign relations and negotiations with other regional actors. Still, the four countries didn't managed to become a cohesive group when it comes to internal ties and especially trade flows. That is the main point that needs to be strengthened: if the project is aimed at being successful, it is necessary to adopt both an inward-looking and outward-looking strategy. The PA needs to reinforce its internal commercial and financial ties, especially insisting on intra-industry trade and the attempt to create, in the future, regional clusters. It is quite meaningful that while the bloc represent 50% of LA exports, intra-bloc trade only accounts for 3% of the total. Moreover, it would be desirable to translate the cooperation with the ASEAN into a formal agreement, starting by redirecting part of the share of trade toward this region of the world. Furthermore, it is not possible to completely exclude the possibility of increased relationship with the Mercosur under the leadership of Michelle Bachelet and Mauricio Macri and, indeed, this perspective will be analyzed in the following chapters. Finally, we must keep in mind that the PA lacks a permanent secretariat or any supranational governing body. The role of technicians is limited to the activity of the working groups, while all the other organs are composed of

¹²⁰ Available at: <http://rankings.americaeconomia.com/2016/multilatinas/ranking>

¹²¹ Almeida A., *La mirada sigue afuera*, AméricaEconomía, available at: <http://rankings.americaeconomia.com/2016/multilatinas/> last access: 06/06/17

representatives of national governments. If the main drivers behind the whole integration process are the Presidential Summits, the Council of Ministers and the High Level Group are made up of national ministers, respectively the Ministers of Economic and Foreign Affairs and the Trade and Foreign Affairs vice-ministers. Hence, the organization must maintain its main focus on economic integration and be cautious in expanding the membership. These latter two conditions are necessary if we want the process to continue working with such a light and flexible institutional structure.

IV. PA-Mercosur convergence: how to address the main deficiencies in LA regionalism

1. Introduction

This chapter will deal with an analysis of the current panorama of Latin American regionalism and the opportunities linked to a stronger cooperation between the Mercosur and the Pacific Alliance. The comparison of the two blocs and their eventual convergence may mitigate some of the problems that historically plagued the region's attempts at integration. Indeed, the whole region is characterized by the coexistence of a plurality of regional schemes that may hinder further economic development in the absence of a coherent plan of regional scope. Latin America is consistently behind other dynamic regions, such as South East Asia, in terms of intra-regional integration and, as a consequence, formation of regional value chains (RVCs). An agreement of increased cooperation between the PA and Mercosur can create a wide free trade area of Latin American scope that may be considered attractive by other countries in the region. Both internal and external changes are now providing a new environment that may favor beneficial developments. On the one hand, new strategies of global insertion and regional integration must be taken into consideration, especially after the election of Donald Trump as president of the U.S. and the rising protectionist ideology that is more and more widespread in the Northern hemisphere. On the other hand, internal political changes in countries such as Brazil and Argentina, may also favor greater economic openness and the adoption of more liberal trade policies, since the two countries have traditionally been the two main promoters of a protectionist Mercosur. A recent meeting between this latter bloc and the Pacific Alliance has been held in Buenos Aires on the sidelines of the World Economic Forum for Latin America. It is desirable that the proposal of increased cooperation that resulted from the meeting will be translated into practice as soon as possible, by addressing the main LA deficiencies, especially in terms of improving infrastructures, human capital formation and creating RVCs. The underlining idea of the chapter is that given the failure of previous experiments at regional integration in LA, a possible convergence between the PA and Mercosur could be a first step toward a more integrated region. The latter blocs, being the largest in the region, could have a carry-over effect on other Latin American countries. Moreover, in the current regional and international panorama, it seems the more viable option in order to start a process of LA scope. The chapter will first analyze the existing relationship between the two blocs, both at the diplomatic level and in terms of existing economic ties. It will further try to evaluate if convergence could be a win-win solution and which challenges could be better faced through a joint

effort. Later on, the chapter will deal with the current state of LA regionalism, in order to explain what Mercosur and the PA can learn from the past. Indeed, it is also in light of past experiences that they can build a long-lasting cooperation that could truly entail mutual benefits.

2. Mercosur and the Pacific Alliance: perspectives of cooperation

Recent developments seem to be promising about a future strengthening of the relationship between the PA and Mercosur. Cooperation between the two blocs could finally put an end to the double dichotomy Latin America/South America and Pacific/Atlantic coast. Indeed, it can be said that currently the PA constitutes the most dynamic pole in the region, in comparison with a suffering Mercosur, that necessarily need to undergo a process of metamorphosis, since it has experienced a serious crisis of credibility. This is also an historical opportunity, since a coordinated effort could bring LA as a whole at the center of international trade and economic relations, connecting it with Africa, Europe and the Mediterranean through the Atlantic as well as to Asia-Pacific nations. During the fourth Summit of the Americas, held in Mar del Plata in November 2005, divergences already emerged in the resulting declarations. The contrast was between Mercosur and Venezuela (that was still not part of the bloc) and Mexico with some Andean countries that are currently part of the PA, such as Colombia and Peru. The divide between an open and a closed pole survived until today. In spite of that, the most recent initiatives shows a willingness to find a common ground of cooperation, maybe as a consequence of a new diagnostic of the current global situation. No formal agreement has been signed yet, but since 2014 there has been a growing interest about the issue, especially supported by Chile under the presidency of Michelle Bachelet. It is desirable that the initiative that has been put in motion will not result into another political forum for a sine die postposition of crucial themes.

2.1. 2014-2017: years of gradual convergence

As just said above, the main architect of a possible convergence between the two blocs has been Chile, through the voice of its president Bachelet and Chancellor Heraldo Muñoz. The initiative was proposed at the Ninth Summit of the Pacific Alliance held in Punta Pita on June 20, 2014. The underlining idea was one of “convergence in diversity”, which means that even the President of Chile considers an eventual merger of the two organizations as a utopia. Indeed, they have marked differences and, in particular, the PA adopted a more flexible scheme since the beginning, refusing the formation of a common market that would have required a common external tariff, too. Still,

even if the point of arrival of the process won't be a fusion of the two blocs, Chile expressed its profound faith in the possibility of finding a common ground for cooperation and adopting agreements based on common interests and mutual benefits. Chile is obviously the country of the PA with stronger ties with Mercosur. Because of its geographical proximity, Argentina and Brazil are already crucial economic partners. Moreover, Chile already has a FTA with Mercosur and in 1996 it became the first Associate country of the organization. Now that political changes took place both at the national and international level, this will have repercussions on economic patterns and relations that led the other Presidents to embrace Bachelet's view. After the formal launch of the dialogue in Punta Mita, the PA reiterates its commitment at the X Summit of Paracas (July 2015), and Minister Heraldo Muñoz talked about an invisible wall dividing Atlantic and Pacific Latin American countries¹²². The first meeting at the ministerial level between the two blocs has been held in Buenos Aires at the sideline of the WEF for LA on April 7, 2017. Looking at the number of countries involved and the size of their economies, is probably the most important trade-related meeting in the region since the failure of the Free Trade Agreement of the Americas in 2005. Previously, after the proposal of convergence in diversity, the Argentinean President Cristina Kirchner and the Brazilian one, Dilma Rousseff, frustrated any attempt to go ahead with the process. With the change at the presidential level which occurred in both countries, now the economic policy of Mercosur is ready to be Pacific-aligned. If the process will reach some first results in the short-medium term it is also possible that it will survive an eventual change of leadership in Brazil: if cooperation increases, any decision of betrayal from part of Temer's successor will be unpopular but also extremely costly in political and economic terms. It is also interesting to notice that, this time, the initiative came from Argentina, signaling the profound change that occurred in the country and the shift towards the adoption of fully business-oriented policies. During the meeting, the two organizations agreed upon periodic meetings between the Common Market Group of the Mercosur and the PA's High Level Group. They also assigned an important role to technical bodies in order to advance in the discussion of six main points included in the roadmap toward integration. These six crucial issues are: the creation of RVCs, since it is worth remembering that intra-regional trade in LA accounts for less than 20% of total trade; promotion and support of SMEs; removal of non-tariff barriers to trade; increase and facilitate trade in services; the adoption of a single foreign trade window (VUCE- Ventanilla Unica de Comercio Exterior); custom cooperation and exchange of information between countries. In this latter field advancements will be communicated to the World Customs Organization. The meeting had a huge

¹²² Albertoni N., Kotschwar B., *Can the Pacific Alliance and MERCOSUR bridge the hemispheric divide?*, Latin America Goes Global, July 30, 2015

political impact, but also concrete economic consequences, such as an agreement on automotive trade between Argentina and Colombia. The ultimate outcome of the process is not expected to be a merger of the two blocs with the resulting formation of a new organization; still a gradual convergence of intents, objectives and policies will result in mutual benefits and into a new framework that may favor LA's economic growth. The periodic meetings between the CMG and the HLG and the joint work of technical bodies will not take place into a complete vacuum. Even if Chile was the first country to sign a FTA with Mercosur in 1996, all PA members currently have similar agreements with the Southern Cone's bloc. Moreover, while Chile, Colombia and Peru are all associate nations of Mercosur, Argentina was recently granted observer status to the PA, in June 2016. The inclusion of Argentina, which joined Uruguay and Paraguay as observer countries is, once more, a signal of political commitment from both sides. During the WEF on LA of past April, Argentinean Chancellor Susanna Malcorra said: "When tectonic plates move you have two possibilities: you are either squeezed between them, or your opportunities open up. We need to be fast on our feet to ensure we are not squeezed and seize the opportunities"¹²³. This was a clear referral to the current global panorama of political and economic uncertainty. And this is probably the shared rationale behind this new initiative, being all the countries involved conscious about the advantages and challenges of the present and immediate future.

2.1.1. Is convergence a win-win solution?

While the PA is on the way for its consolidation, Mercosur should undergo a profound metamorphosis in order to regain international and regional credibility. It recently celebrated a quarter century of existence, but it seems that without any major change it will exhaust its potential. According to Felix Peña Mercosur is an example of media diplomacy, characterized by "decisions that may have repercussions in the press the following day, but seldom achieve the legal standing required to produce real effects"¹²⁴. He also introduced the notion of disenchantment curve¹²⁵, a curse that has been characteristic of many processes of regional integration in LA, but especially of Mercosur. Indeed, this expression indicates the discrepancy between excessive triumphalism at the inception of a new project and the actual achieved results. The PA, in turn, it is still behind

¹²³ International Centre for Trade and Sustainable Development, *Mercosur and Pacific Alliance Members Push for Deeper Economic Ties*, Bridges, Vol. 21, n° 13, April 2017

¹²⁴ Peña F., *Reflections on the occasion of an anniversary: 25 years of mercosur and the options for its future evolution*, March 2017, available at: www.felixpena.com.ar

¹²⁵ Peña F., *Mercosur y Alianza del Pacífico: tareas pendientes*, in Foxley and Meller, *Alianza del Pacífico en el proceso de integración Latinoamericano*, CEPLAN, 2014

Mercosur in terms of intra-bloc integration, even if in both cases results are quite poor compared to other regional experiences. Moreover Mercosur, and especially Argentina and Brazil are important markets that already have trade relations with the PA. A convergence between the two blocs could also allow to better address certain common challenges. Finally, we should remember that both organizations together accounts for more than 80% of the whole population of Latin America and the Caribbean, and more than 90% of its the GDP. Cooperation between them could create a new dynamic pole in world economy. Mercosur had a bad performance in the past decade; still it overcomes the PA in terms of economic and demographic size; the PA, in turn, has a greater share of extra-regional trade, accounting for more than 50% in the LAC region¹²⁶.

2.2. What can Mercosur learn from the PA?

First of all, Mercosur should look at the PA as a true model of economic and trade openness. Trade openness in the PA duplicates the one of Mercosur, while the average tariff applied by Mercosur is approximately the double of the average in the PA¹²⁷. Moreover, in the previous chapter, the Ease of Doing Business Index has been introduced in order to show the degree in which the PA is more investor-friendly than the other bloc. It is now possible to compare the position of the 9 countries in both the previous index and the Global Competitiveness Index of the World Economic Forum. By looking at both indicators it is quite clear how PA's economies may result more attractive and dynamic from the outset. This is the result of the adoption of liberal and open policies and the avoidance of bad practices, an example that must be followed by countries in the Southern Cone to improve their performances and attract investments.

Countries	Ease of Doing Business Index ¹²⁸	Global Competitiveness Index ¹²⁹	Average Score
Mexico	47	51	49
Colombia	53	61	57
Peru	54	69	61,5
Chile	57	33	45

¹²⁶ Economic commission for Latin America and the Caribbean (CEPAL), *La Alianza del Pacífico y el Mercosur: hacia la convergencia en la diversidad*, November 2014

¹²⁷ Bartesaghi I., *El Mercosur y la Alianza del Pacífico: más diferencias que coincidencias?*, Mundo Asia Pacífico, vol.3, n°4, January-June 2014

¹²⁸ Ease of Doing Business Index, Benchmarked to June 2016, available at: <http://www.doingbusiness.org/rankings> last access [15/06/17]

¹²⁹ World Economic Forum, Global Competitiveness Report 2016-2017, available at: <https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1> last access [16/06/17]

Argentina	116	104	110
Brazil	123	55	89
Paraguay	106	117	111,5
Uruguay	90	73	81,5
Venezuela	130	187	158,5

Hence, Mercosur should work and implement policies in order to increase its competitiveness and make its economy more open and investor-friendly. Being well-positioned in the Doing Business Index is not a minor issues, since the indicator is obtained looking at areas that heavily affect the life of a business, such as dealing with construction permits, starting a business or getting credit. PA members are able to grant investors a more stable and transparent regulatory environment, reducing the weight of bureaucracy and speeding up the whole process. Furthermore, the initiative of creating the MILA as a joint stock exchange, granted financial stability to the region and also reduced transaction costs, making it easier for capitals to flow within the bloc. The WEF index is also considered as one of the more comprehensive indicators of national competitiveness. It looks at various sub-sectors of the national panorama, such as the quality of the education system, the transparency of government's policy making and the efficiency of the legal process. In the case of Brazil, tax rates, corruption and inefficient bureaucracy are the main adverse factors while Inflation, tax rates and access to financing are considered the main elements resting competitiveness to the Argentinean economy. Paraguay, being the weaker member of the bloc, is plagued by corruption, inadequate infrastructures and even inadequate educated workforce. The picture for Uruguay is a little bit more promising, even if the country has to address issues such as tax rates and bureaucratic inefficiency, too. The current position of Venezuela in the ranking is mainly influenced by its political instability and growing inflation. Finally, in order to give certainty to foreign operators, Mercosur needs to increase its credibility also at the political level. That means that integration must be seen as a fundamental and shared goal that must survive political changes, even if abrupt. Consensus is the decision-making mechanism in both the PA and Mercosur. The huge difference is that it worked in the PA precisely because there was a clear recognition of common interests and the willingness to pursue them. Mercosur has not been able to progress in the past decade because it was an hostage of national concerns and it was treated as an instrument of the national foreign policy, without a long term view of gains and consequences.

2.3. Existing relations between the two blocs: trade

Considering the relationship between the Mercosur and the PA only in conflictive terms is reductionist and wrong: it means to ignore the already profound ties that connect their member countries in multiple ways. The PA countries, in particular, currently trade more with Mercosur's members than with each other. These commercial networks are continuously growing, especially those involving Chile, Peru and Colombia, on one side, and Brazil and Argentina on the other. Previous agreements already allowed for a complete tariff reduction between Chile and Mercosur, an 88% reduction in the case of Peru, and a 90% one for Colombia¹³⁰. If the PA represents half of total LAC external trade, Mercosur members overcome the PA's record in terms of intra-bloc trade. Hence, there is a margin for mutual learning and in a framework of cooperation the two sub-regions could address their respective deficiencies as well as facing common challenges. The exchange of goods between Argentina and Brazil almost quadruplicates the amount of the exchange between Brazil and Mexico, the latter being the second most important commercial relationship in the region. Among the members of both blocs there are also several sector with a good potential for intra-industry trade: the main exception is Peru whose trade pattern is mainly inter-industrial, being the country a provider of various basic commodities such as copper, petroleum, silver and other minerals. In general, the nine countries are already part of a complex web of commercial ties. In some cases, one country's most important regional trading partner is not a member of the same integration scheme. These dynamics must be exploited in order to enhance both intra-industry trade and RVCs. For instance, looking at the Chilean destinations of exports, expressed as a percentage of the total, its first LAC commercial partner is Brazil, which accounts for 4,95% of its total exports. In the second and third position we find respectively Peru (2,53%) and Mexico (2,53)¹³¹. Brazil is also the main export destination in the LAC region for Colombia and Peru. This data demonstrates the importance for PA countries of obtaining access to the Brazilian market. Mexico is the sole exception, considering that, in 2016, 81%¹³² of its exports were directed to the U.S. As already said, this export pattern may undergo a serious change, especially in case of a NAFTA agreement's renegotiation. Aggregate data on trade relations are reported in the following table¹³³. The share of

¹³⁰ Peña F., *Regional integration in Latin America: the strategy of "convergence in diversity" and the relations between MERCOSUR and the Pacific Alliance*, Paper presented at the Seminar "A New Atlantic Community: The European Union, the US and Latin America", Jean Monnet Chair/European Union Center, University of Miami Miami, February 27, 2015

¹³¹ Source: UN Comtrade Database 2016, available at: <https://comtrade.un.org>

¹³² Source: ibidem

¹³³ Source: Own Elaboration from UN Comtrade Database 2016

trade between Mercosur and the PA on the one hand, and China and the U.S. on the other hand, sometimes more than doubles the bilateral trade relation between the two regional blocs. Obviously, the bilateral relations between Mexico and the United States, once again, heavily influences PA's exports and imports.

Mercosur Exports	Mercosur Imports	PA Exports	PA Imports
U.S. 12,5%	U.S. 16,4%	U.S. 65,3%	U.S. 39,9%
China 16,4%	China 18,8%	China 6,6%	China 19,02%
PA 6,45%	PA 5,9%	Mercosur 2,7%	Mercosur 3,8%

Both blocs should strengthen their respective commercial ties if they want to take advantage of intra-regional trade's benefits. Even if their joint strategy must be also oriented toward global insertion, trading regional is the sole catalyst that could lead to well-functioning RVCs and to an improvement of both regulatory convergence and infrastructural connections.

2.3.1. FDI and the role of Multilatinas

It is more difficult to have a comprehensive picture of the bilateral and multilateral flows of capitals, since countries such as Venezuela and Peru do not publish data about the source of the FDI they receive. Both intra-Mercosur and intra-AP investments are a small proportion of the FDI's total from abroad. Once again, Mercosur is more integrated than the AP in terms of investment flows; still Chile has increased its inversion both in Colombia and Peru. In spite of that, we can observe a "de facto" integration under the leadership of the so-called multilatinas. Indeed, in the last decade, many Latin American enterprises have grown and have undergone a process of internationalization. AP's multilatinas tend to have an investments' portfolio that is more diversified in terms of countries involved as receptors. Still, in general, LA enterprises also showed an increasing tendency to invest in the region and in neighboring countries. The term "de facto" integration means that integration itself has been the product of market forces, since the regional expansion of the multilatinas contributes to increasing capital flows but also to the creation of regional networks of providers and subcontractors and commercial linkages. LA enterprises involved in processes of internationalization mainly operate in sectors such as basic commodities (mining, steel industry), services (communications, aerial transportation) and goods of mass consumption. The main multilatinas are the Brazilian or Mexican ones, even if there is a growing presence of enterprises from Chile, Colombia and Argentina. One of the major LA multilatinas, the Brazilian Petrobras, is already active in all the member countries of the two blocs, with the

exception of Peru. Its process of internationalization started with investments in Colombia and then in Argentina. In the latter, Petrobras is a vertically integrated industry that carries out all the activities, from petroleum extraction to refinement and distribution. From their part, Chilean enterprises mainly directed their investments to Mercosur's members. The LATAM group (a company of mixed capitals, both from Chile and Brazil), currently ranks third in the Multilatinas Ranking, offering aerial transportation services almost in the whole region. In Mexico, the communication company América Móvil grown enormously thanks to an active strategy of acquisitions. Other dynamic actors are Mexichem and Cemex (respectively petrochemistry and cement) currently occupying the two first positions in the 2016 ranking. Hence, LA enterprises tended to invest in the region and even if, in the past decades, Mexican and Brazilian ones have dominated the process, now the whole panorama is much more diversified. Hence, it will be beneficial to take into consideration this de facto integration and design policies to exploit and expand the existing webs. Furthermore, SMEs should be included in these networks in order to create regional clusters and value chains.

3. PA-Mercosur: challenges that can be better addressed together

The perspective of a convergence between the Mercosur and the PA could improve the region's capability to face both internal and external challenges. A new strategy of global insertion requires strong diagnostic capabilities of the current economic and political environment. Following the shift towards protectionism and reshoring in the U.S. and the rise of similar parties in Europe, LA should focus on strengthening its ties with other regions of the world. China has already a huge presence in LA markets, in terms of demand of goods as well as a provider of FDI. Hence, linkages with China are currently an important factor for the future growth and stability of the region. It should be desirable for LA countries to adopt a common posture in negotiations with China and the ASEAN. On the Atlantic side, Peña¹³⁴ also underlines the perspective importance of Africa in the global economic theatre, also due to the huge amount of Chinese investments in the region. LA should fully exploit its geographical position to acquire new commercial partners and reinforcing ties with the existing ones. That does not imply to completely disregard relations with the global North, since such linkages are beneficial in strictly economic terms as well as regarding the possibility of know-how and technology's transfers. Still, countries in the region must diversify their export-import

¹³⁴ Peña F., *Mercosur y Alianza del Pacífico: tareas pendientes*, in Foxley and Meller, *Alianza del Pacífico en el proceso de integración Latinoamericano*, CEPLAN, 2014

portfolio, both in terms of products and partners. A common posture should be adopted also in forums and institutions, in order to increase the visibility and the weight of regional interests. In particular, Brazil, Mexico and Argentina should coordinate their positions in the G20 on themes ranging from protectionism and trade to environmental and sustainability standards. From a regional perspective any agenda of joint action must be designed around common and long-lasting interests. People mobility must be encouraged and supported with appropriate policies and programs. Some initiatives have been already launched in both blocs: the idea is to implement a common framework for tourists, students and workers mobility. Tourism is not a minor factor, since it contributes heavily to generate incomes and it introduces many forward and backward linkages among different economic sectors. Moreover, intra-regional tourism may help to strengthen a sense of common identity and belonging. Student mobility must be regarded as a priority, too. A common program of university and internship exchanges, similar to the European Erasmus, could be a first step. LA countries should also implement measures to ease the mobility of both businessmen and workers. The latter, could help to reduce the mismatch between supply and demand of skilled professionals that plagues many countries in the region, especially those in which the education system has been particularly weak. Such policies, together with increased investments in education, will significantly improve the quality of the region's human capital and, as a consequence, its productivity and innovation. Investments in the field of R&D must be increased, too. National records are quite poor; hence it is necessary to stimulate public-private trans-border partnerships, with the concrete involvement of local universities. Sustainability is another strategic challenge that could be better faced with joint policies and increased R&D efforts. It is a strategic issue since the region has an enormous potential for energy's production from renewable sources and it must also protect its spectacular biodiversity endowment. The following aspects are considered as the most sensible ones and, for that reason, are treated separately.

3.1. Trade-related aspects

A commercial agreement of regional scope should go well beyond conventional policies of tariffs' reduction. Complementary policies must also be implemented, with the ultimate goal of gradually removing frictions to trade and non-tariff barriers. Among the trade frontier policies' issues that can be included into a hypothetical agenda of cooperation between the Mercosur and the PA, we certainly have the adoption of a common framework for rules of origin (RoO). Similar objectives have been already reached within each singular bloc, but the adoption of a pan-regional regime for

RoO could sensibly increase the intra-regional movement of goods. Other issues, that in part have been identified as critical during the ministerial meeting of past April, includes: the digitalization of trade-related certificates; the inter-operability of the VUCEs; the exchange of information among customs authorities. In order to avoid further frictions to trade it is also necessary to gradually proceed towards the harmonization, or at least mutual recognition, of the respective sanitary and phytosanitary standards. Hence, cooperation must go well beyond tariffs' reduction, even if unilateral liberalization has also been identified as a dynamic factor in the Asian integration process¹³⁵. Furthermore, while PA's members are already part of an extensive web of bilateral and multilateral FTAs, Mercosur's ones should improve their performance in that field. Mercosur currently has FTAs only with Egypt, Lebanon, Israel and Palestine.

3.1.1. Infrastructures and connectivity

Another significant challenge for the whole region is represented by the elevated transportation and transaction costs. In part they are due to geographical barriers, but they are also the consequence of inefficient and insufficient infrastructures. In that field, LA shows a significant delay in comparison with other regions. Between 2010 and 2012, when regional economies were experiencing a significant growth, LA investments in infrastructures were around 3% of the GDP, while in Asia investments were around 6% (India) or even 9% (China)¹³⁶. The Logistic Performance Index (LPI) of the World Bank evaluates a country's performance in trade logistic in light of the following elements: infrastructure, customs, international shipment, logistic competence, tracking and tracing and timeliness. The table below¹³⁷ shows the PA and Mercosur countries' position in the ranking and their relative score in the infrastructural sub-field. It is worth saying that the infrastructural score is calculated looking at the quality of all trade and transport related infrastructures: not only railroads, ports and airports but also the quality of information technology. It is rated from 1 (very low quality) to 5 (very high quality).

Country	Position in the LPI	Infrastructures' score
Brazil	55	3.11
Mexico	54	2.89
Argentina	66	2.86

¹³⁵ International Monetary Fund Report n° 17/66, *Cluster Report- Trade Integration in Latin America and the Caribbean*, March 2017

¹³⁶ Malamud A., *Integración y cooperación regional en América Latina: diagnóstico y propuestas*, Real Instituto Elcano, 2015

¹³⁷ Source: Logistic Performance Index, available at: <http://lpi.worldbank.org>

Uruguay	65	2.79
Chile	46	2.77
Peru	69	2.62
Paraguay	101	2.45
Colombia	94	2.43
Venezuela	122	2.35

The logistic performance of the LA countries above is well below their export rivals, being the main deficiencies railways, shipping connectivity, port infrastructures and insufficient use of ICT.

Moreover, infrastructures are mainly financed through public capitals, differing with respect to private sector participation through greenfield investments in Asia¹³⁸. A policy focus on high-quality infrastructures could largely improve LA's export performance. It should start upgrading its infrastructures at least to the level of MENA (Middle East and Northern Africa), the next highest region. This policy, coupled with a greater effort for regulatory convergence and custom cooperation, will significantly develop LA performance in trade logistics. This, in turn, will have a positive effect on the creation of RVCs. Moving in this direction means to elaborate plans for the joint financing and management of infrastructures; gradually harmonize the normative corpus that regulates infrastructural development; stimulate the participation of private capitals in such projects; develop projects within the framework of the South American Council for Infrastructure and Planning (COSIPLAN). Indeed, the latter is a UNASUR's organ for the strategic planning of infrastructural integration in South America. Even if Mexico is excluded, all the remaining members of the PA are also part of the COSIPLAN; hence the Council could be used as a forum in which to advance new proposals with the possible cooperation of Mexico as an external actor.

3.1.2. Regional Value Chains

Production sharing in RVCs and economic integration are part of the same cycle. Indeed, the former "creates a demand for an integrated economic space so that cross-border production processes can function without friction"¹³⁹. Hence, stimulating all at once the formation of RVCs and regulatory convergence and eliminating frictions to trade will entail mutually reinforcing benefits. RVCs will also improve regional competitiveness and develop new capacities, allowing for products'

¹³⁸ International Monetary Fund Report n° 17/66, *Cluster Report- Trade Integration in Latin America and the Caribbean*, March 2017

¹³⁹ Machado Oliveira I.T., Carneiro F.L., Trade and production integration in South America: a Role for Brazil?, available at: <https://economic-policy-forum.org/wp-content/uploads/2016/02/Trade-and-Production-Integration-in-South-America.pdf>, p.9

diversification. The participation in Global Value Chains is also a factor of competitiveness and it responds to the increasing production's fragmentation that is taking place worldwide; still, it is difficult to imagine the full inclusion of LA countries in GVC if they do not foster RVCs in advance, with all the related positive spillovers in the field of infrastructures and productive capacity. In particular, diversifying the economy become more and more urgent after the end of the commodities' supercycle that benefited LA countries. Production-sharing is not a widespread phenomenon in the region. This is due to physical obstacles and also to the lack of a clear hub country (such as Germany in Europe or the U.S. in the NAFTA) that can work as a catalyst of the process. And yet, it is also the consequence of a lack of appropriate policies that can stimulate a development in that direction. "While enhancing trade with advanced economies may offer the greatest potential for Latin America and the Caribbean to benefit from knowledge and technology spillovers, regional integration may provide a grater opportunity to reap the growth benefits of trade given the current juncture"¹⁴⁰. Moreover, intra-industry trade that characterizes regional and global value chains also entails the producers' willingness to improve product quality. In turn, the quality and skill-intensity of a country's basket of exported good will also have positive growth spillovers. The Gruber&Lloyd Index (IGL) has already been introduced in the previous chapter as a measure of intra-industry trade¹⁴¹. Looking at intra-industry flows between the PA and Mercosur, only three relations have an IGL superior to the critical value of 0.33: trade between Argentina and Brazil; trade between Brazil and Mexico and between Colombia and Peru. And yet there are some relations with intra-industrial potential that should be further stimulated: Brazil-Colombia, Argentina-Chile, Brazil-Chile and Argentina-Mexico¹⁴². In the case of the bilateral relation Argentina-Brazil, intra-industry trade mainly involves vehicles and automotive spare parts. Automotive parts are also among the main goods traded between Brazil and Mexico, together with middle/high-technology goods. Boosting RVCs requires most of the aforementioned reform, focusing on physical interconnections, regulatory convergence but also stimulating the formation of highly-skilled human capital. Industrial policies must be coherent with the development of existing intra-industry flows (such as in the case of spare vehicles and auto-parts) but they also have to focus on other industries with these potential. Furthermore, it is worth remembering that regional integration in LA has normally been a top-down process: still, private interests must be involved in the process as much as possible. Indeed, they have been the main drivers of Asian integration. RVCs will also

¹⁴⁰ Beaton K., Cerra V., Hadzi-Vaskov M., Mowatt R., *Expanding Trade Opportunities in Latin America and the Caribbean*, Diálogo a Fondo, April 13 2017, available at: <http://blog-dialogoafondo.imf.org/>, p.2

¹⁴¹ Intra-industry relations are superior when the value is near to 1; An IGL value near to 0 indicates the absence or insignificance of intra-industry flows. The critical value, above which we can start to talk about intra-industry trade is 0,33.

¹⁴² Economic Commission for Latin America and the Caribbean (CEPAL), *Panorama Social de América Latina*, 2015

entail benefits for SMEs acting as providers and subcontractors. They can be encouraged to form part of RVCs through policies such as credit lines for technological spillovers, programs of capacity building and stimulating the formation of consortia or partnerships among them. Governments must also promote the formation of local clusters that allows for economies of scale and the formation of local expertise pools and specialized areas¹⁴³. The formation of clusters and the increased quality of the goods produced, also serve as an element to attract FDI. Hence, RVCs contributes to the dynamism and sophistication of the economy, entailing benefits for small, medium and big enterprises. Obviously, a change in the economic structure will end up leaving both winners and losers: appropriate social policies will mitigate the adverse effects of the process. Still, they will be lower than the benefits due to increased productivity, diversification and technological incorporation.

3.2. Latin American Regionalism: a Spaghetti Bowl effect

As explored in previous chapters, LA regionalism has been continuously plagued by frustrated attempts, mainly due to the fact that regionalism itself has often been seen by national leaders as an instrument of foreign policy related to particular objectives, rather than as a long-term project. The result has been the phenomenon of segmented and overlapping regionalism, with multiple agreements with no coordination among themselves, even when overlapping membership poses serious confusion due, in turn, to contrasting regulations. Even if the issue of LA regionalism is wider than the focus on a possible cooperation between the PA and Mercosur, it must be treated in order to understand which is the right path and which have historically been the factors that sanctioned the failure of similar projects in the region. As already said, taking the EU as the sole successful example of regional integration is quite reductionist. Still, it is interesting to notice how different agreements with different membership in the latter continent have been built following a concentric rather than an overlapping logic. This means that being member of the European Union is not incompatible with forming part of the Eurozone, because the overall structure has been conceived as a system of several circles that intersects partially. Thanks to this flexibility, integration has been able to proceed resulting into a political organization (the EU itself), a currency area (The Eurozone) and a free movement agreement (Schengen area)¹⁴⁴. Latin American one is not

¹⁴³ Organization for Economic Co-operation and Development, *Enhancing the Role of SMEs in Global Value Chains*, October 23, 2008, available at: <http://www.oecd.org/publications/enhancing-the-role-of-smes-in-global-value-chains-9789264051034-en.htm>

¹⁴⁴ Gardini G. L., Malamud A., *Has Regionalism Peaked? The Latin American Quagmire and its lessons*, The international Spectator: Italian Journal of International Affairs, n°47, pp.116-133, 2012.

a concentric regionalism but a decentralized one, resulting into a spaghetti bowl effect with multiple and divergent regional agreements. Hence, a country that is simultaneously member of two or more regional organization will face norms conflict and uncertainty, reducing the efficiency of the whole process. Even the recent creation of UNASUR, comprising all the South American countries, cannot be considered as a mean to unify the various sub-regional integration efforts. Indeed, UNASUR is mainly a forum for treating socio-political issues, without any focus on economic integration. The coexistence of these multiple integration schemes makes it impossible to adopt a common posture on issues that are really sensitive to the region. This proliferation of regional integration attempts, in other terms, did not comply with the great Bolivarian dream of a Latin American identity. Paradoxically, even if the region shares many cultural traits and, in the majority of cases, even a common language, there are still profound divergences regarding fundamental questions such as the economic model to be adopted, ranging from maximum openness in the PA and rejection of free trade in the Bolivarian Alliance for the People of our Americas (ALBA)¹⁴⁵. Relationship with the U.S. has always been another sensitive issue in the region and, once more, sub-regionals postures are sensibly different: more open in the case of the PA, mildly competitive in the case of Mercosur and based on ideological confrontation in the case of the aforementioned ALBA. “The presence of segmented and overlapping regionalist projects is not a manifestation of successful integration but, on the contrary, signals the exhaustion of its potential. (...) Regionalism understood as a comprehensive economic integration in a macro-region is losing ground to regionalism understood as a set of diverse cooperation projects in several sub regions”¹⁴⁶ (Malamud, 2012).

3.2.1. What to integrate?

Another question to be addressed is the role of leadership, together with the divide between Latin America as a whole and South America as a distinct region. Countries from the Southern cone often looked with suspicion at Mexico, which constitutes quite a peculiar case: geographically it forms part of Northern America but culturally it is comprised under the umbrella of Latin American countries. Furthermore, it traditionally had a privileged trade relationship with the U.S. and even today more than 80% of its exports are directed to this latter country. Brazil often used these

¹⁴⁵ This regional initiative has not been analyzed in detail since it has mainly been a political initiative under the impulse of the former Venezuelan President Hugo Chávez and an instrument of ideological reinvalidation.

¹⁴⁶ Gardini G. L., Malamud A., *Has Regionalism Peaked? The Latin American Quagmire and its lessons*, The international Spectator: Italian Journal of International Affairs, n°47, p.117, 2012.

arguments to claim its leadership in South America, especially after the signing of the NAFTA agreement by Mexico, Canada and the U.S. Indeed, the initiative of UNASUR was mainly pushed by Brazil as a forum comprising all the countries of the Southern Cone (which the country considers as its natural sphere of influence), with the significant exception of Mexico, Central America and the Caribbean. Still, as said above, current changes in the global environment may reverse this situation, since the new attitude of President Donald Trump towards Mexico may induce the latter to progressively shift its focus on other commercial partners, especially in South America. Moreover, political changes interested Brazil, too. President Temer took office in August 2016 after the impeachment of Dilma Rousseff. He has recently been accused of bribery and people in the streets are protesting for his resignation and calling for new elections as soon as possible. Still, his government is a centrist and pro-business one, sensibly different from the ideology of its predecessors that ended up closing the country and frustrating any fruitful intent at regional integration. For instance, Temer introduced severe limits to public spending and also wants to modify the country's too rigid labor code, claimed to deter hiring, and the ineffective education system.¹⁴⁷ His attitude may explain recent progresses in the bilateral relationship between the PA and Mercosur, also pushed by President Bachelet in Chile and President Macri in Argentina. Hence, even if its political leadership is now in crisis, it is desirable that this pro-business government's attitude will be maintained even in the future. PA and Mercosur members may obtain mutual benefits by increasing their cooperation and this obviously requires, among other preconditions, a more open approach of Brazil towards Mexico and vice versa. It is also worth remembering that the European experience teaches us that rivalry does not necessarily hinder integration: France and Germany managed to put economic integration first even after two World Wars. Of course a reconciliation between the two countries also requires the acknowledgment by both of them of the benefits deriving from an integration of wider scope. A shared Mexican-Brazilian leadership may have the same role of the Franco-German axis in the European case. The creation of the PA added a further dichotomy: not only the Latin America versus South America divide, but also an opposition between Pacific Latin America and Atlantic Latin America, the former supportive of a more open, inclusive and liberal economic paradigm than the latter.

¹⁴⁷ Financial Times, *Temer stays tough on Brazil economic reforms*, February 2, 2017

3.3. Limits to Latin American regionalism

What is surprising about regionalism in Latin America is that the lesson of previous frustrated attempts seems not to have been fully assimilated. Regional bloc and schemes proliferated in the past years, without a serious analysis of their point of strength and weakness. When a project seems to be exhausted it is either abandoned or new initiatives are launched without any serious commitment to solve the real problems of the project itself. Rhetoric tends to overcome practice and in time of crisis the tendency is to adopt individual answers rather than joint solutions. The limits to LA are both in the realm of politics and economy. They must all be addressed in order to overcome this stalemate and turn into reality the potential of the region as a whole. In particular, these are the points on which any agreement between the PA and Mercosur should focus. The two blocs should both learn from the history of LA integration in order to turn their cooperation into something fruitful and attractive for other regional partners. In this way, they could be the first stepping stones of an increasing integrated and convergent region.

3.3.1. The realm of politics

This issue of Presidentialism has been already analyzed in relation to the development of Mercosur, but in fact it is a characteristic of the great majority of LA integration schemes. The PA currently seems to be immune from this phenomena; still, it must be considered that it is relatively young and widening the scope or membership of the organization may led to similar outcomes in the future. Presidential diplomacy had as its main result the primacy of rhetoric over concrete regulations and institutions. Many sub-regional organizations have been launched as an element of the particular foreign policy of a single president. The case of ALBA, profoundly ideological, has already been mentioned. Similarly, UNASUR has been mainly a Brazilian initiative to increase the standing of South America as a region in its own right (with the exclusion of Mexico). Moreover, the latter is mainly focused on the construction of a unitary identity for South America, to be used as an asset in international relations. This approach will frustrate the potential of a bloc finally comprising all the countries of the Southern Cone: real integration is not the product of identity politics but of the focus on convergent interests. Furthermore, a process of integration usually starts with increased economic interdependency, eventually and gradually moving to the political realm. In spite of that, the founding treaty of UNASUR does not even identify trade and economic integration among its main objectives. The first and more important aim of the organization is the strengthening of

political dialogue among member states¹⁴⁸; trade and finance-related issues are barely mentioned. But even if political leadership is behind any regional initiative, the politicization of the latter is not fruitful at all. The lack of auto-criticism is also characteristic of the local political class. In some cases the scarce achievements of LA integration have been justified in light of the “novelty” of the process, apparently forgetting that it is almost as ancient as the European one (integration was first launched in the 60s); sometimes the lack of concrete results has been justified as a consequence of an external enemy’s interference, especially the U.S. This lack of criticism also entails the lack of serious discussion regarding the internal and structural deficiencies of LA regional schemes¹⁴⁹. Moreover, enlargements have been often treated as means to build up new political ties, regardless of the economic sphere. For instance, Venezuela has been finally admitted to Mercosur without having complied with all its trade and economic regulatory corp. Again, the comparison with the EU is almost natural, since any enlargement has been always subordinated to the respect of the convergence criteria. In this framework the PA can be considered, once more, as an element of novelty in the regional panorama, since it reintroduced a focus on trade and economy as the main integration’s objective. It is also an important challenge to the opposition between South and Latin America, since it is formed by three South American countries together with a North American one, Mexico. Moreover, Costa Rica and Panama that are the more probable future members are located in the further sub-region of Central America.

3.3.2. The economic realm

Political leadership and a convergence of goals are probably the precondition for any process of regional integration, but the core lies in the economic field. The current tendency towards protectionism and reshoring, especially in the U.S., has been mentioned above. Both the U.S. and the EU have been traditional economic partners of LA countries. Also China has gained more and more weight in terms of commercial and FDI relations with the region, in many cases surpassing the U.S. and the EU themselves. Basic commodities still dominate the region’s export directed to China; hence this relationship may contribute to a further primarization of Latin American economy. A production’s diversification will not only help to reduce the adverse effect of the volatility of commodities’ prices. An exclusive focus on such products reduces competitiveness, creates fewer jobs and determines scarce backward and forward linkages with other economic

¹⁴⁸ South American Union of Nations (UNASUR) Constitutive Treaty, art.3

¹⁴⁹ Malamud A., *Integración y cooperación regional en América Latina: diagnóstico y propuestas*, Real Instituto Elcano, 2015

sectors. Hence, diversify the production must be one of the main objectives pursued by LA in the current environment, as well as finding new commercial partners especially in South East Asia. Apart from a strategy of global insertion, the region should also pursue a strategy of increased intra-regional connections and economic ties. Especially in the field of trade, regional integration may contribute to diversify the production, benefit SMEs and support the development of RVCs that may be the basis for a future insertion in broader GVCs. Currently intra-regional trade has been only a small portion of the overall trade of both the PA and Mercosur: The total amount for Latin America and the Caribbean as a whole is inferior to 20%; a disappointing result compared to the average 69% in the EU and 55% in Asian integration schemes¹⁵⁰. The scarce intra-regional integration is not only due to a deficiency in the policy realm: first of all, LA countries are not natural trading partners. Moreover, their export patterns (especially in South America) are dominated by primary commodities, in turn stimulated by the great transoceanic demand, especially from China. Still, the adoption of certain policies may help reverse this situation and stimulate intra-regional integration. These must be policies adopted with a shared willingness to increase intra-industry trade in the region and, gradually, the formation of RVCs. In addition, each country must make efforts in order to increase its internal macroeconomic stability and avoid the adoption of unilateral measures in times of crisis. LA integration, using the words of Tinbergen, has usually been a form of “negative integration”, focused on the reduction of tariffs, rather than a “positive” one aimed at adopting shared policies and a common regulatory framework. Even in the field of the “negative integration” process, the outcome has not been fully satisfactory, since non-tariffs barriers remains on the sidelines, especially in the case of Mercosur¹⁵¹. Furthermore, the Spaghetti Bowl effect also has its economic consequences, reducing certainty for entrepreneurs and producers regarding the rules of origin or custom duties to be applied. LA countries must also increase their capacity to innovate by investing more in activities of R&D. According to an analysis of the Economic Commission for Latin America and the Caribbean, LA countries traditionally spend in R&D even less than countries from sub-Saharan Africa¹⁵². Certainly, the most serious deficiency in the region is the lack of proper infrastructure in general, and the lack of infrastructural and logistical interconnections in particular. All the aforementioned issues are pertinent for the purpose of this work, since they could be more efficiently addressed through a joint action (involving both Mercosur and the PA) than individually.

¹⁵⁰ The Rio Times, *Accord between Mercosur and Pacific Alliance is closer*, April 10, 2017

¹⁵¹ Bonilla A., Ortiz M.S., *Balances y Perspectivas de las relaciones entre la Union Europea y América Latina y el Caribe*, FLACSO, 2012, p.145

¹⁵² Economic Commission for Latin America and the Caribbean (CEPAL), *La Alianza del Pacífico y el Mercosur: hacia la convergencia en la diversidad*, November 2014, p.37

3.4. Regional economic strengths

A valuable asset of the LA region is its internal market. From 2002 to 2013, poverty has been reduced from 43,9% to 27,9% even if it showed an upward variation in 2014 reaching the value of 28,2%¹⁵³. The reduction of poverty has been the result of general economic growth coupled with increased income per-capita as well as an increased public social expense and redistributive policies. The expansion of the middle-income sector of the population obviously entails greater opportunities to exploit a wider regional consumer market. LA is also extremely rich in natural strategic resources especially in the field of mining, being Chile the first world producer of copper, while Mexico and Brazil are respectively the first global silver's producer and the third iron's producer. Even if it has been said that LA must diversify its production, this does not mean to completely disregard the primary sector. In particular, there are great opportunities related to the expansion of the agribusiness and the possible strategic role that the region could develop in the field of food security. According to a study realized by the Food and Agricultural Organization (FAO)¹⁵⁴, world population in 2050 will reach the peak of 9.500 millions of people. In order to feed such an amount of population, it will be necessary to increase food production by 70%. This could be an historical opportunity for LA countries, since they already are leaders in the production of soybeans, meat, cereals and milk. Moreover LA accounts for 15% of world arable land and one-third of global fresh water's reserves. That could be a first sector in which to impulse RVCs, focusing on the export of products with an increased value added and trying to connects different activities such as extraction, cultivation, processing and even marketing and sales. The long-term outcome could be the development of a modern and dynamical agribusiness sector, characterized by multiple backward and forward linkages in the economy. Biodiversity is another valuable asset, considering that six LA countries are considered as megadiverse ones: Brazil, Colombia, Mexico, Peru, Venezuela and Ecuador. LA is also the second region of the world, right after the Middle East, in terms of proven oil reserves, even if mainly concentrated in Venezuela. Together with oil extraction, the region should focus on R&D investments in the field of renewable energies, being its resources and geography perfectly compatible with such a development. Finally, according to an IMF report¹⁵⁵, growth in the Latin America and Caribbean (LAC) region in 2016 was among the

¹⁵³ Economic Commission for Latin America and the Caribbean (CEPAL), *Panorama Social de América Latina*, 2015

¹⁵⁴ Food and Agriculture Organization, *World Agriculture towards 2030/2050*, 2012 review

¹⁵⁵ International Monetary Fund News, *Latin America and the Caribbean: Bouncing Back from Recession*, May 19, 2017

lowest in 30 years. Still forecasts are positives, and LAC countries are expected to grow by an average 1.1% this year and 2% in 2018. The main exceptions are Venezuela and Mexico. The former will continue to be plagued by deep recession and hyperinflation, due to an expected continuity in the current economic policy. The latter will see its rate of growth decelerating, mainly due to uncertainty in its future commercial and financial relations with the U.S. The table¹⁵⁶ above shows the GDP's rate of growth (percentage change) for the nine countries forming the PA and the Mercosur. Apart from data of the past two years, the table also includes forecasts of the IMF about 2017 and 2018.

GDP Growth	2015	2016	2017	2018
Mexico	2.6	2.3	1.7	2.0
Colombia	3.1	2.0	2.3	3.0
Chile	2.3	1.6	1.7	2.3
Peru	3.3	3.9	3.5	3.7
Argentina	2.6	-2.3	2.2	2.3
Brazil	-3.8	-3.6	0.2	1.7
Venezuela	-6.2	-18.0	-7.4	-4.1
Uruguay	1.0	1.4	1.6	2.6
Paraguay	3.0	4.1	3.3	3.7

4. Conclusion

It seems that changes in the international environment, as well as a political shift in Brazil and Argentina towards more open and business-friendly policies could finally led the PA and Mercosur on a convergent path. The ministerial meeting of April 2017 already implied the drafting of a cooperation roadmap: now we must hope that the process will not end up being a mere rhetorical exercise, as past experiments of regional integration. As pointed out by the Chilean Chancellor Muñoz, convergence does not imply a merger of the previously existing organizations. Rather it must be based on the identification of common interests and mutual similarities. If the convergence will proceed and prove to be beneficial, it will possibly produce a carry-over effect on other LA countries outside the two blocs. Bolivia already asked for membership in the Mercosur, while Ecuador is part of the Andean Community that (even if quite exhausted) links the latter with Colombia and Peru. Caribbean economies may be also attracted by a perspective agreement of regional scope. Indeed, they are already open economies and this is especially true in the case of small or insular countries, because of their reliance on trade. A real cooperation between the PA and

¹⁵⁶ Source: IMF Global Economic Outlook Update, January 2017, available at: www.imf.org

Mercosur, with all the subsequent possible developments, may finally put an end to the Latin America/South America divide. It may confer to the region a new dynamism, making it an active and growing economic pool. The convergence agenda must focus on a multi-level cooperation. And yet, some challenges are more urgent than others, especially infrastructural quality, diversification and the formation of RVCs. The process must go beyond traditional tariffs reduction, aiming at regulatory convergence and the elimination of non-tariffs barriers. Moreover, the countries involved must look at their past as a resource and a valuable asset: if LA regionalism has been continuously plagued by a recurrent set of problems, such as overlapping regionalism, presidential diplomacy and lack of internal cohesion, they must specifically focus on these obstacles and work together to overcome them. In particular, the following chapter will deal with the possibility of Argentina being the leader of a PA-Mercosur convergence. The section will also focus on internal factors that the country should address in order to fully present itself as a regional leader. Indeed, despite being the third regional economy, Argentina shows internal contradiction that have to be addressed in order to strengthen its economy and its attractiveness in this field. Moreover, the country should simultaneously work at the diplomatic level in order to diffuse a positive perception of its potential leadership.

V: Argentina: a potential regional leader?

1. Introduction

The present chapter will deal with the possible role of Argentina as a bridge between Mercosur and the PA and, in a wider sense, as a new regional leader. Indeed, even if the possibility of convergence between the two blocs was first envisaged by the Chilean Michelle Bachelet, Argentina has both economic and political assets that make it the ideal candidate. Indeed, it is the third economy in the region, right after Mexico and Brazil, and the current administration is exploiting its diplomatic skills in order to strengthen its ties with multiple regional partners. Hence, the paragraphs that strictly deal with its recent political and economic history are preparatory in order to understand how the country's image is gradually changing and improving at the regional and international level. They also serve the purpose of evaluating its portfolio of capacities, both in terms of economic assets and soft power. The concept of soft power is close to the liberal tradition, since it is considered in opposition with the classical notion of hard power, defined as the use of military or economic coercion in order to get others to change their position¹⁵⁷. Soft power is, indeed, aimed at international cooperation. Joseph Nye defined it as the ability "to get others to want the outcomes that you want"¹⁵⁸. In other terms, it is a form of power based on suasion, attractive ideas and the ability to set the political agenda. Furthermore, soft power will also greatly depend on one country's perception and reputation. If it wants to be recognized as a regional power pole, Argentina must improve its portfolio of economic capacities but also smartly exploit its diplomatic skills and promote an effective activity of nation-branding. It must propose itself as an agenda setter and agent of change. Argentina could be the ideal bridge between the PA and Mercosur in a broader sense, but especially between Brazil and Mexico. Indeed, the latter are the main economies in the region and they will never accept any proposal under the leadership of their counterpart, being linked by a history of long-lasting rivalry. Argentina is a more "neutral" player and, at the same time, it is valued as a strategic partner by both countries. Brazil already has profound ties with its neighboring country but it is also probable that Mexico will strengthen its relationship with Argentina in order to diversify its foreign relations and open a sustained dialogue with Mercosur's countries. If Brazil is excluded as the main Mexican interlocutor for the reasons outlined above, Venezuela is not feasible either, since it is currently suspended from the bloc. Uruguay and Paraguay historically tried to support a more open economic paradigm from within

¹⁵⁷ Nye J., *Soft Power: The Means to Success in World Politics*, New York Public Affairs, 2004, p.5

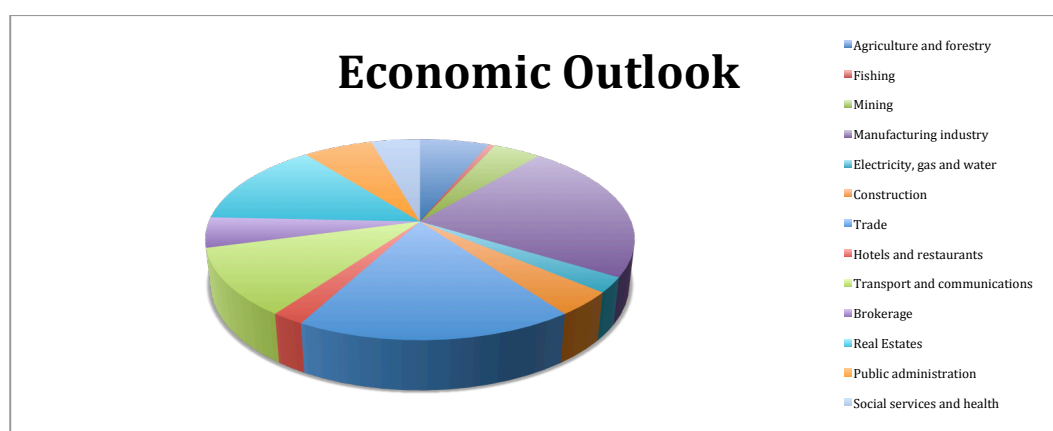
¹⁵⁸ Ibidem.

Mercosur. Still, their relative demographic and economic size hinder their possibility of being considered by Mexico as strategic partners. Argentina had a poor economic performance in the past decades, even if the overall picture is gradually changing. In particular, Néstor and Cristina Kirchner maintained the presidency of the country from 2003 to 2015. Their governments have been characterized by ideological confrontation and the adoption of protectionist measures that even provoked sanctions from the World Trade Organization. Kirchners' policies obviously benefited certain sectors of the population but they also ended up damaging Argentinean consumers, unable to access certain products and services, and local producers too. The latter had to face a lack of access to imported intermediate and capital goods, a lack of credit lines and an asphyxiating taxation system. During Kirchnerism, Argentina acted as spoiler in the international arena, turning itself into an unreliable member of the global community, both in economic and political terms. The government interfered in the internal working of national institutions such as the National Statistic Institute and the Central Bank. The result was decreased productivity, soaring inflation and the exclusion of Argentina from international capital markets. The actual government of Mauricio Macri showed a serious willingness to integrate Argentina in the global political and economic community. Independently from his political orientation, he seems to be following a strategic program for the country's development according to the current regional and international scenario. Economic openness is mandatory for a country like Argentina, which needs both local investors and substantial capital flows from abroad. FDI will also entail new jobs and transfers of technology, know-how and management techniques. Still, the low degree of productivity of the Argentinean economy cannot be solely attributed to certain decisions adopted during the Kirchner administrations. This would be too simplistic. Indeed, it is also the result of the implementation, in the XX century, of import-substitution strategies. In theory, ISI policies were aimed at protecting local industries in order to allow their growth and development; in practice, they ended up consolidating unproductive and obsolete industries. In contrast with some of the policies adopted in the previous years, Argentina seems currently willing to adopt a more open approach, both in diplomatic and trade-related terms. Historically, "global economy's integration has been possible thanks to political leadership (...). These leaders did not uphold any particular ideology – among them we find conservatives, like Thatcher and Reagan, but also socialists, like Jaques Delors, main drive of the European Union, and a communist leader like Deng Xiaoping – but they had a vision of their countries' future."¹⁵⁹

¹⁵⁹ De Santibañes F., *La Argentina y el Mundo: Claves Para Una Integración Exitosa*, Buenos Aires, EDICON, 2016, p.35

1.1. Argentina's socio-economic outlook

Argentina has a population of 43.420.000 people, 2.974.047 of them living in its capital city¹⁶⁰. It is a federal republic formed by 23 Provinces plus the Autonomous City of Buenos Aires. The country, 21st economy of the world, registered a GDP's variation rate of -2.3 in 2016. And yet the IMF estimates a GDP's growth rate of 2.2 in 2017¹⁶¹. In 2016, inflation reached 40,3% according to the price index elaborated by the National Congress. 32,2% of the population lives in poverty and illegal work reached 33,8% in the third semester of 2016¹⁶². The graph below¹⁶³ shows the main economic sectors, amounting to 76,28% of national GDP.



The main imported products in 2016 have been capital goods (22,3%); intermediate goods (27,6%); fuels and lubricants (6%); parts and accessories for capital goods (21,5%); consumer goods (14,8%); vehicles (7,8%). As for exported goods we find primary products (25,3%); agriculture and livestock goods (43,1%); manufactured goods (26,7%); fuels and energy (4,8%)¹⁶⁴.

2. The Kirchner Administration

Néstor Kirchner and Cristina Fernández de Kirchner guided Argentina for more than twelve years in a row. In order to explain how they achieved such an excellent result, it is worth mentioning two reasons. First of all, their political movement was founded in 2003 with a peronist background.

¹⁶⁰ Source: INDEC Instituto Nacional de Estadística Y Censos (www.indec.gov.ar)

¹⁶¹ Source: International Monetary Fund (<http://www.imf.org/en/Data>)

¹⁶² Source: Encuesta Permanente de Hogares, available at: <http://www.indec.gob.ar/bases-de-datos.asp>

¹⁶³ Instituto Nacional de Estadística y Censos, INDEC Informa, Year 22, n°2, February 2017

¹⁶⁴ Instituto Nacional de Estadística y Censos (INDEC), Informes Técnicos: Intercambio Comercial Argentino (ICA), vol. 1, n° 26, January 2017

Indeed, both of them started their political career in the 70s as militants in the Peronist Youth (*Juventud Peronista*- JP), a radicalized and left-wing group. Juan Domingo Perón has not simply been one of the Argentinean president: it is probably the most dominant figure in the country's political history and it is almost impossible to define how influential he was in a few lines. He became president in 1946 and he was re-elected in 1951. Still he was forced to renounce and go on exile in 1955, after a coup d'état on September 19. When in exile, his political message has been interpreted by different political group as coherent with their own vision. Indeed, he has been a contradictory figure. On the one hand he showed a left-wing orientation, being the first president to deal with workers' rights and establishing strong ties with the popular sectors of the Argentinean society, also thanks to the figure of his wife Evita Perón. On the other hand, his message was also filled with nationalism and he established a strong cooperation with the Church, at least during his first presidency. Moreover, his policies also took inspiration for the experience of Benito Mussolini in Italy, and Perón himself defined his movement as a third way between capitalism and communism. During his absence, the figure of Perón has been wrapped into a mythical aura and has been used as the flag of movements of even opposite political orientation. When he came back from the exile he was re-elected in October 1973 but when he died, on July 1st 1974, his wife and vice-president Isabelita took office and started to persecute the left-wing peronist groups, especially the *Montoneros*. The government was supported by a right-wing paramilitary group known as Triple A (Argentinean Anti-Communist Alliance) that became an instrument of the following years of military dictatorship and civil war. And yet, the age of Perón had not come to an end, but it was rather reinforced during the years of secrecy and the dictatorship that lasted from 1976 until 1983. With the return of democracy, Argentinean Presidents started a difficult process of normalization of the country's political life. In the subsequent years the two main political forces were the centrist Civic Union on one side, and all the movements of Peronist orientation on the other. Kirchners' ideology openly declares its ties with peronism, hence they found a consistent portion of the electorate that was sensible to their message. Moreover, the election of 2003 that finally saw the victory of Néstor Kirchner, has been an atypical one. Indeed, the Civic Union was profoundly weakened due to the country's 2001 crisis that was mainly caused by the economic policies adopted by Fernando de La Rúa, who took office in December 1999 and renounced almost exactly two years later. Furthermore, at the election of April 2003, two candidates participated in the second electoral round: Carlos Menem and Néstor Kirchner, both from the Justicialist Party. Carlos Menem retired his candidature and hence Kirchner was automatically elected as president. Kirchnerism, in the field of economic policies, is based on the refusal of neoliberalism and FTAs and the support for national industrialization. Néstor Kirchner openly opposed the liberal policies endorsed by former

U.S. President George W. Bush in Mar del Plata (2005). This posture also consolidated the divide between LA countries bordering the Pacific Rim and supporting neoliberalism and the more conservative bloc of Mercosur. In international relations, the Kirchners tried to consolidate ties with countries such as Venezuela, Russia and China while opposing to the global North. Under their administration, negotiations between Mercosur and the EU repeatedly failed and, more recently, Cristina also opposed any proposal of cooperation with the Pacific Alliance. She has already been taken to trial twice: in May 2016, accused of having manipulated the National Central Bank to reinforce the peso; in December 2016 with the charge of corruption and illicit association in connection with public works funds. Prosecution focused on 52 public projects in the Province of Santa Cruz, where Néstor Kirchner governed during more than ten years before becoming President. Cristina didn't hesitate to define the trials as an example of political prosecution designed by her successor Mauricio Macri. In March 2015, she was even accused by the U.S. Trade Department of supporting the illegal market of *La Salada*, located in the periphery of Buenos Aires, in the district of Lomas de Zamora. The U.S. trade authorities have blacklisted the market as the biggest illicit market in Latin America, selling pirated products (mainly clothes). In particular, controversies soared when some leaders of *La Salada* market were included into the presidential delegation travelling to Angola for a trade mission in May 2012. The following sections will deal with some of the most controversial policies adopted by Cristina Kirchner during her two-terms presidency. It is worth noticing that in spite of her legal problems 36% of the population still supports her¹⁶⁵. This shows that Kirchnerist policies effectively benefited certain social sectors. Their focus on human rights was particularly praised. Right after his election, Nestor Kirchner proposed the annulment of the so-called “laws of forgiveness” which granted immunity to many actors of the past military dictatorship. The Supreme Court approved and supported such a measure and this paved the way for several trials that had remained suspended for more than 20 years. Moreover, the Kirchners were also pioneers in terms of minority rights: they converted Argentina into the first Latin American country allowing for same sex marriages. They also worked to curb unemployment (especially by increasing employment in the public sector), increase the minimum salary and expand the country's social security. They converted Argentina into the Latin American country with the highest social coverage (94,3%)¹⁶⁶. Hence, the present chapter is not aimed at advancing an overall critic of Kirchnerism itself. It simply assess that its main deficiency was a lack of diagnostic capability of the country's economic pattern. If consistent sectors of the society were benefited during their presidencies, the Argentinean economy as a whole was damaged by high

¹⁶⁵ The New York Times España, *Cristina Fernández de Kirchner vuelve a ser procesada por cargos de corrupción*, December 28, 2016

¹⁶⁶ BBC Mundo, *10 cosas que cambiaron en 10 años de kirchnerismo en Argentina*, May 23, 2013

inflation and protectionism. Indeed, the country needs macroeconomic stability and openness in order to grow and fully exploit its potential. Protectionism, in particular, is not the best option for a country with a strong and export-oriented primary sector. Moreover, national SMEs also need intermediate and capital goods imported from abroad, otherwise their growth will be limited. Supporting local SMEs is also a way to create jobs and decrease unemployment, even without expanding the public sector.

2.1. DJAI and the WTO

Protectionism is part of the Kirchnerist ideology. During these administrations Argentina didn't fully exploit the historical opportunity linked by the supercycle of basic commodities and the increased FDI flows towards emerging economies. Protectionism turned Mercosur into a close and politicized body under the leadership of both Argentina and Brazil, completely disregarding smaller members' postures. And yet, Argentina was even sanctioned by the WTO in January 2015 because of the so-called *Declaraciones Juradas Anticipadas de Importaciones* (DJAI). DJAI had been introduced with the RG AFIP 3252 and published in the Official Bulletin on the 10th of January 2012, hence during the second presidency of Cristina. In practice, importers were obliged to fill a detailed form for all the goods they wanted to import in Argentina. Moreover, the interesting point was that there was no specific deadline for the approval of these forms. Hence, Argentina was further sanctioned because of the delay in granting non-automatic import licenses since, in some cases, these forms remained suspended for months. The logic behind the approval of certain licenses and the refusal of others was not clear, being completely arbitrary from the outset. The Kirchner Administration defended the measure as a mere bureaucratic formality. Still, it resulted into lower productivity and it especially damaged SME's because of the insufficient availability of capital goods and key intermediate inputs. The WTO sanction was the consequence of a joint action under the leadership of the U.S. the EU and Japan, since the claimants were suffering economic damages due to the introduction of this unmasked trade barrier considered to be in violation of WTO rules. In particular the measure was deemed to violate Articles III:4, X:1, X:2, X:3(a) and XI:1 of the GATT 1994; Article 2 of the TRIMs Agreement; and eleven more articles of the Agreement on Import Licensing Procedures¹⁶⁷. The petition has been obviously supported by the Argentinean Export Chamber (CERA) as well as by the Import Chamber (CIRA). Still, DJAI were finally eliminated almost one year later, in the immediacy of Macri's election. The presidencies of

¹⁶⁷ Source: World Trade Organization Disputes
(https://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm)

both Néstor and Cristina Kirchner have been characterized by protectionist policies and above all the use of non-tariff barrier to trade that also affected intra-Mercosur ties and its action as a bloc on the global arena. As a result, only certain economic sectors have been protected and stimulated and the Argentineans have become used to travel to Chile in order to buy cheaper clothes and technology. Moreover, Argentinean exports have been the ones with the lowest growth in South America between 2003 and 2013. In 2014 they have been the ones that fell the most in LA as a whole¹⁶⁸. Kirchner Administrations built a strong relationship between the government and certain industrial sectors characterized by strong interest groups. They were highly protected and supported through the imposition of trading barriers (as the aforementioned DJAI), subsidies and special regimes. All these policies have been financed thanks to taxes imposed to agricultural products' exporters (especially soybeans). Hence, such policies ended up damaging the primary sector and, in some cases, supporting inefficient industries.

2.2. Institutions and public expenditure

Samuel Huntington defined institutions as “stable, valued, recurring patterns of behavior”¹⁶⁹ that ease collective action and create incentives for individual conduct. Among their main and necessary attributes he individuated complexity, adaptability, autonomy and coherence. Institutional autonomy is also functional to economic growth. For instance, in the absence of an autonomous judicial power and if property rights are not fully respected it is difficult to stimulate both local and foreign investments. The Public Administration must be efficient and must avoid asphyxiating economic initiatives with useless bureaucratic procedures. The National Congress and the National Central Bank must also act as balancers of the executive power, in order to avoid arbitrary decisions and bad practices. Finally, statistical and auditing institutes must be transparent and try to give a comprehensive picture of the economy, in order to guide the decisions of confident investors. In some cases, and especially during the two-terms presidency of Cristina Kirchner, institutions have not been able to play their role in the mechanism of internal checks and balances.

¹⁶⁸ El Cronista Comercial, *Las exportaciones argentinas fueron las que más cayeron en América Latina*, March 9, 2015

¹⁶⁹ Huntington S., *Political Order in Changing Societies*, New Haven, Yale University Press, 2006

2.2.1. The National Statistic Institute

Since 2007, the Argentinean Government started to manipulate data on inflation, in order to reduce its payments to creditors. Graciela Bevacqua, director of the Department of Consumer Prices in the Argentinean Statistic Institute (*Instituto Nacional de Estadística y Censos-INDEC*) was removed from her charge and substituted with Beatriz Paglieri (right-hand of the then Trade Secretary Guillermo Moreno)¹⁷⁰. Government's interferences in the INDEC became a symbol of the institutional degradation under the Kirchners. They also served the purpose of hiding the real inflation rate just before the election of Cristina, after 4 years of her husband's presidency. The inflation rate was not the sole manipulated data. Gradually the INDEC started to diffuse information that could serve the government's purposes, for instance, reducing the poverty rate published in the Permanent Household Survey (*Encuesta Permanente de Hogares- EPH*). Mistrust became more and more widespread: institutions could not rely on INDEC's data to plan public policies and privates lacked access to fundamental resources to interpret their own reality. All this led the newspaper "*La Nación*" to define the INDEC as "*la Máquina de la Mentira*" (the Lying Machine)¹⁷¹. Argentina was even sanctioned by the IMF in 2013, due to the poor quality of its statistical data. The IMF board adopted a motion of censure because of an infringement of article 8 of the Fund Regulations, dealing with the members' general obligations such as furnishing accurate and reliable national data. The sanction itself was a preliminary step with no immediate effect. Still, it could have been followed by blocking the country's access to IMF loans. It resulted into a significant decrease of Argentinean credibility and the retirement of many investments. Currently, the INDEC regained its lost credibility, also thanks to the arrival of a new director in December 2015, Jorge Todesca. This marked the official launch of an operation of statistics' normalization. Indeed, a IMF technical delegation visited Argentina at the end of June 2016 in order to evaluate the current quality of its statistic data, especially the Consumer Price Index (CPI) and the GDP. The technical mission declared to be "impressed by the authorities' strong commitment to improving the quality and transparency regarding official data"¹⁷².

¹⁷⁰ La Nación, *El Indec, la máquina de la mentira: Crónica de la destrucción de las estadísticas públicas durante el kirchnerismo*, available at: <http://casos.lanacion.com.ar/indec-la-maquina-de-la-mentira>

¹⁷¹ Ibidem

¹⁷² Source: IMF Press Release 16/315, available at: <https://www.imf.org/en/News/Articles/2016/07/05/19/51/PR16315-Arentina-Statement-by-an-IMF-Technical-Mission>

2.2.2. Public expenditure: increased money supply and taxes

During the Kirchner Administration, even the Congress and the National Central Bank failed in their role of balancing the executive power. Indeed, between 2006 and 2013, Argentinean public expenditure increased from 31% to 46% of the GDP¹⁷³. Government's expenditure was financed through rising money supply and taxes. National Central Banks must be autonomous from the executive power in order to implement a truly beneficial monetary policy, not strictly dictated by political concerns. Of course, the national Congress and Government must help outlining a country's economic objectives; still, the Central Bank must act independently, especially as for the election of the medium (money supply, interest rates, exchange rates) to pursue these objectives. First of all, the independence of the Central Bank has been proved to reduce the size of the government's deficit. A study conducted by Burdekin and Whoar¹⁷⁴, showed that the Central Bank's dependency and deficit accommodation are directly proportional. By the contrary, the most independent Central Banks, in Switzerland, Germany and the U.S. tend not to finance the public deficit. This has its implication on the size of the deficit since if the government cannot control the policy of the Central Bank it will necessary restrain itself, and it will face incentives to reach a balanced budget. Moreover, an independent Central Bank will be less sensible to political pressures and can even stimulate growth, by increasing predictability and reducing inflation volatility through the instruments of monetary policy. Indeed, according to certain authors such as Fisher¹⁷⁵, even a moderate rate of inflation can damage the economy and hinder growth. Finally, inflation volatility is also considered to be linked with the political orientation of the government in charge: right wing governments tend to be inflation-fighting while left-wing governments tend to support an expansionary monetary policy because of the redistributive consequences of the inflation itself¹⁷⁶. *El Banco Central de la República Argentina* (BCRA) has historically been characterized by a lack of autonomy. It was created in 1935, but its degeneration started in 1944. Indeed, in the period between 1944 and 1991 it had 50 different Presidents and it was used as an instrument for public expenditure's financing. Moreover its Organic Chart was modified 12 times, which shows a high degree of governmental interference. This caused a soaring inflation that reached record level in 1989 (4924%) and 1990 (1344%)¹⁷⁷. This tendency was finally reversed in 1991 with the adoption of a new BCRA Organic Chart, with the main objective of safeguarding the value of the peso and

¹⁷³ De Santibañes F., *La Argentina y el Mundo: Claves Para Una Integración Exitosa*, Buenos Aires, EDICON, 2016

¹⁷⁴ Burdekin R.C., Wohar M.E., Monetary Institutions, Budget Deficits and Inflation, *European Journal of Political Economy*, n.6, 1990, pp. 531-551

¹⁷⁵ Fisher S., *Growth, Macroeconomics and Development*, NBER Working Paper, 3702, 1991

¹⁷⁶ Alesina A., *Politics and Business Cycles in Industrial Democracies*, *Economic Policy*, n.8, 1989, pp.57-98

¹⁷⁷ La Nación, *La reforma al Banco Central: un regreso al pasado*, April 14, 2012

prohibiting the BCRA to finance the public sector. A high level of interference of the executive power in the activities of the Central Bank is extremely dangerous, since national governments tend to focus on the short-term, aiming at immediate growth and regardless of the long-term consequences. Under the 2nd Presidency of Cristina Kirchner, the Organic Chart was newly reformed in March 2012. The amount of resources that the Central Bank could allocate to the National Treasury was duplicated. Furthermore, the Executive Power nominated the members of the Governing Board without any agreement with the Senate (as established in the Organic Chart). Finally, the President of the Board was even granted the faculty of deciding without consulting the Board itself (but only the vice-president and one director) “in cases of reasoned emergency”¹⁷⁸ allowing him to act in a more discretionary manner. Hence, it is not surprising that Argentinean inflation is still among the highest in the world, being the consequences of policies whose effects are difficult to reverse. The National Congress also failed in counterbalancing the Government by exercising its legitimate powers for the approval of the national budget and tax reforms. Indeed, tax pressure reached 33,4% of the GDP in 2014, sensibly exceeding the 2014 level in other LA countries such as Mexico (18,9%), Chile (20,8%) and Colombia (19,6%)¹⁷⁹.

3. Factors of competitiveness

In spite of what has been mentioned above, Argentina has an enormous potential to be exploited. In its first year of Presidency, Mauricio Macri showed a good diagnostic capability of the global and regional environment, and he tried to design policies aimed at reestablishing the Argentinean lost credibility. The economic outlook of 2016 was not particularly encouraging. And yet, as said above, the consequences of national policies are often long-term ones and it is also difficult to reverse negative situations all of a sudden. Notwithstanding, some benefits are already visible, especially in Argentina’s foreign policy and international relations. Politically, Macri is favored by an international juncture that seems to be in line with its objectives; economically, he doesn’t have to start from zero. Argentina is already the third Latin American economy and it further possesses valuable resources and dynamic economic sectors.

¹⁷⁸ Carta Orgánica del Banco Central de la Republica Argentina, as modified by Law 26.739 of the 22.03.2012, available at: <http://www.bcra.gov.ar/Pdfs/BCRA/CartaOrganica2012.pdf>

¹⁷⁹ La Nación, *La presión tributaria de Argentina, una de las mayores del mundo*, December 1, 2014

3.1. Economic competitiveness

Agribusiness is probably among the most promising sectors of the Argentinean economy. As previously said, it was damaged by an excessive tax pressure with the subsequent resources' transfer to protected industries. Still, its potential cannot be ignored, especially if we consider the growing Chinese demand but also the expansion of middle-classes in other developing countries. Argentina has a comparative advantage in the production of meat and dairy products and it is also well positioned in the production of cereals and sunflower seeds. In particular, no-till farming (growing crops without soil's tillage) helped boosting the production of soybeans and their derivatives (mainly flour and oil). It is not surprising that agriculture and livestock goods amounted for 43,1% of total Argentinean exports in 2016¹⁸⁰. The services' sector is also growing, being now the third industry in Argentina on an income-based analysis, after the soybean production and the automotive industry¹⁸¹ but also the largest job creator¹⁸². The main sub-sectors are financial and accounting services, software and tourism. Argentina is also a potential important player in energy production. And yet, despite its resources' endowment, in the past years it had to import gas from Bolivia and energy from Brazil. Indeed, the energy sector was also undermined by the regulations and taxes introduced since 2002. It should be desirable to adopt policies able to boost the potential of the country's renewable and non-renewable resources. The *Vaca Muerta* vein is particularly promising. Located in the province of Neuquén, its discovery converted Argentina into the 2nd country for shale gas's exploitable reserves (right after China) and the 4th one for shale oil's reserves (after Russia, U.S. and China)¹⁸³. Argentina has a further competitive advantage in the exploitation of these resources, since the region of Neuquén is already provided with all the necessary infrastructures. The basin also has a higher quality compared to other veins worldwide and its exploitation will probably be accompanied by a low degree of social controversies, being located in an area of low-density population. YPF (*Yacimientos Petrolíferos Fiscales*) currently holds almost 40% of the *Vaca Muerta* vein but is willing to explore partnership for capitals and know-how transfers¹⁸⁴. Additionally, Argentina is not currently profiting from its enormous

¹⁸⁰ Instituto Nacional de Estadística y Censos (INDEC), Informes Técnicos: Intercambio Comercial Argentino (ICA), vol. 1, n° 26, January 201

¹⁸¹ Clarín, *Detrás de la soja y los autos, los servicios basados en el conocimiento son el tercer generador de divisas*, May 20, 2015

¹⁸² Argentina Investments+Trade Promotion Agency, *Doing Business in Argentina: An Investor's Guide*, 2017

¹⁸³ Argentina Investments+Trade Promotion Agency, *Selected Investments Opportunities in Argentina*, September 2016

¹⁸⁴ Source: ibidem

potential in producing green energy from renewable resources: wind-energy could efficiently be exploited in the region of Chubut (Patagonia); solar energy in the Northwest; the use of soybeans for biofuel's production. The country should attract more investments in this field, promoting R&D activities and also implementing a program of incentives for those industries that adopt more sustainable practices. The whole country's performance will improve as a consequence of similar policies. Indeed, 64% of Argentina's energy currently comes from conventional sources such as gas and petroleum. The other 36% is a combination of hydropower (30%) and nuclear energy (4%), with wind and solar energy amounting for less than 2%¹⁸⁵.

3.2. Political assets

After a long unipolar momentum based on the centrality of the U.S. and the Pax Americana, we are currently moving toward a multipolar world in which power is more distributed among the different actors. This is both due to the relative decline of the U.S. itself and the so-called "rise of the rest"¹⁸⁶. Apart from the EU that is currently struggling with its internal crises, China and Russia also increased their presence in the global arena. They can be defined as new poles of power even if sometimes they act as spoilers of the international order, which means that they are not only dissatisfied with their relative position in the global scenario, but they also contest the legitimacy of the order itself¹⁸⁷. Hence, neither the U.S. is on the edge of collapse, nor rising power can completely assume global leadership and disregard the liberal world order. And yet, this gradual shift from unipolarism to multipolarism offers enormous opportunities to pursue new strategies of global insertion and mobility, since the scenario is becoming more and more porous. At the regional level, LA is not unipolar either. It can be defined as a multipolar region if we consider as power's poles Brazil, Mexico and Argentina, too. Indeed, these three countries are the richest ones in terms of resources and territory. Mexico has the most open and technologically advanced economy in the group; still Argentina and Brazil possess strategic assets such as nuclear and aerospace technology. Multipolarism is also reflected in the composition of the G20, being the three countries the sole LA representatives. Argentina must now profit from its position in the region and carry out the role of mediator between the other two main players. It is the third economy in the region but it has a superior GDP per capita and a better income-distribution than Brazil and Mexico¹⁸⁸. Moreover,

¹⁸⁵ Argentina Investments+Trade Promotion Agency, *Doing Business in Argentina: An Investor's Guide*, 2017

¹⁸⁶ Zakaria F., *The Post American World*, New York and London, W.W. Norton & Company, 2008

¹⁸⁷ Schweller R. L., *Emerging Powers in an Age of Disorder*, Global Governance, July 2011

¹⁸⁸ Source: World Bank Data (2015) available at: <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

Brazil needs Argentina as its more valuable regional partner as well as Mexico needs to cultivate its relation with the latter if it really wants to diversify its political and economic ties. A major degree of regional leadership could increase, in turn, the country's international visibility and credibility. It is also worth noticing that Argentina has been elected ten times by LA nations as representative in the UN Security Council, more than any other country in the region. Macri is currently pursuing a multilateral regional strategy. But he is also changing the traditional Argentinean attitude, considering as its point of reference LA rather than South America. Argentina's leadership in the process of regional integration is a viable option, since Mexico won't accept any Brazil-led initiative and vice versa, due to their mutual mistrust. The failure of the South American project promoted by Brazil in the past decade also justifies the turn toward a more inclusive regional strategy¹⁸⁹. The latter emerges clearly from the first speech of President Macri at the UN General Assembly on September 20, 2016. He said: "Argentineans are ready to enter the XXI century and assume their role in the international society, but none of these objective can be reached by working alone. We have to work together, starting from our neighbors; I came from a region that thinks about itself as a common neighborhood with shared challenges. (...) Conditions are favorable to the creation of a peace corridor, from the Atlantic to the Pacific in the whole region, and that will contribute to regional stability and prosperity"¹⁹⁰. The lexical choices of referring to LA but also to make an implicit reference to the Atlantic/Pacific divide is coherent with the program that he is trying to implement. Moreover, apart from focusing on its ties with the two major regional powers, Macri is also cultivating fruitful relations with other LA players. He travelled to Colombia to give President Santos its support in the peace process involving the government and the FARC and he maintained a fruitful dialogue with its Chilean homologous, Michelle Bachellet, the other main supporter of an Atlantic/Pacific convergence. Regaining regional centrality is possible, and it is not a matter of traditional hard power: it would rather be the product of soft power assets and diplomatic efforts.

3.3. The main challenges ahead

National industries are a crucial factor for a sustained economic growth. Still, Argentina suffers from a serious lack of entrepreneurs and dynamic industries. This is the product of policies implemented by past governments, but its consequences continue to hinder the country's

¹⁸⁹ Malamud A., *A leader without followers? The growing divergence between regional and global performance of Brazilian foreign policy*, Latin American Politics and Society, vol. 53, n° 3, 2011

¹⁹⁰ Clarín, *Discurso completo de Mauricio Macri en la ONU*, September 20, 2016

dynamism. In particular, protectionist policies made the internationalization of local industries extremely difficult. This is especially damaging for a country like Argentina, with a relatively small internal market; indeed, only the industries' international projection can allow them to expand properly and incorporate technologies that can stimulate further growth. Measures such as the aforementioned DJAI deprived local economic actors, especially small businesses, of the necessary capital and intermediate goods. Private sector is not competitive, hence neither it attracts investments nor it creates jobs that can help curbing national poverty and unemployment. This contrasts with private entrepreneurs' dynamism in other LA countries. And yet, the problem is not the lack of dynamism itself, but the consequences of wrong policies and top-down directives. National entrepreneurs won't be stimulated in the absence of a proper legal and regulatory framework. For instance, starting a business in Argentina requires, on average, 20.4 days. Setting up a business is way easier in other LA economies, with an average time frame of 9 days (Colombia), 8.4 days (Mexico) or even 5.5 (Chile)¹⁹¹. Apart from the bureaucratic obstacles that Argentinean entrepreneurs must face, they have also been asphyxiated by taxes used as a way of financing public expenditures. "According to World Bank data, in 2013, Argentina ranked 147 over 148 countries in terms of income's percentage that a medium enterprise must allocate to tax payments (an incredible 107,8%, being 47% the average value in LA)¹⁹². Such an amount of taxes rested competitiveness to the national economy and helped consolidate illegal economic practices, such as the case of *La Salada* market mentioned above. Moreover, the lack of investments can be justified by the difficult access to capital markets and the weakness of the Argentinean financial system. Law 26.831 on Capital Markets, promulgated on December 27 2012, further worsened the situation. It granted the National Value Commission (*Comisión Nacional de Valores*- CNV) the power to control, during 180 days, the boards of enterprises that are quoted on the stock market. It also allowed the CNV to suspend the activity of such economic actors without any previous warning¹⁹³. This damaged the apparatus of juridical guarantees that could have pushed local enterprises to rely on the stock market. Finally, the actual organ that is in charge of the competition policy is the National Commission for the Defense of Competition, dependent from the National Economic Ministry and possibly susceptible to political pressures. Hence, first of all the government should intervene in order to stabilize the macroeconomic framework by bringing again taxes and inflation to a normal level, and it must improve the quality of its institutions and

¹⁹¹ Source: World Bank Doing Business, benchmarked to June 2016, available at: <http://espanol.doingbusiness.org/data/exploretopics/starting-a-business>

¹⁹² De Santibañes F., *La Argentina y el Mundo: Claves Para Una Integración Exitosa*, Buenos Aires, EDICON, 2016, è. 238

¹⁹³ Ley 26.831, Ley de Mercado de Capitales, available at: <https://www.bcr.com.ar/Lists/Capitales%20Marco%20Legal/Attachments/21/Ley%2026831%20Reforma%20Mercado%20de%20Capitales.pdf>

bureaucracy. The tax issue is particularly important if we consider that, among others, the tax on Business Activities reaches the level of 35%, while the VAT (Value Added Tax) amounts to 21%, compared to the world average of 15%¹⁹⁴. Moreover, it will be desirable to stimulate growth and employment with appropriate policies, for instance reducing the Income Tax rate for reinvested utilities and easing local enterprises' access to capital markets.

3.3.1. Education and Human Capital

Public education in Argentina has historically been considered among the best in the region. Still, it is now experiencing a serious crisis as stated by the President himself, Mauricio Macri. He recently diffused the results of a survey (*evaluación Aprender*) realized at the end of 2016 in order to evaluate the present status of Argentinean schools. He defined the outcome of the evaluation as “painful”¹⁹⁵ being the main deficiencies text's comprehension and mathematical skills. Argentina's performance also worsened according to the Organization for Co-operation and Economic Development. The latter drafts, every three years, a report on the evaluation of students worldwide (*Programa Internacional para la Evaluación de Estudiantes- PISA*). In the last evaluation in which the country took part, in 2012, Argentina ranked 59 over 65 countries. The decline of the national education system is further accompanied by continuous teachers' strikes, claiming for increased salaries. Actually, the average salary for teachers and professors in Argentina has been of 732,57€ in 2016¹⁹⁶. Protests also focus on the lack of proper infrastructure, especially in rural schools located in peripheral areas. At the university's level, the number of Argentinean students that decide to continue studying after the high school continuously grew in the past decade. Still, we can observe two tendencies: the shift from public to private universities, even if the former are completely free in the Argentinean system; a high level of desertion and abandonment. Indeed, even if the overall number of college students in Argentina is superior compared to countries like Chile and Brazil, only three out of ten students graduate in the country¹⁹⁷. The government must invest in education and improve the national system in order to create the conditions for the development of a skilled human capital. It should increase investments in education, both in the field of support infrastructures and salaries. But it should also look at other countries in the region as an example. A

¹⁹⁴ Source: Ministerio de Hacienda y Finanzas Públicas (www.mecon.gob.ar)

¹⁹⁵ BBC Mundo, *¿Sigue mereciendo la escuela pública de Argentina la admiración del resto de América Latina?*, April 10, 2017

¹⁹⁶ Source: Ministerio del Trabajo, Empleo y Seguridad Social (<https://www.argentina.gob.ar/trabajo>)

¹⁹⁷ La Nación, *Más matriculados, pero pocos graduados en las universidades*, March 27, 2015

successful experience has been the one of Rafael Correa in Ecuador, who implemented a sustained Education reform between 2007 and 2013, sensibly increasing investments in that sector. But the very novelty of his reform has been its special focus on professors, with the creation of a National Education University aimed at training new teachers following global best practices. Moreover, apart from participating in evaluations such as the aforementioned PISA, he established an internal evaluation system to assess the competence level of both students and professors. Furthermore, teachers can proceed in their carrier only through competitive public exams and their wages are linked to their formation, not their seniority¹⁹⁸. Similar reforms must be implemented in Argentina, too. It is impossible to have high-quality students without high-quality academics and increased capitals allocated to education.

3.3.2. Infrastructures: precondition for economic development

Argentina also faces important challenges in the field of infrastructures. Transportation costs in the region are particularly high, due to the fact that trucks transport more than 90% of goods and 65% of the national road system is unpaved¹⁹⁹. The country also shows significant deficiencies in railroad transport, in spite of its huge internal distances. The lack of proper infrastructures also increases the resort to private transport by car, which in turn increases energy consumption, pollution, and gridlocks. “Over the last decade, and despite a history of strong infrastructure, Argentina dropped 61 position in the Global Competitive Report published by the WEF”²⁰⁰. The country also needs to improve its performance in the field of telecommunication’s infrastructure. Even if it has one of the highest rates of mobile penetration in the region, the coverage shows congestion problems. The Internet service is the most expensive in LA and it is 10 times slower than in OECD countries²⁰¹ (with an average download speed of 5.5Mb/s²⁰²). A strategy aimed at strengthening infrastructural connection must necessarily be a comprehensive and federal one, abandoning the sectorial approach that dominated until now. Moreover, Argentina also stands out as one of the countries in LA with lower participation of private capitals in infrastructural projects, and the overall level of investments is three times lower than its LA counterparts. Adopting a long-term vision on infrastructural improvement is necessary and functional to economic growth. It is hard to imagine how the country could be part of RVCs and increase its productivity without the proper

¹⁹⁸ La Nación, *La revolución educativa de Correa*, April 17, 2014

¹⁹⁹ Castro L., Lotitto E., Szenkman P., *Como puede cerrar el próximo gobierno la brecha de infraestructura?*, Buenos Aires, CIPPEC, n° 148, 2015

²⁰⁰ Argentina Investments+Trade Promotion Agency, *Doing Business in Argentina: An Investor’s Guide*, 2017, p.14

²⁰¹ Castro L., Lotitto E., Szenkman P., *Como puede cerrar el próximo gobierno la brecha de infraestructura?*, Buenos Aires, CIPPEC, n° 148, 2015

²⁰² Argentina Investments+Trade Promotion Agency, *Doing Business in Argentina: An Investor’s Guide*, 2017

communication and transport supports. Furthermore, any project of federal scope cannot ignore the insufficient coverage of basic services such as potable water and sewers, whose development is practically at a standstill since 2001. It is worth mentioning that in 2010 46,82% of Argentinean homes did not access to sewerage²⁰³.

4. Mauricio Macri: an atypical figure in Argentina's history

Mauricio Macri, member of the center-right political party Republican Proposal (*Propuesta Republicana*-PRO), became president of the country on December 10, 2015. He is an exception in Argentinean history since he is the first president since 1916 who doesn't form part of a Peronist party or of the centrist Radical Civic Union (*Unión Cívica Radical*-UCR). He's not the leader of a majority party, hence he does not control labor unions and he reestablished the normal functioning of the National Congress. After one year and a half of administration, the President is the object of both criticism and praises. Data diffused by the National Statistic Institute, the INDEC, showed that in 2016 there has not been any major economic improvement. By the contrary, inflation reached 40% and public expenditure has not been reduced significantly. Still, we must keep in mind that the result of a change in economic policies normally materializes in a relatively long term. Hence, it is necessary to wait to give a comprehensive evaluation of Macri's Presidency. The main criticisms revolved around the subsidies' cut for social services, especially in the sanitary field. And yet he also obtained some successes: he put remedy to a country without numbers and statistics, a huge anomaly that eroded investors' trust, and he also put an end to the Argentinean debt crisis after 15 years from the declaration of the sovereign default (US\$ 100.000) in 2001. In April 2016 Argentina finally started to pay its creditors, returning to international capital markets and modifying the Argentinean reputation as an international financial pariah. Macri's government obtained the approval of the IMF and Augustín Carstens, one of the most prominent economists of the region said: "This government is basically trying to establish a strong basis for further development, which will result in sustainable growth and a better life's tenor in Argentina"²⁰⁴. The new government is also working to boost tourism, one of the main strategic assets of the country. Indeed, in September 2016, it announced the VAT refund for all foreign tourists, which will be coupled with a gradual improvement of the national transportation system, especially airports. It seems, in general, that the

²⁰³ Instituto Nacional de Estadística y Censos (INDEC), Censo Nacional de Población, Hogares y Viviendas 2010, available at:

http://www.indec.gov.ar/censos_total_pais.asp?id_tema_1=2&id_tema_2=41&id_tema_3=135&t=2&s=1&c=2010

²⁰⁴ La Nación, *El FMI elogió a la Argentina por su salida del default*, April 16, 2016

new President is collecting more consensus abroad than at the national level, even if he already implemented some promising policies that could entail significant medium/long term benefits.

4.1. Economy: reintegrate to the world

In a country with an economical pattern like Argentina it is not possible to export without before importing key production's inputs. For that reason, the decision to abolish the DJAI system has been fundamental, since it hindered the possibility of growth of SMEs and it even caused sanctions from the WTO. The new regime was established with the General Resolution 3823 of the Federal Administration of Public Revenues (AFIP) in December 2015, less than one month after the election of the new President. Now the Integral System for Import's Monitoring (SIMI) substitutes the previous DJAI regime introduced by Cristina Kirchner and her minister Guillermo Moreno in 2012. The SIMI has been conceived as an instrument to reduce delays and streamline bureaucracy. Moreover, the new procedure is again in line with the WTO system of automatic and non-automatic licenses. Only 1400 of the 19000 custom items listed in Argentina now require an application for non-automatic import licenses²⁰⁵. Moreover, the classification of goods and the assignments of tariffs are based on the Harmonized System Codes (HS codes), which is the basis for the Mercosur Common Nomenclature (NMC). Tariffs vary accordingly with the classification of the goods, ranging from 0 to 35%²⁰⁶. They are calculated on the CIF (cost, insurance and freight) imports' value. Depending on the classification of the good, imports may be charged with a statistic fee of 0,5% that cannot exceed US\$500. The Value Added Tax will also be different depending on the item's classification, with a minimum amount of 10,5% and a maximum of 21%²⁰⁷. Under the SIMI, importers have to request their licenses by submitting standard information through the AFIP website, being the procedure completely digitalized. The approval must be granted within a time framework of ten days for automatic licenses and within the deadline of 60 days for goods subjected to non-automatic ones. Information provided through the SIMI will have a validity of 180 days from the approval²⁰⁸. We are still far from a perfect system: non-automatic import licenses may be used as a form of non-tariff barriers to trade. Hence, custom authorities must do any

²⁰⁵ Source: Administración Federal de Ingresos Públicos (AFIP), available at: <http://www.afip.gob.ar/sitio/externos/default.asp>

²⁰⁶ Argentina Investments+Trade Promotion Agency, *Doing Business in Argentina: An Investor's Guide*, 2017

²⁰⁷ Ibidem.

²⁰⁸ La Política Online, *El Gobierno oficializó el fin de las DJAI de Cristina y Moreno*, December 22, 2015

possible effort in order to ensure transparency and predictability, and they must also comply with the deadlines established by the regime. Up to now, the digitalization of the process effectively speeded up the bureaucracy, even if in some cases non-automatic licenses are subjected to a major delay. Furthermore, Presidential Decree 1205/2016 modified Resolution 909 of the 29.07.1994 and governing imports of secondhand goods. The Decree was aimed at easing the import of used goods that can represent a good alternative, especially for SME's, for the incorporation of new machineries and better technologies. It created the Used Goods' Import Certificate (CIBU) that must be presented to custom authorities. Secondhand goods will be subjected to a tariff of 7% if comprised in the chapters 84 to 90 of the NCM. Otherwise they will be charged with a 14% tariff²⁰⁹. CIBUs may effectively help some small and medium businesses to incorporate technologies that they cannot afford otherwise, allowing for an increased productivity and competitiveness. Such a measure demonstrates the administration's willingness to consider local entrepreneurs as strategic partners. In December 2015, the new government also eliminated export taxes whose income was used by the previous administration as a mean to finance protected sectors. Moreover, such taxes increased the cost of exporting for local producers; hence they were an instrument to boost internal consumption, too. Export taxes have been maintained only on certain goods such as soybeans and their by-products (including soy oil), biodiesel and some types of leather. Actually exports showed a percentage increase in January 2017 compared to January 2016, especially those linked to the agribusiness: meat and its byproducts (25%); milk, dairy products, eggs and honey (8,3%); cereals (35,4%)²¹⁰. Imports' value in January 2017 was also superior to the one registered in January 2016, by an amount of 7,1%²¹¹.

4.1.1. Infrastructural projects

In December 2015, Mauricio Macri also launched the ambitious infrastructural project known as Belgrano Plan. It was already announced during the electoral campaign and it is aimed at improving infrastructure in the 10 Northern provinces of the country, which have historically been the less integrated and developed ones. A specific and homonymous Unit, subordinated to the Ministers' Council, administrates the Plan. In 2017, stands out the allocation of US\$3,5 millions for the improvements of the National Routes n°9, 34 and 14. The Plan also focuses on the railroad system

²⁰⁹ Información Legislativa y Documental (<http://www.infoleg.gob.ar/>)

²¹⁰ Instituto Nacional de Estadísticas y Censos (INDEC), Informes Técnicos: Intercambio Comercial Argentino (ICA), vol. 1, n°26, January 2017

²¹¹ Ibidem

with investments directed to the reactivation of the Belgrano and Mitre railways. The former is particularly important for the connection of the Northern provinces with the ports of Santa Fe and Rosario, hence improving their international commercial insertion, too. The government is looking forward to attract foreign investments with ample opportunities for private sector involvement. The project for the renovation of the Belgrano Railway already sees the participation of the Chinese CBD-CMEC²¹². Investments will be also directed toward the expansion and modernization of the Argentinean passenger rolling stock. Private capitals are also involved in a project for the extension of internet access to 2000 schools in the Northern Provinces. The first stage of the project, involving 300 schools, will be accomplished at the end of June 2017 thanks to the participation of the local enterprise ARSAT. The remaining ones are still waiting for tender calls²¹³. Apart from the Northern provinces, investments will also focus on the capital city, with projects oriented toward the improvement of both the hydraulic and trade infrastructure. In particular, the Buenos Aires' subway will be interested by an enlargement with the construction of 7 new stations, rolling stock acquisition and increase the current 38% of air conditioned wagons²¹⁴. The InterAmerican Development Bank (BDI) contributed with funds for the enhancement of national ports' operations. Renewals will also interest some national airports, such as the ones of Chapelco, Trelew, Tucuman and Ezeiza, both in structural and security terms. The Tucuman Airport is included under the umbrella of the Belgrano Plan and it will be a key infrastructure for the growth of the homonymous province and bordering ones. The government is also investing in the field of solar energy and biofuels in the Northern provinces. José Manuel Cano, director of the Belgrano Plan Unit, especially praised the government dedication to the development of the North. He also stated that, beyond all the current achievements, the first triumph of the new administration is already to have undertaken such a commitment, after years of indifference and previous failures²¹⁵. Investments in the field of infrastructures, as said above, are crucial for the regional and global insertion of the country but they also contribute to the creation of new job places.

4.2. Foreign Policy

Mauricio Macri's strategy in foreign policy is to diversify Argentinean relations and de-ideologize them. During her presidency, Cristina Kirchner made foreign policy choices that were guided by

²¹² Argentina Investments+Trade Promotion Agency, *Selected Investments Opportunities in Argentina*, September 2016

²¹³ Source: Unidad Plan Belgrano, available at: <https://www.argentina.gob.ar/planbelgrano>

²¹⁴ Argentina Investments+Trade Promotion Agency, *Selected Investments Opportunities in Argentina*, September 2016

²¹⁵ Clarín, *Plan Belgrano: hacerse cargo es el primer triunfo*, May 4, 2017

ideological considerations, strengthening ties with Venezuela, Russia, China and Iran. She also trumped any attempt at dialogue between Mercosur and the PA, considering the latter as a center-right regional bloc aligned with the U.S. By the contrary, Macri is pursuing a strategy of global insertion fostering its ties with the U.S. and the EU. At the same time, he inaugurated a policy of détente in his bilateral relationship with the United Kingdom regarding the sovereignty of the Malvinas/Falkland Islands. Even if he stated that he considers the issue as a priority, he also wants to go beyond the dispute and focus on a multilevel dialogue with the UK. If the foreign policy's strategy of Cristina Kirchner was focused on multipolarism and ideological confrontation with the mainstream centers of power, Macri's intention seems to work for increased cooperation in a multilateral context. As stated by his Foreign Minister Susanna Malcorra during a talk at the Argentinean Council of Foreign Relations: "In terms of the international priorities, what we have defined is that multilateral relations are going to be central to our work. We are going to insert ourselves in all the multilateral platforms that are available. We are going to work in Mercosur. We are going to work in UNASUR. We are going to work in CELAC, in OAS, and the United Nations. We don't see any contradiction in that. We feel that we have to take advantage of each one of those very important tools to insert our country and to give our perspective in order to maximize the influence that Argentina can have as a traditional bridge-builder in the world."²¹⁶ Multilateral institutions are perceived as the appropriate forum in which Argentina can increase its role as a global player both in political and economic terms. Strengthening and diversifying foreign relations is also a mean to attract investments and sustain growth. Indeed, Macri is also focusing on dialogue with China since the latter is one of the main investors in the region and the administration needs increasing funds for its ambitious infrastructural project. Macri also travelled to Washington and met Donald Trump on April 28, 2017. This meeting had a great importance because it allowed Macri to renew his strategy of sustained dialogue with U.S. presidents that was inaugurated during the Obama administration and that stands in sharp contrast with the Kirchners' strategy. Commercial issues has been at the center of the meeting, and the U.S. Trade Secretary, Wilbur Ross, accepted to restart importing lemons from the Argentinean North West (which is also in line with Macri's project to relaunch growth in the Northern regions). Moreover, the U.S. Government made the significant decision to declassify certain official documents on the past military dictatorship in Argentina²¹⁷. Hence, setting ideological reasons apart, the new government wants to foster a sustained and pragmatic dialogue with all the relevant actors in the global arena. The current administration focused on the relationship with Italy, too. This is not a fact of minor importance because of the strong cultural ties between the two countries and the high percentage of

²¹⁶ Council on Foreign Relations, *Argentinian Foreign Policy Under Mauricio Macri*, February 9, 2016

²¹⁷ La Nación, *Macri logró en EE.UU. un fuerte apoyo político y empresarial*, April 28, 2017

Italians' descendant in Argentina, due to the past waves of massive emigration. Matteo Renzi was among the first European prime ministers travelling to Argentina. Macri also received the visit of the Italian president Sergio Mattarella in May 2017. Mattarella is the first Italian president that visited the country after Carlo Azeglio Ciampi 16 years ago. Italy and Argentina are already cooperating in the SIASGE project, a shared satellite system for scientific studies, environmental preservation and security. The program is under the joint management of the Italian Space Agency and the Argentinean CONAE, *Comisión Nacional de Actividades Espaciales*²¹⁸. Still, Argentina must go regional, too. This is one of its main assets in foreign policy, presenting itself as a bridge-maker between the Atlantic and the Pacific and as a mediator among the different national instances. Both Macri and Malcorra are perfectly conscious of the need to invigorate regional ties both with Mercosur partners and the PA. It is not fortuitous that the recent Ministerial Meeting between the two blocs has been the product of an Argentinean initiative. Application for being admitted as observer member in the PA, which was finally approved in June 2016, was also an initiative of the current administration. Macri is working in close cooperation with all the regional leaders, but especially with Michelle Bachelet in Chile, being the latter one of the main supporter of a possible convergence on the PA side. Increased dialogue with Chile is also symbolic, since the two countries have normally implemented divergent economic policies as well as they had a long-lasting history of political rivalry related to territorial disputes (mainly in Patagonia). Macri also strengthened his ties with the Colombian president Juan Manuel Santos, sending observers to support and monitor the peace process with the rebel armed groups. Indeed, apart from economic interests, among the government's priorities there are also fighting poverty and drug-trafficking, which are among the main regional deficiencies. The new president wants to be perceived as a strategic partner by both regional and international players. Still, he didn't hesitate to adopt rhetoric of open confrontation with the Venezuelan president Maduro. He strongly supported the proposal to suspend Venezuela from Mercosur membership, because of the widespread violence in the country and the disrespect of basic human rights. Venezuela's suspension also lifted the main obstacle remaining on the path toward PA-Mercosur convergence²¹⁹. As a matter of fact, Macri also declared its willingness to strengthen Mercosur itself. Still, this objective is not incompatible with the strategy of convergence with the Alliance. Indeed, he aims both at increased intra-bloc exchanges and new agreements with third parts. He said: "We must start from the Pacific Alliance but also from Mexico which, in light of a new international scenario, must now look at the South with increased decisiveness"²²⁰. He also declared to be committed with a restart of the EU-Mercosur

²¹⁸ Italian Embassy in Buenos Aires (http://www.ambbuenosaires.esteri.it/ambasciata_buenosaires/it)

²¹⁹ El País, *Macri y Bachelet acercan Mercosur y la Alianza del Pacífico como respuesta a Trump*, February 14, 2017

²²⁰ El País, *Temer y Macri impulsarán el Mercosur frente a Trump*, February 7, 2017

negotiations. Mercosur is currently advancing in its negotiations with the European Free Trade Area (EFTA) that includes Norway, Switzerland, Iceland and Liechtenstein. The first round of negotiations was held in Buenos Aires in June 2017, while a second one has already been scheduled for August in the city of Geneva. The Foreign Minister Susanna Malcorra said that such an agreement could serve as a model for a more flexible negotiation with the EU²²¹. Hence, Argentina must now advance in international negotiations, both alone and as part of the Mercosur bloc. The country must also work in close cooperation with its regional counterparts in order to foster a development that will entail mutual benefits.

5. Conclusion

This chapter has been aimed at giving an overall picture of the current Argentinean situation, in order to evaluate its potential as a regional leader. The focus of this work is not Argentina itself, but rather LA regionalism and the perspective of a convergence between the PA and Mercosur. Still, regional integration does not take place automatically, but it must be supported by committed leaders. Argentina can now profit from a positive juncture, both at the regional and international level. Even if it is not the first LA economy, it is showing an increasing commitment to regional cooperation. Mauricio Macri is strengthening its ties with PA leaders and even the decision of becoming an observer member of the latter bloc has a huge symbolic value. Argentina, together with Brazil, is one of the founding members of Mercosur. Still it is demonstrating a strong willingness to go beyond Mercosur itself without disregarding it. Cooperation with the PA is not aimed at destroying previous achievements of the Southern Common Market. It is rather aimed at improving it and increasing its credibility through a more comprehensive and region wide strategy. The present chapter focused on the country's potential as a regional leader. Argentina could mediate between Brazilian and Mexican views, but this balancing role is not sufficient to define it as a possible leader. Guiding a process of convergence is not the mere result of actions in the diplomatic arena. Hence, the chapter analyzed the recent economic and political history of the country in order to evaluate the assets that it could exploit in the process. It cannot be a promoter of free trade and capital flows without implementing the same model at home and in its bloc of reference, the Mercosur. It cannot promote integration and the formation of RVCs without eliminating national deficiencies that may hinder the country's insertion in regional economic dynamics. For this reason Mauricio Macri, regardless of any political or ideological consideration, seems to follow the right

²²¹ La Nación, *Por la llegada de Trump, Macri busca un Mercosur más flexible*, January 18, 2017

path when working on a multiple level, both regional and national, and when simultaneously focusing on internal growth and soft power's projection abroad. Argentina could propose itself as the main promoter of a Mercosur-PA convergence, and yet strengthening its own economy, education and infrastructural connection is not independent from this project. The coherence between national and regional postures is preparatory to increase the country's credibility as a regional responsible power. Moreover, as said above, the initiative of bridging the gap between the PA and Mercosur is not casual at all: it comes at the right time, when Mexico needs to diversify its economic relations and Brazil has to assume the failure of its South American project. Macri's strategy is also reflected in its semantic choices, since he continuously refers to Latin America as its region of reference, pushing for a unitary project under the precepts of neoliberal policies. He also found a valuable ally in the Chilean president Michelle Bachelet, the first regional leader to propose a possible path of "convergence in diversity" for the two main LA blocs. Political drive and commitment are the prerequisite for any successful integration process, as showed by the continuous halts in the history of Mercosur. Now both economic and political factors are pushing for increased integration in LA and they are meeting responsive politicians. If regional leaders will manage to focus on long term and convergent objectives they will also individuate a common path towards growth.

Conclusion

Latin American regionalism is as ancient as the European one. Still, the region is still far from being integrated and the overall picture is one of conflicting and overlapping regional projects. This is not an issue of minor importance, since the so-called spaghetti-bowl effect entails significant problems for countries that are simultaneously members of two or more regional blocs. Norms' conflict can considerably hinder further economic integration as well as discouraging foreign operators and investors. Furthermore, the lack of integration also trumped the formation of RVCs that could, in turn, boost the growth of LA industries. The commodity boom of the years 2000-2014 also pushed LA countries to focus on the primary sector. And yet, the end of this supercycle also made it paramount the need to diversify national economies. Integration is also necessary in order to address regional deficiencies through a joint and effective action. Above all, infrastructural connection must be considered a priority in order to decrease communication and transportation costs. LA is a region with multiple geographical barriers but the lack of proper infrastructures does not certainly help.

The work focused only on the PA and Mercosur because they are considered as the most developed regional blocs and they also comprise the most dynamic regional economies. Mercosur is currently experiencing a crisis of credibility, because of the non-fulfillment of many treaties' objectives. Still, it performed well during its first decade of existence and it also reached a relatively high degree of institutionalization, in comparison with other LA regional experiences. The Pacific Alliance looks at Mercosur as a valuable ally because it already has important economic ties with the members of the latter bloc. This is particularly true in the case of Chile and, indeed, its president Michelle Bachelet first proposed the idea of "convergence in diversity" in 2014. Previous attempt failed, mainly due to the Brazilian and Argentinean attitude. Still we saw as the current regional and international environment may favor the project's reintroduction and new fruitful developments. The separate analysis of Mercosur and the PA helped understanding what they can learn from each other. The Alliance could be an example for Mercosur in terms of members' commitment and continuity of the process. Moreover, it is considered more attractive by foreign investors due to the lower costs of doing business and its focus on the role of privates. It even created a Business Council (CEAP) formed by representative of the private sector. And yet, the major strength and novelty of the Alliance is probably its strategy of international projection, with the special focus on the Asia-Pacific region. Indeed, Asia is not only China. The latter is already among the main investors and trading partners of LA countries, but it is also necessary to explore the possible

advantages of increased economic ties with the ASEAN countries. As said before, such a project is even more attractive now that Trump's policies make it unclear the future economic relationships with the U.S. The Trans-Pacific Partnership may be dead but there is still space for enhanced Latin American-ASEAN cooperation.

Apart from all the aforementioned considerations, the PA is far from perfect. It represents 50% of the total share of LA external trade, but it shows an insufficient degree of intra-bloc integration, even lower than Mercosur. It is true that LA countries are not natural trading partners: still this does not impede the possibility of increased intra-industry trade. In chapter four we saw how this statement applies both to intra-bloc relations and PA-Mercosur ones. Intra-industry trade can be gradually increased with the perspective formation of RVCs. The main exception is Peru whose trade pattern is currently mainly inter-industrial and based on basic commodities. Moreover, in some cases, members of one bloc have a member of the other as their main LA partner. That's the case of Chile, whose main export destination in the region is Brazil. Brazil is also the main export destination in the LA region for Colombia and Peru. Mexico represents an exception because of its economic relations with the U.S. and its membership in the NAFTA agreement. Still, as previously said, Mexico is precisely the country that will be damaged the most by the U.S. resurgent protectionism. Hence, it also has a strong interest in increased trade and FDI flows with the Southern Cone. At first, there is the possibility of increased intra-industry trade in sectors that already shows a similar pattern, such as the automotive industry. Gradual integration between the Alliance and Mercosur can effectively pave the way for such a development.

As stated by national ministers, the outcome of the project is not expected to be the merger of the two organizations. Indeed, they are profoundly different in terms of institutionalization's degree and also in terms of their very nature. Mercosur is a Custom Union (even if imperfect), which entails the adoption of a Common External Tariff. The Alliance decided to adopt a more flexible structure and focus on the formation of a Free Trade Area. And it is precisely the latter the most desirable outcome of a PA-Mercosur convergence. It is desirable because it could have a carry-over effect on other countries in the region, since it would include all the most dynamic LA economies. Still, it would also be desirable because it would allow to address the main problems that are plaguing intra-regional trade. In particular, the main points are: the adoption of an harmonized system for the rules of origin; the information's exchange among custom authority; the adoption of common and digitalized certificates; the harmonization of sanitary and phytosanitary standard that could work as non-tariff barriers to trade.

Moreover, such an agreement would finally put an end to the long-lasting rivalry between Mexico and Brazil and the dichotomy Latin America versus South America. LA countries must focus on their mutual similarities and common interests, and Brazil itself must fully assume the failure of its South American project. The ministerial meeting of April 2017 already implied the drafting of a cooperation roadmap, but future developments are still unclear and one must hope that the process will not end up being a mere rhetorical exercise.

The last chapter dealt with the possible role of Argentina as a leader of this gradual convergence. It is obvious that any effort must be sustained by a joint willingness of all the countries involved. Still, Argentina seems to be assuming its role as regional balancer among the various interlocutors. As previously stated, it is difficult to imagine Brazil accepting a Mexican-led initiative or vice versa. Argentina is a more neutral player that is gradually improving its relationship with its Latin American counterparts. The new administration also focused on the modification of internal measures that previously worsened the country's credibility and reputation. As affirmed by Felix Peña "the newly elected Argentinean President, Mauricio Macri, has been clear on the importance he attributes to the construction of Mercosur as the central axis of a broader more active and assertive integration strategy of the country in Latin America and in the world. In this perspective, he assigns a special role to the continuation and deepening of the preferential relation developed over the past thirty years with Brazil, later extended to the wider Mercosur space and other Latin American countries"²²². And yet, even if Argentina is the third LA economy, it must address its main internal problems to both boost its productivity and be a credible leader of the economic integration.

We are in an unprecedented moment in which the presidents of the countries involved all share a common set of objectives. It is desirable that future political leaders won't miss the focal point, which must be increased cooperation among all the regional actors. This would be a win-win solution entailing mutual and durable benefits. The Economic Commission for Latin America and the Caribbean (ECLAC) explicitly recognized that a Mercosur-PA convergence could be the first step towards a real integration in LA. Furthermore, a coordinated action could also strengthen the country's weight in multilateral forums such as the WTO. The ECLAC executive secretary, Alicia Bárcena, stated that that integration must be strengthened beyond the exchange of goods. We must make progress on trade facilitation, on participation in value chains, on integration of infrastructure and energy, as well as in the technological and digital area"²²³. Internal integration could, in turn,

²²² Peña F., *A New Stage of Mercosur and its Relation with the EU? The leadership and methodological intelligence requirements that arise*, February 2016, available at: www.felixpena.com.ar

²²³ Economic Commission for Latin America and the Caribbean Press Release, *ECLAC: The Current Context is an Opportunity for Changing the Integration Paradigm of Latin America and the Caribbean*, April 7, 2017

boost the possibilities of international insertion. It would allow for the formation of RVCs and the diversification of the economy. It would also turn LA into a new dynamic pole in the global panorama, both in terms of producers and consumers. Moreover, a special focus must be on business-friendly policies and the participation of the private sector, since we saw in chapter four that the Alliance's members are more integrated in terms of FDIs thanks to a bottom-up and spontaneous process.

At the present moment, international changes are pushing for a rapprochement of the two blocs and these tensions are meeting responsive politicians. After their first formal meeting at the ministerial level, members of both blocs must make a sustained effort in order to support the project's advancements. They must look at their past, learning from their previous errors and failed attempts at integration. And yet, they also must look at the future, at the rising protectionism in the global North and the gradual shift of global economic relations from the Atlantic to the Pacific. They must do a diagnosis of their common problems and shared objectives, as well as of the international panorama and the most beneficial possibilities of global insertion. And even if a comprehensive judgment cannot be given yet, it seems that they are going in the right direction.

Bibliography

Acuerdo Marco de la Alianza del Pacífico, available at:

http://www.sice.oas.org/Trade/PAC_ALL/Framework_Agreement_Pacific_Alliance_s.pdf [Last Access: 06/06/17]

Administración Federal de Ingresos Públicos (AFIP):

<http://www.afip.gob.ar/sitio/externos/default.asp>

Albertoni N., Kotschwar B., *Can the Pacific Alliance and MERCOSUR bridge the hemispheric divide?*, Latin America Goes Global, July 30, 2015

Alesina A., *Politics and Business Cycles in Industrial Democracies*, Economic Policy, n.8, 1989, pp.57-98

Alianza del Pacífico: <http://alianzapacifico.net>

Almeida A., *La mirada sigue afuera*, AméricaEconomía, available at:

<http://rankings.americaeconomia.com/2016/multilatinas/> [Last Access: 06/06/17]

Argentina Investments+Trade Promotion Agency, *Selected Investments Opportunities in Argentina*, September 2016

Argentina Investments+Trade Promotion Agency, *Doing Business in Argentina: An Investor's Guide*, 2017

Arredondo Trapero F., De la Garza J., Vázquez Parra J.C., *Factores de innovación para la competitividad de la Alianza del Pacífico. Una aproximación desde el Foro Económico Mundial*, Estudios Gerenciales, n°32, 2016, pp.299-308

Artana D., *El sistema tributario argentino: análisis y evaluación de propuestas para reformarlo*, FIEL, 2015

Baccini L., Pinto P.M, Weymouth S., The dark side of international trade agreements. Working paper, available at: <http://wp.peio.me/wp-content/uploads/PEIO8/Baccini,%20Pinto,%20Weymouth%2031.1.2015.pdf> [Last Access: 15/03/2017]

Balassa B., *Trade Creation and Trade Diversion in the European Common Market*. The Economic Journal, Vol. 77, No.305, March 1967

Bakker F.E., *Economic asymmetry and institutional shortfall in Mercosur: predictions for deepening Mercosur integration*, Master thesis, Centre International de Formation Européenne, 2013

Banco Interamericano de Desarrollo, *Asymmetries in Regional Integration and Local Development*, 2005

Banco Interamericano de Desarrollo, MERCOSUR Report N° 14, February 2010

- Banco Interamericano de Desarrollo, MERCOSUR report N° 21, Second semester 2015/ First semester 2016, available at: <https://publications.iadb.org/bitstream/handle/11319/7959/Informe-MERCOSUR-No-21-2015-2016-Segundo-semester-2015-Primer-semester-2016.pdf> [Last Access: 11/04/17];
- Bartesaghi I., *El Mercosur y la Alianza del Pacífico: más diferencias que coincidencias?*, Mundo Asia Pacifico, vol.3, n°4, January-June 2014
- BBC Mundo, *10 cosas que cambiaron en 10 años de kirchnerismo en Argentina*, May 23, 2013
- BBC Mundo, *Qué es el TPP, el gran acuerdo económico de 11 países del cual EE.UU. se acaba de retirar por orden de Donald Trump*, January 24, 2017
- BBC Mundo, *¿Sigue mereciendo la escuela pública de Argentina la admiración del resto de América Latina?*, April 10, 2017
- Beaton K., Cerra V., Hadzi-Vaskov M., Mowatt R., *Expanding Trade Opportunities in Latin America and the Caribbean*, Diálogo a Fondo, April 13 2017, available at: <http://blog-dialogoafondo.imf.org/> [Last Access: 17/06/17]
- Berrettoni D., *América Latina en las exportaciones argentinas*, Revista Argentina de Economía Internacional, Centro de Economía Internacional, n°2, 2013
- Bonilla A., Ortiz M.S., *Balances y Perspectivas de las relaciones entre la Unión Europea y América Latina y el Caribe*, FLACSO, 2012
- Bhagwati J., *US Trade Policy, The infatuation with FTAs*. Columbia University, discussion paper series n.726, 1995
- Bhagwati J., Krishna P., Panagrya A., *Trading Blocs: Alternative Approaches to Analyze Preferential Trade Agreements*, Cambridge, MIT Press, 1999
- Blanco Estévez A., *La Alianza del Pacífico: Un largo camino por recorrer hacia la integración*, in Woodrow Wilson Center, Latin American Program, January 2015, p.4
- Bonilla A., Ortiz M.S., *Balances y Perspectivas de las relaciones entre la Unión Europea y América Latina y el Caribe*, FLACSO, 2012
- Bouzas R., Fanelli J.M., *Mercosur: Integración y crecimiento*, Fundación Osde, 2001
- Briceño Ruiz J., *Ejes y modelos en la etapa actual de la integración económica regional en América Latina*. Estudios Internacionales, n°175, 2013
- Burdekin R.C., Wohar M.E., Monetary Institutions, Budget Deficits and Inflation, European Journal of Political Economy, n.6, 1990, pp. 531-551
- Büthe, T. and Milner, H. V. , *The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements?*. American Journal of Political Science, Vol. 52, 2008

Cabrol C., *El parlamento del Mercosur: su limitado rol en el marco de una estructura institucional intergubernamental*, available at:

<http://www.ceipa.edu.co/lupa/index.php/lupa/article/view/130/255> [Last Access: 08/04/2017]

Caetano G., *Las instituciones en los procesos de integración regional*, Temas Magazine, Buenos Aires, 2000

Caichiol C.R., *The Mercosur Experience and Theories of Regional Integration*, Contexto Internacional, Vol.39, No.1, January/April 2017

Carasales J.A., *The Argentine-Brazilian nuclear rapprochement*, available at:

<https://www.nonproliferation.org/wp-content/uploads/npr/carasa23.pdf> [Last Access: 05/04/2017]

Carta Orgánica del Banco Central de la República Argentina, as modified by Law 22.03.2012, n. 26.739

Cason J.W., *The Political Economy of Integration: The Experience of Mercosur*, Routledge, Reissued Edition, 2013

Castro L., Lotitto E., Szenkman P., *Como puede cerrar el próximo gobierno la brecha de infraestructura?*, Buenos Aires, CIPPEC, n° 148, 2015

Cheng X., Wang Y., Yongliang L., *Analysis on the Development and Influence of Overlapping Free Trade Agreement*. Canadian Social Science, Vol. 5, No. 1, February 2009;

Christian A., Rittberger B., *The legalization of dispute resolution in Mercosur*, Journal of Politics in Latin America, Vol.5, No.3, 2013

Clarín, *Detrás de la soja y los autos, los servicios basados en el conocimiento son el tercer generador de divisas*, May 20, 2015

Clarín, *Argentina, a pesar de todo, juega con viento a favor*, July 25, 2016

Clarín, *Discurso completo de Mauricio Macri en la ONU*, September 20, 2016

Clarín, *Plan Belgrano: hacerse cargo es el primer triunfo*, May 4, 2017

Co-Chairs' Statement of the 1st Meeting between the Committee of Permanent Representatives of ASEAN and the Ambassadors/Representatives of the Pacific Alliance, ASEAN Secretariat, Jakarta, 25 May 2015

Council on Foreign Relations, *Argentinian Foreign Policy Under Mauricio Macri*, February 9, 2016

Cracau D., Durán Lima J., *The Pacific Alliance and its economic impact on regional trade and investment. Evaluation and perspectives*, ECLAC- International Trade Series, N°128, December 2016

Crawford J.A., Laird S., *Regional Trade Agreements and the WTO*. North American Journal of economics and finance, Vol.12, 2001

Dade C., Meacham C., *The Pacific Alliance: An Example of Lessons Learned*, Center for Strategic and International Studies, July 11, 2013

De la Balze F.A.M., *Argentina y Brasil enfrentando el siglo XXI*, Consejo Argentino para las Relaciones Internacionales, 1995

De Santibañes F., *La Argentina y el Mundo: Claves Para Una Integración Exitosa*, Buenos Aires, EDICON, 2016

Diaz de Brito P., *Hay una convergencia entre la Alianza del Pacífico y el Mercosur*, La Capital, Agosto 2016

Dri C., *At what point does a legislature become institutionalized? The Mercosur Parliament's path*, Brazilian Political Science Review (Online), vol. 4, 2009

Ease of Doing Business Index, benchmarked to June 2016, available at: <http://www.doingbusiness.org/rankings> [Last Access: 05/06/17]

Economic commission for Latin America and the Caribbean (CEPAL), *La Alianza del Pacífico y el Mercosur: hacia la convergencia en la diversidad*, November 2014

Economic Commission for Latin America and the Caribbean (CEPAL), *Panorama Social de América Latina*, 2015

Economic Commission for Latin America and the Caribbean Press Release, *ECLAC: The Current Context is an Opportunity for Changing the Integration Paradigm of Latin America and the Caribbean*, April 7, 2017

Economic Freedom Index 2017, available at: <http://www.heritage.org/index/ranking> [Last Access: 05/06/17]

El Cronista Comercial, *Las exportaciones argentinas fueron las que más cayeron en América Latina*, March 9, 2015

El Espectador, *Alianza del Pacífico se postula como una “tercera vía” para el crecimiento regional*, July 3rd 2015, available at: <http://www.elespectador.com/noticias/elmundo/alianza-del-pacifico-se-postula-una-tercera-via-el-crec-articulo-570139> [Last Access: 06/06/2017]

El Observador, *Productores argentinos cuestionan la política comercial de la administración Kirchner*, April 11, 2011

El País, *América Latina: dos océanos, una voz*, June 19, 2014

El País, *Temer y Macri impulsarán el Mercosur frente a Trump*, February 7, 2017

El País, *Macri y Bachelet acercan Mercosur y la Alianza del Pacífico como respuesta a Trump*, February 14, 2017

Eurasia Review, *Michelle Bachelet: Cooperation of Mercosur-Pacific Alliance is Priority- OpEd*, June 14, 2017

Faure A., *The New Trans-Pacific Partnership. The Pacific Alliance and ASEAN are crafting a key partnership of their own*, The Diplomat, April 5, 2017

Feenstra R.C., Taylor A.M., *Essentials of international economics*. Worth Publishers, 2015;
Financial Times, *Temer stays tough on Brazil economic reforms*, February 2, 2017

Fisher S., *Growth, Macroeconomics and Development*, NBER Working Paper, 3702, 1991

Food and Agriculture Organization, *World Agriculture towards 2030/2050*, 2012 review

Franco M., *Mercosur: Potential Dwarfed by Politics*, Le Panoptique, October 2007

Frankel J.A., Wei S.J., Open regionalism in a world of continental trade blocs, International Monetary Fund Staff Papers, vol.45, n. 3, September 1998, p.441

Furche C., *Hacia una convergencia entre MERCOSUR y la Alianza del Pacífico*, in Foxley and Meller, *Alianza del Pacífico en el proceso de integración Latinoamericano*, CEPLAN, 2014

Garcia A., *La Alianza del Pacífico: plataforma de proyección global*, Revista Mexicana de Política Exterior, n°106, January-April 2016

Gardini G. L., Malamud A., *Has Regionalism Peaked? The Latin American Quagmire and its lessons*, The international Spectator: Italian Journal of International Affairs, n°47, pp.116-133, 2012

Gardner R.N., *In pursuit of World Order: U.S. Foreign Policy and Organization*. New York, Frederick A. Praeger, 1964

Garriga A.C., *Análisis institucional del Mercosur*, Studia Politicae, No.3, 2004

Gorneman C., *Institutions and Politics of Mercosur*, available at: <http://international-trade.blogspot.com.ar/> [Last Access: 09/04/2017]

Guidelines on the Participation of Observer Countries in the Pacific Alliance, available at: https://alianzapacifico.net/wp-content/uploads/2016/06/Guidelines_Participation_Observers.pdf [Last Access: 04/06/17]

Haas E.B., *The uniting of Europe: political, social, and economic forces 1950-1957*, Stanford University Press, 1958;

Haas E.B., *Beyond the Nation-State: Functionalism and International Organization*. Stanford University Press, 1964;

Haas E.B., *The obsolescence of Regional Integration Theory*. Berkeley, University of California, Institute of International Studies, 1975;

Herreros S., The Pacific Alliance: a bridge between Latin America and the Asia Pacific?, available at: <http://www.observatorioasiapacifico.org/data/OBSERVATORIO.Images/News/temp/20160412100017PacificAllianceSHerrerosISEASbookAsianRegionalism.pdf> [Last Access: 04/06/17]

Hettne B., Söderbaum F., *Theorising comparative regionalism: bridging old divides*. ECPR Joint Session on “Comparative Regional Integration: Toward a research agenda”, Nicosia, 25-30 April 2006;

Huntington S., *Political Order in Changing Societies*, New Haven, Yale University Press, 2006

Información Legislativa y Documental (<http://www.infoleg.gob.ar/>)

Instituto Nacional de Estadística y Censos (INDEC), Censo Nacional de Población, Hogares y Vivendas 2010:
http://www.indec.gov.ar/censos_total_pais.asp?id_tema_1=2&id_tema_2=41&id_tema_3=135&t=2&s=1&c=2010

Instituto Nacional de Estadística y Censos (INDEC), Informes Técnicos: Intercambio Comercial Argentino (ICA), vol. 1, n° 26, January 2017

Instituto Nacional de Estadística y Censos (INDEC), *INDEC Informa*, Year 22, n° 2, February 2017

International Centre for Trade and Sustainable Development, *Mercosur and Pacific Alliance Members Push for Deeper Economic Ties*, Bridges, Vol. 21, n° 13, April 2017

International Monetary Fund World Economic Outlook (WEO), October 2016;

International Monetary Fund Report n° 17/66, *Cluster Report- Trade Integration in Latin America and the Caribbean*, March 2017

International Monetary Fund News, *Latin America and the Caribbean: Bouncing Back from Recession*, May 19, 2017

Italian Embassy in Buenos Aires (http://www.ambbuenosaires.esteri.it/ambasciata_buenosaires/it)
Khan S.R., *Regional Trade Integration and Conflict resolution*, Routledge, 2009

Keohane R.O., *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton University Press, 1984

Krasner S., *Structural Causes and Regime Consequences: Regimes as Intervening Variables*. International Organization. 36 (2), 1982

Krueger A.O., *Problems with Overlapping Free Trade Areas*. In: *Regionalism versus Multilateral Trade Arrangements*. National Bureau of Economics Research, Vol. 6; January 1997

Kwak K., Marceau G., *Overlaps and Conflicts of Jurisdiction Between the WTO and RTAs*. Conference on Regional Trade Agreements of the World Trade Organization, 26 April 2002

Laens S., Terra M.I., *Deepening integration of Mercosur: dealing with disparities*, Inter-American Development Bank, 2005

Lallande J.P.P., *The Pacific Alliance: Improving trade and cooperation between Latin America and Asia-Pacific*, ISA Asia-Pacific Conference, Hong Kong, June 2016

La Nación, *El Indec, la máquina de la mentira: Crónica de la destrucción de las estadísticas públicas durante el kirchnerismo*, available at: <http://casos.lanacion.com.ar/indec-la-maquina-de-la-mentira> [Last Access: 15/06/17]

La Nación, *La reforma al Banco Central: un regreso al pasado*, April 14, 2012

La Nación, *La revolución educativa de Correa*, April 17, 2014

La Nación, *La presión tributaria de Argentina, una de las mayores del mundo*, December 1, 2014

La Nación, *Nuevo fallo de la OMC contra la Argentina*, January 16, 2015

La Nación, *EE.UU. apunta a Cristina por La Salada*, March 6, 2015

La Nación, *Más matriculados, pero pocos graduados en las universidades*, March 27, 2015

La Nación, *Susanna Malcorra: la noción de que cerrandonos tenemos más trabajo es una noción que esta desvirtuada*, December 26, 2015

La Nación, *El FMI elogió a la Argentina por su salida del default*, April 16, 2016

La Nación, *Giro estratégico: Macri busca un acercamiento a la Alianza del Pacífico*, May 31, 2016

La Nación, *Por la llegada de Trump, Macri busca un Mercosur más flexible*, January 18, 2017

La Nación, *Macri logró en EE.UU. un fuerte apoyo político y empresarial*, April 28, 2017

La Política Online, *El Gobierno oficializó el fin de las DJAI de Cristina y Moreno*, December 22, 2015

Laredo I., *Pautas para el diseño de un nuevo paradigma para la integración regional*, UNR, Rosario, 1997

Laursen F., *Theory and Practice of Regional Integration*. Jean Monnet/ Robert Schuman Paper Series, Vol. 8, No.3, February 2008;

Lavagna R., *La Agenda Futura del Mercosur: la insoportable levedad de las propuestas*, Archivos del Presidente, n. 5, July-September 1999, pp. 121-130

Leví Coral M., Reggiardo G., *La Alianza del Pacífico en el regionalismo sudamericano actual*, Revista Mexicana de Política Exterior, n°106, January-April 2016, pp.187-204

Ley 29/11/12, n. 26.831, *Ley de Mercado de Capitales*

Logistic Performance Index, available at: <http://lpi.worldbank.org>

Machado Oliveira I.T., Carneiro F.L., *Trade and production integration in South America: a Role for Brazil?*, available at: <https://economic-policy-forum.org/wp-content/uploads/2016/02/Trade-and-Production-Integration-in-South-America.pdf> last access [16/06/17]

Malamud A., *Presidential Diplomacy or Presidential Democracy? The institutional Underpinnings of Mercosur*, prepared for delivery at the meeting of Latin American Studies Association, March 2003;

Malamud A., *Mercosur Turns 15: between rising rethoric and declining achievement*, Cambridge Review of International Affairs, Vol.18, No. 3, 2005;

Malamud A., *A leader without followers? The growing divergence between regional and global performance of Brazilian foreign policy*, Latin American Politics and Society, vol. 53, n° 3, 2011

Malamud A., *Integración y cooperación regional en América Latina: diagnóstico y propuestas*, Real Instituto Elcano, 2015

Mera L.G., *The Brazilian Automobile Regime: Explaining Brazil's defection from MERCOSUR Treaties in 1995*, University of Oxford, January 2000

Mercopress, *Mujica says Mercosur is a stalled pachyderm and needs trade accords with third parties*, March 2nd, 2013

Mercopress, *Uruguay "can't ignore Mercosur reality" and is applying for full Pacific Alliance membership*, June 5th, 2013;

Mercopress, *Main Mercosur obstacle is Argentina, say Brazilian farmers promoting an EU/Brazil trade accord*, June 21st, 2013;

Mercosur, www.mercosur.int;

MILA website: www.mercadomila.com

Ministerio de Hacienda y Finanzas Públicas (www.mecon.gob.ar)

Ministerio de Salud, *Mercosur y Estados Asociados definieron compra conjunta de un medicamento para tratar VIH*, available at: <http://www.msal.gob.ar/prensa/index.php/articulos/lista-de-slide-de-destacados/2964-mercotur-y-estados-asociados-definieron-compra-conjunta-de-un-medicamento-para-tratar-hepatitis-c> [Last Access: 04/06/17]

Ministerio del Trabajo, Empleo y Seguridad Social (<https://www.argentina.gob.ar/trabajo>)

Moon H.C, Rugman A.M, Verbeke A., *A generalized double diamond approach to global competitiveness of Korea and Singapore*, International Business Review, n°7, 1998

Mora J.U., *La Alianza del Pacífico y Mercosur: evidencias de convergencia económica*, Estudios Gerenciales, December 2016

Multilatinas' Ranking 2016, available at: <http://rankings.americaeconomia.com/2016/multilatinas/ranking>

Nolte D., *La integración regional de América Latina: geometría variable y gobernanza regional cooperativa*, German Institute of Global and Area Studies- GIGA, presented at the forum “América Latina y el Caribe en un contexto de cambios: oportunidades y desafíos para la UE”, March 6, 2014

Nolte D., *The Pacific Alliance: Nation-Branding through Regional Organisations*, GIGA Focus Latin America, N°4, August 2016

Nye J., *Soft Power: The Means to Success in World Politics*, New York Public Affairs, 2004

Olavo Baptista L., *Mercosur, its institutions and juridical structure*, available at: http://ctrc.sice.oas.org/geograph/south/mstit2_e.pdf [Last Access: 10/04/2017];

Organization for Economic Co-operation and Development, *Enhancing the Role of SMEs in Global Value Chains*, October 23, 2008, available at: <http://www.oecd.org/publications/enhancing-the-role-of-smes-in-global-value-chains-9789264051034-en.htm> [Last Access: 17/06/17]

Organization for Economic Cooperation and Development (OECD), *Revenue Statistics in Latin America and the Caribbean 2010-2015*, available at: http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/revenue-statistics-in-latin-america-and-the-caribbean-2017_rev_lat_car-2017-en-fr#.WUeu3sdQahc#page1 [Last Access: 17/06/17]

Pavnick N., *Trade Liberalization, Exit, and Productivity Improvements: Evidence from Chilean Plants*. Available at: <https://pdfs.semanticscholar.org/20ff/e80b1746fb63c442674ba0ba798072267291.pdf> [Last Access: 15/03/2017];

Pacific Alliance ABC, available at: <http://www19.iadb.org/intal/intalcdi/PE/2014/14662en.pdf> [last access 03/06/17]

Pacific Alliance Business and Investment Guide 2015/2016, available at: [http://www.ey.com/Publication/vwLUAssets/Gu%C3%ADa_de_la_Alianza_Pac%C3%ADfico_2015_2016/\\$FILE/EY_guia_alianza_pacifico_2015_2016_ingles.pdf](http://www.ey.com/Publication/vwLUAssets/Gu%C3%ADa_de_la_Alianza_Pac%C3%ADfico_2015_2016/$FILE/EY_guia_alianza_pacifico_2015_2016_ingles.pdf) [Last Access: 05/06/17]

Peña F., *Precisiones entorno al debate sobre la unión aduanera y el Mercosur*, Semanario Del Comercio Exterior, August 2006

Peña F., *Convergence and productive articulation at regional level: a timely initiative arising from the recent summit of the pacific alliance*, July 2014, available at: www.felixpena.com.ar

Peña F., *Mercosur y Alianza del Pacífico: tareas pendientes*, in Foxley and Meller, *Alianza del Pacífico en el proceso de integración Latinoamericano*, CEPLAN, 2014

Peña F., *Regional integration in Latin America: the strategy of "convergence in diversity" and the relations between MERCOSUR and the Pacific Alliance*, Paper presented at the Seminar "A New Atlantic Community: The European Union, the US and Latin America", Jean Monnet Chair/European Union Center, University of Miami Miami, February 27, 2015

Peña F., *A New Stage of Mercosur and its Relation with the EU? The leadership and methodological intelligence requirements that arise*, February 2016, available at: www.felixpena.com.ar [Last Access: 02/07/2017]

Peña F., *Building the region from the bottom-up: a methodological approach to the sustainability of joint work between nations*, June 2016, available at: www.felixpena.com.ar

Peña F., *Reflections on the occasion of an anniversary: 25 years of mercosur and the options for its future evolution*, March 2017, available at: www.felixpena.com.ar [Last Access: 02/07/2017]

Peña F., *Contributions to the debate on the future of Mercosur: how to achieve gains in flexibility and predictability that are credible?*, available at:

<http://www.felixpena.com.ar/index.php?contenido=negotiations&neagno=report/2016-12-flexibility-predictability-credible> [Last Access: 10/04/2017]

Peña F., *Latin America in an uncertain and turbulent world: is an effective and sustainable regional economic cooperation possible?*, February 2017, available at:

<http://www.felixpena.com.ar/index.php?contenido=negotiations&neagno=report/2017-02-latin-america-in-an-uncertain-and-turbulent-world> [Last Access: 06/06/17]

Pimoljinda T., *Theoretical Discussion on Regional Integration: EU-ASEAN perspectives*. Available at: http://www.academia.edu/388618/Theoretical_Discussion_on_Regional_Integration_EU-ASEAN_Perspective [Last access: 18/03/2017];

Prebisch R., *Hacia una dinámica del desarrollo latinoamericano*. Suplemento de Comercio Exterior, Banco Nacional de Comercio Exterior, Mexico, 1963;

Preusse H.G., *Mercosur – Another failed move towards regional integration?*, available at: <https://www.econstor.eu/handle/10419/47572> [last access 13/04/17];

Protocolo Adicional al Acuerdo Marco de la Alianza del Pacífico, Cartagena, February 10, 2014

Protocolo de Olivos, Olivos, February 18, 2002

Protocolo de Ouro Preto, Ouro Preto, December 16, 1994

Ramirez S., *Regionalism: The Pacific Alliance*, Americas Quarterly, Spring 2013

Renwick D., *Mercosur: South America's fractious trade bloc*, Council on Foreign Relations, October 2016

Robinson N., Rosamund B., Warleigh-Lack A., *New Regionalism and the European Union. Dialogues, comparisons and new research directions*. Routledge/ECPR Studies in European Political Science, 2011

Rodríguez Aranda I., Vieira Posada E., *Perspectivas y oportunidades de la Alianza del Pacífico*, CESA/CEGLI, Tomo V, Bogotá, 2005

Rojas D., Terán J.M., *La Alianza del Pacífico: nueva muestra del regionalismo en América Latina*. OASIS, n°24, 2016

Rosamond B., *Theories of European Integration*, St.Martin Press, New York, 2000

Ruiz J.B., *El Mercosur y las complejidades de la integración regional*, Teseo, 2011

- Salvia A., *Tiempo de balance: deudas sociales pendientes al final del Bicentenario. Necesidad de atender las demandas del desarrollo humano con mayor equidad e inclusión social*, Buenos Aires, Educa, 2016
- Schmitter P.C., *Neo-Neo-Functionalism*. In: Diez T., Wiener A., *European Integration Theory*. Oxford, Oxford University Press, 2003
- Schneider C.J., *The Political Economy of Regional Integration*. In: Annual Review of Political Science, Vol. 20, 2017
- Schweller R. L., *Emerging Powers in an Age of Disorder*, Global Governance, July 2011
- Selcher W.A., *Brazilian-Argentine Relations in the 1980s: From Wary Rivalry to Friendly Competition*, Journal of Interamerican Studies and World Affairs, No. 27, Summer 1985
- Seuma L.C., *El Ascenso de las Multilatinas en la Economía Mundial*, ICE, Marzo-Abril 2011, n° 859
- Singer H., *The Terms of Trade Fifty Years Later - Convergence and Divergence*, The South Letter, 1998
- Smith A., *An Inquiry into the Nature and Causes of the Wealth of Nations: A Selected Edition*, edited by Kathryn Sutherland, Oxford Paperbacks, 2008
- Söderbaum F., *The International Political Economy of Regionalism*. In: Philips N., *The Globalisation of International Political Economy*, Basingstoke, Palgarve, 2002
- Söderbaum F., *Rethinking regionalism*. Palgarve Macmillan, 2005
- Söderbaum F., *What's wrong with regional integration? The problem of Eurocentrism*. European University Institute, Robert Schuman Center for Advanced Studies, 2013
- South American Union of Nations (UNASUR) Constitutive Treaty, Brasilia, May 23, 2008
- Svensson S., *European Integration and the ECJ. The role of the European Court of Justice in the integration of the European Community*, available at: <http://lup.lub.lu.se/luur/download?func=downloadFile&recordId=1316466&fileId=1316467> [Last Access: 09/04/2017]
- Telam, *La OMC destacó el rol de la Argentina en las negociaciones multilaterales*, March 22, 2016
- The Economist, *Pacific Pumas. In America's backyard the Pacific economies are learning from East Asia*, November 13, 2014
- The Economist, *Mercosur's Missed Boat: Can a new attempt to strike a deal with Europe revive a moribund trading bloc?*, Available at: <http://rtaexchange.org/site/content/mercosur%E2%80%99s-missed-boat> [Last Access: 10/04/2017]
- The Nation, *Asean Could Be the World's 4th-Biggest Economy*, November 12th 2014, available at: <http://www.nationmultimedia.com/news/business/aec/30247614> [Last Access: 05/06/17]
- The New York Times España, *Cristina Fernández de Kirchner vuelve a ser procesada por cargos*

de corrupción, December 28, 2016

The Rio Times, *Accord between Mercosur and Pacific Alliance is closer*, April 10, 2017

International Trade Centre, Trade Map: www.intracen.org/marketanalysis

Telò M., *European Union and New Regionalism. Competing Regionalism and Global Governance in a Post-Hegemonic Era*, Routledge, 2016

The Telegraph, *Donald Trump's trade policy is driving Latin America into China's arms*, January 17, 2017

Tratado de Asunción, Asunción, March 26, 1991;

Trefler D., *The Long and Short of the Canada-U.S. Free Trade Agreement*. The American Economic Review, Vol. 94, No.4, 2004

Turriza, J., *Argentina-Brasil: la potencialidad de la cooperación bilateral*, BID-INTAL, 1981

Unidad Plan Belgrano: <https://www.argentina.gob.ar/planbelgrano>

United Nations Comtrade Database 2016: <https://comtrade.un.org>

United Nation Conference on Trade and Development, *Dispute settlement. Regional approaches, 6.2 Mercosur*, available at: http://unctad.org/en/docs/edmmisc232add28_en.pdf [Last Access 05/04/17]

Villareal M.A., *The Pacific Alliance: a trade integration initiative in Latin America*, Congressional Research Service, March 29, 2016

Viner J., *Studies in the theory of internal trade*. New York, A.M. Kelley, 1965

Vinuesa R.E., *Enforcement of Mercosur Arbitration Awards Within the Domestic Legal Orders of Member States*, available at: <http://www.tilj.org/content/journal/40/num3/Vinuesa425.pdf> [last access 10/04/2017]

Vivares E., Cvetich K., Torres Lombardo P., *Enfoques y carceles conceptuales en el entendimiento de los Nuevos Regionalismos Lationamericanos*. In Bonilla A., Alvarez I., *Desafíos estratégicos del regionalismo contemporáneo: CELAC e Iberoamérica*. FLACSO, San José, 2013

Wade C., *Mercosur and the Pacific Alliance Push for Integration in Moment of Convergence*, Wilson Center, June 8, 2017

Waltz K.N., *Theory, values and practice in International Relations*. In: Journal of International Affairs, Vol. 44, No. 1, 1990

WITS/World Bank statistics, available at: <http://wits.worldbank.org>

World Bank Group, Website: <http://www.worldbank.org>

World Bank Doing Business, benchmarked to June 2016:

<http://espanol.doingbusiness.org/data/exploretopics/starting-a-business>

World Economic Forum, Global Competitiveness Report 2016-2017, available at:

<https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1> [Last Access:16/06/17]

World Trade Organization, International Trade and Market Access Data, available at:

https://www.wto.org/english/res_e/statis_e/statis_e.htm

Zakaria F., *The Post-American World*. New York and London, W. W. Norton & Company, 2008

Summary

This work will be focused on the description and comparison of the two main attempts at Latin American (LA) regionalism: The Pacific Alliance and Mercosur. Indeed, on the one hand, Mercosur is the more institutionalized among the various regional agreements that have been signed in Latin America. In spite of its stalemate during the last decades, it has a strong basis to advance in a reforming project. On the other hand, the Pacific Alliance is the more recent experiment in the whole panorama of LA regionalism. Its structure and the very commitment and attitude of its members make it an unprecedented project that raised high expectations worldwide. The last sections of this work further dealt with the possibility of a gradual convergence between Mercosur and the PA and their increased cooperation. Moreover, the last chapter also focused on the potential role of Argentina as a mediator and bridge-maker in the region. For the purpose of this thesis, the region has been defined as a multi-state entity with no strict geographical criteria. This means that the states that form a region do not necessarily have to share a border or being in a relationship of strict geographical proximity. This paves the way for a focus on Latin America as a whole and as a region in its own right, with profound social, cultural and economic ties. Hence, the point of reference has been the LA region, regardless of the fact that its countries are geographically located in three different zones: South America, Central America and the Caribbean and even North America (Mexico). Furthermore, this work supported the idea that free trade is usually beneficial for the countries involved. The first chapter, focused on preliminary concepts, assessed that even if free trade potentially results in both winners and losers, there will be an increase in the overall national welfare. The notion of trade creation and trade diversion has been further explained, since the desirability of a Regional Trade Agreement (RTA) depends mainly on the resulting degree of trade creation and diversion. RTAs are perfectly compatible with the global system created by the World Trade Organization (WTO) and they are permitted under Article XXIV of the GATT on territorial application, frontier traffic, custom unions and free-trade areas. The article states that countries can always join such agreements provided that they do not jointly increase their tariffs against the outsiders. We talk about trade-creation when a member country starts importing a product from another party to the agreement that it formerly produced for itself. In that case, trade creation will bring benefits to both countries involved. By the contrary, trade-diversion could affect the outsiders to a RTA. We speak about trade diversion when a member country starts importing a good from another member that he previously imported from a country outside the new economic region. Hence, a trade agreement is considered to be beneficial when the total amount of trade-creation exceeds the amount of trade-diversion. Moreover, RTAs are believed to increase the

credibility of the national commitment to liberal trade and economic policies. Unilateral commitments are not usually credible, while being part of a transparent and efficient RTA could increase the attractiveness of the country's economy for foreign investors. The work has also been based on the analysis of the notions of "old and new regionalism", "competing regionalism" and "open regionalism". The dichotomy between old and new regionalism must not be taken as a rigid categorization. Still, it is a widespread idea that there have been two big macro-waves of regionalization, the first one in the 50s and 70s (mainly in Western Europe) then halted by a period of so-called "Eurosclerosis"; and a second wave of restart of the regionalist project, whose beginning is especially marked by the SEA in 1986. Old regionalism, on the one hand, was mainly characterized by a peace building approach, aimed at the resolution of major crises. That, of course, was due to the specific context in which these theories developed. On the other hand, new regionalism is an answer to a new context, characterized by the end of the bipolar world, replaced by an increasingly multipolar one and the dynamics of globalization. The notion of competitive regionalism is considered to be an essential feature of the global economy in a post-hegemonic era and of new regionalism itself. Indeed, we can say that the US is currently declining from its role of hegemon in the international system. Even if they are maintaining an unparalleled global military presence, they are losing their hegemonic position in other spheres of power. The emergence of new centers of power makes it possible for the post-hegemonic world to be characterized by multipolarism and heterogeneity. This, in turn, has its implication for regionalism in the twenty-first century. Actually, new regionalism is also a competitive regionalism, characterized by the proliferation and coexistence of multiple FTA and regional arrangements. Competitive regionalism is an essential feature in Latin America, too. Indeed, the region is characterized by the competition between different regional organizations (ROs) that compete to be spearhead of regionalism in LA. They coexist but they also partially overlap, creating norm-confusion and reducing the efficiency of the overall system. The result is the so-called "spaghetti-bowl" effect. The possible convergence between the Pacific Alliance and Mercosur could finally bring the region into a more cooperative than competitive dimension. Finally, even if a unique definition of open regionalism is lacking, we can define it as "external liberalization by trade blocs, which is the reduction of barriers on imports from non-member countries that is undertaken when member countries liberalize the trade among themselves"²²⁴. Hence, the focus is simultaneously on internal integration and external liberalization. The present work tries to avoid eurocentrism as a theoretical prejudice, which resulted in the attempt of explaining new regional projects as variations from a "standard" case. Still, the panorama of regionalism is rather characterized by pluralism, which must not be seen as

²²⁴ Frankel J.A., Wei S.J., Open regionalism in a world of continental trade blocs, International Monetary Fund Staff Papers, vol.45, n. 3, September 1998, p.441

an obstacle, even for a comparative analysis. Eurocentrism often resulted into false universalism. We should neither see the EU as a model, nor as anti-model. This dualistic conceptualization must be abandoned in favor of a new focus, not neglecting the European experience, but simply understanding that it is not the only possible outcome of a process of regional integration. And even when a project as a whole may seem completely different from the EU, we should neither define it as “weak”, “informal” or “loose”, nor claiming the complete impossibility of realizing a comparison. Moreover, when focusing on the analysis of a regional project, we should always describe and explain both its structure and the context in which it developed. Indeed, political and economic factors will always help to shape the structure, aims and decision-making process of a specific RTA. Hence, all the analysis of Mercosur and the PA has been developed in light of the aforementioned concepts. In particular, the notion of region mentioned above allowed overcoming the traditional dichotomy between South America and Latin America, a dichotomy that has been mainly supported respectively by Brazil and Mexico for political reasons. If we define the region as an entity composed of multiple states that are not necessarily sharing a border and are not necessarily part of the same geographical area, we can conceive a project of convergence between the two regional blocs mentioned above. Indeed, Mexico is part of the Pacific Alliance and it is a North American country in strictly geographical terms. This argument has been often used by Brazil to advance the idea of South America as a separated region in its own right and as its exclusive sphere of influence. Still, Mexico is also part of Latin America, a wider geographical space with many cultural, historical and even linguistic traits in common. If strong internal conflicts and divides have historically plagued LA, maybe unity could be a new answer to global and regional dynamics. The focus has been on a project of economic integration. Indeed, even if Latin American countries must join their forces in order to fight against socio-political problems such as poverty and drug trafficking, economic ties and the creation of regional value chains must be treated as a separated issue. Any agreement of Latin American scope must be trade-creative and this possibility actually exists, since the countries in the region are not economically integrated among them and their main trading partners are not parts of the region itself. Moreover, as said above, political factors also help shaping the development of a specific regional project. Latin America has to deal with presidentialism as a widespread form of government in the region, hence it has to find its own path towards integration. Presidentialism hindered the creation of supranational institutions and it is one of the main reasons why the work will be focused on economic regionalism: integration driven by common economic concerns will be way easier to reach than any form of cooperation entailing a significant transfer of sovereignty or dealing with strictly political issues.

The conflictive bilateral relationship between Argentina and Brazil was the main axis around which Mercosur was born. Indeed, the organization was mainly formed thanks to the leadership of the two latter countries, while Uruguay and Paraguay firstly joined the bloc in order to increase their regional and international visibility and to access the Brazilian market. Hence, in a certain way, the reasons that lie at the core of Mercosur's project are similar to the forces that pushed for European integration since integration was seen as a way to mitigate traditional rivalries between two bordering and influential countries in the region, Argentina and Brazil. The decade of the 80s, in spite of being a very difficult economic moment because of the debt crises, was also characterized by a certain political rapprochement that was, in turn, the basis for any future attempt at economic integration. The bilateral "Agreement on Cooperation for the Development and Application of the Peaceful Uses of Nuclear Energy", signed on May 1980 by the Presidents Videla and Figuereido can be seen as the cornerstone of successive improvements. Still, Mercosur was officially born with the Treaty of Asunción, signed by Argentina, Brazil, Uruguay and Paraguay on March 26, 1991. The foundational Treaty of Asunción envisaged a gradual integration that should have developed in three steps: at first, the creation of a free trade area; secondly the formation of a custom union and finally a common market. These objectives have not been reached in a satisfactory way, since the common market was never fully implemented and Mercosur is still defined as an imperfect custom union. Chapter II of the Treaty of Asunción outlined the provisional structure of the organization. It was provisional since it was linked to the transitional phase that was supposed to last until 1994. The two main bodies were the Common Market Council (CMC) and the Common Market Group (CMG), both intergovernmental ones. The CMC is still nowadays the highest organ of the organization, with functions of political conduction and decision-making. Its intergovernmental nature is reflected by its composition. Indeed, article 11 of the TA established that the organ was to be formed by Ministers of Foreign affairs and the Ministers of the Economy of the member states. The CMG was conceived as the executive organ of the organization. Among its main tasks there were monitoring the compliance of contracting parties with the treaty; proposing measures aimed at trade liberalization and coordination of economic policies; take all the necessary step to enforce decision adopted by the Council. This latter attribution seems to be a contradiction in terms, since the bodies of Mercosur lacked any real enforcement-power over the member state. Any member has the right to be represented in the CMG by four full members and four alternates each, representing the Ministry of Foreign Affair, the Ministry of the Economy (or its equivalents) and the Central Banks. The Protocol of Ouro Preto (additional protocol to the Treaty of Asuncion on the institutional structure of Mercosur) was signed in 1994 in order to enhance the institutional design of the organization. The original organs that formed the organization were reconfirmed with some

minor modifications, and the general scheme was completed with the creation of another intergovernmental body, the Mercosur Trade Commission (MTC). Intergovernmentalism is inherent to the organization itself, since no transfer of sovereignty took place and there has not been the formation of supranational organs. It is also reflected by consensus as the decision-making system of the organization. Intergovernmentalism is directly linked with presidentialism and the willingness of national leader to maintain the integration's development under their control. The dark side of this pure intergovernmental structure has been that, in many occasions, Argentina and Brazil used Mercosur as a forum to pursue their specific objectives, regardless of the smaller members' view. This resulted into a stalemate of the process, turning a profound rethinking of the organization into a necessity. Even the creation of a Mercosur parliament, the so-called PARLASUR, didn't result into any major improvement. Only Paraguay and Argentina are currently allowing for the direct election of its members. Hence, the parliament is not fully independent and it even lacks any binding power. It is, once more, the manifestation of the organization's executive-oriented nature. If pure supranationalism is not compatible with Mercosur's history and its members' needs, it should be desirable to at least evolve into a multi-level system of governance, with both supranational and intergovernmental features. The tendency to act unilaterally and the overwhelming role of the executive must be tempered in order to improve the performance of the bloc and avoid its traditional mismatch between rhetoric and practice. According to Felix Peña, the debate over the future of Mercosur revolves mainly around the methodological question (how to cooperate) rather than the existential one (whether to cooperate or not) with the exception of Venezuela, which joined in 2012 and it is the member that is posing the more serious challenges to the bloc, casting doubts over the benefits and possibility of cooperation itself²²⁵. The whole of the literature on the topic practically agree on the idea that it is necessary to modify the current logic and structure of the regional bloc in order to avoid the complete discredit of the project itself. Mercosur is a regional organization, but also a paradoxical one since the overwhelming presence of national executives results in sub-optimal outcomes. The organization seems not to be shaped by permanent regional interest with a long-term view, but by national ones that disregard common interests as well as common threats and opportunities. Still it is not simply possible to apply the supranational recipe as an ideal-type without taking into consideration historical and fundamental features of the members of the bloc, especially Presidentialism, as mentioned above. Still, the moment is now mature for a change, considering that the external and international panorama has

²²⁵ Peña F., *Contributions to the debate on the future of Mercosur: how to achieve gains in flexibility and predictability that are credible?*, available at: <http://www.felixpena.com.ar/index.php?contenido=negotiations&neagno=report/2016-12-flexibility-predictability-credible> [last access 10/04/2017];

sensibly changed with respect to the one that characterized the beginning of the process. The rapprochement between Argentina and Brazil took place in an uncertain international environment, characterized by the sunset of the bipolar model and the emergence of a new and still undefined one. Now that globalization has fully opened its wings and its effects are paramount, it is necessary to adapt to the new context if the objective is to profit from the increasing transnational flows of goods, capitals, services and people. As well as it is necessary for Mercosur to adopt a clear identity and a common posture in international forums if it wants to increase its leverage and bargaining power. Finally, it must be considered that popular participation has always been weak: there are no channels that can properly represent civil society's actors, that actually prefer to lobby top national-government officials rather than Mercosur ones operating in Montevideo. Nothing like a common identity emerged, and Mercosur symbols are neither widely used nor recognized as representative by people in the region. Mercosur could even be defined as a successful experience if compared with other failed project of integration in the region. But the poor record of Latin American integration is not a justification for the weaknesses of Mercosur that must be successful in its own standing.

The Pacific Alliance is the most recent example of Latin American Regionalism. Its direct antecedents have been the Latin American Forum of the Pacific Rim as well as the Andean Community. Indeed, fractures in the two aforementioned blocs contributed to consolidate the shared vision of the current members of the Alliance and provided the new project with a strong basis. It was officially formed with the Lima Declaration signed on April 28th, 2011. It was born thanks to an agreement between Mexico, Colombia, Peru and Chile and it is currently considered as the most promising and dynamic regional bloc of the zone. It is the product of increasing divergences among Latin American countries regarding the most suitable economic model to be applied in order to reach a long-lasting development. It can also be described as the resurgence of the open regionalism's paradigm, while other LA regional blocs became more and more closed and dominated by political rather than economic concerns. The Lima Declaration officially granted to Trade and Foreign Ministers the task of drafting a Framework Agreement to be submitted to the Presidents in December of the same year. Indeed, the Declaration is a very simple document containing no provision regarding the subsequent structure of the organization. It was mainly aimed at signaling a political willingness and commitment to reach certain objectives in a cooperative manner but without defining the exact instruments to be set in place. The inclusive model of the PA is already quite clear by looking at the final statement of the declaration, affirming the possibility of joining for any country supporting the view of the Alliance, with no further requirement such as

geographical proximity. The Framework Agreement was finally signed on June 6th 2012 in the city of Paran  (Chile). It only entered into force on July 20th, 2015; still the member states already deepened their cooperation and implemented measures without the agreement being formally into force. Hence, in spite of the delay, the PA has already reached significant achievements. The Additional Protocol to the Framework Agreement is a long and detailed document, formally defining some of the essential features of the new integration process. It entered into force on May 1st 2016, defining a wide set of trade-related issues. The latters, as said before, do not invalidate previous agreements but are rather coexisting and complementing them. It was designed to ease the achievements of objectives such as fostering intra-bloc trade and investments, economies of scale and increasing competitiveness. With its definitive entering into force 92% of the goods traded within the bloc became tariff-free. For the remaining ones, tariffs will be eliminated within a framework of 3 to 6 years, with the exception of sensible products that will enjoy an extended horizon of 17 years. Both in the case of tariff and non-tariff barriers, the private sector had an important role in pushing cooperation and integration. Indeed, it is certainly a more influential actor than it is in the Mercosur's framework thanks to the creation of a Business Council (*CEAP-Consejo Empresarial de la Alianza del Pac fico*) in 2011, which shows the willingness of the organization to treat the private sector as a fundamental interlocutor since its very inception. The Council is formed by entrepreneurs of the four members countries and it has a consultative nature. In spite of that, entrepreneurs strongly cooperate with the promotion of the PA's objectives and they issue recommendations on both government's practices and projects involving third markets, especially in the Asia-Pacific region. Indeed, the focus on the Asia-Pacific region is another of the main strategic assets of the organization. Moreover, this approach does not only imply China, which is already among the main economic partners of the member states, but also the willingness to cooperate with the Association of South East Asian Nations (ASEAN). The institutional structure of the PA is even simpler than the one of Mercosur. In spite of that, the bloc has reached important objectives in its first years of activity, mainly thanks to the strong commitments of the Presidents in the four member countries. The successors of the four founding heads of state maintained a strong willingness to push the whole process ahead, reaffirming their faith in the strategies and values of the Alliance. The latter lacks a permanent secretariat and works through the joint activity of ministries and technical agencies. The heads of state remain the driving forces behind the process, regularly meeting in presidential summits with the objectives of reviewing the integration process and propose new mechanism and strategies to reinforce integration. The role played by national Presidents in the bloc may suggest a similarity with Mercosur and its logic of functioning. Nonetheless, the PA is not as politicized as its counterpart in the Southern Cone: it has certain

deficiencies to be addressed and it is far from being perfect, still is not used as a mean to reach particular interests and the rationale behind the project is supported by a strong and credible national commitment. Lacking a permanent secretariat, the pro tempore presidency rotates among the members year by year. The Council of Ministers is the other main body conforming the institutional structure of the PA. It is comprised by the Ministers of Foreign and Economic Affairs in each country and it is responsible of adopting decisions or approve programs and activities that are needed to pursue the objectives of the Alliance. It further provides the political guidelines of the integration process. The High Level Group is comprised of the Foreign Affairs and Trade vice-ministers. It evaluates and controls the progresses of 22 technical working groups, each one focused on a different topic (not necessarily an economic or trade-related one). The HLG is also in charge of identifying new areas of integration and it has the task of drafting proposals for partnerships with other regional groups or organisms. The technical working groups address specific issues related to a multi-level integration process. One of the most singular characteristics of the PA is the disequilibrium between the number of proper members and the number of observer countries, with no parallels in other experiences of regional integration. Indeed, the balance is quite unusual with four full members and 49 observers at the present time²²⁶. The PA represents a stable and attractive environment for foreign investors. The democracies of the member states are stable and the past years have not seen crises comparable with the ones currently affecting Brazil and especially Venezuela. Furthermore, the presidents of the four members strongly support the values and strategies outlined in the founding documents of the PA. There are not cases of abrupt changes or of Presidents completely disregarding the organization's rules in order to pursue national or short-term interests. The PA also performs better than Mercosur in international rankings such as the Ease of Doing Business Index, elaborated by the World Bank. Moreover, inflation is consistently controlled in the PA's members, while it has been a significant plague in the countries of the Southern Cone. Even Peru, a country with a relative weak economy, managed to reach an inflation level that has been the lowest in Latin America in 2016. The overall panorama of the PA is positive and promising. Still, the four countries must maintain their efforts and commitment in order to advance with the integration. Indeed, they adopted a model of open regionalism, aimed at internal integration as well as external projection and openness. The PA is making sustained effort to act as a bloc in its foreign relations and negotiations with other regional actors. Still, the four countries

²²⁶ Germany, Austria, Australia, Belgium, Canada, China, South Korea, Costa Rica, Denmark, Spain, United States, Finland, France, Guatemala, Ecuador, El Salvador, Georgia, Greece, Haiti, Honduras, Hungary, India, Indonesia, Italy, Israel, Japan, New Zealand, Morocco, Panama, Paraguay, the Netherlands, Poland, Portugal, the Dominican Republic, the United Kingdom, Singapore, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey, Uruguay, Paraguay, Egypt, Romania, Ukraine, Slovakia, Norway. Source: <https://alianzapacifico.net/en/paises/#paises-observadores> last access: June 4th, 2017.

didn't managed to become a cohesive group when it comes to internal ties and especially trade flows. That is the main point that needs to be strengthened: if the project is aimed at being successful, it is necessary to adopt both an inward-looking and outward-looking strategy. The PA needs to reinforce its internal commercial and financial ties, especially insisting on intra-industry trade and the attempt to create, in the future, regional clusters. It is quite meaningful that while the bloc represent 50% of LA exports, intra-bloc trade only accounts for 3% of the total. Moreover, it would be desirable to translate the cooperation with the ASEAN into a formal agreement, starting by redirecting part of the share of trade toward this region of the world.

The new international scenario is posing both challenges and opportunities for Latin American countries that can profit of new strategies for international insertion. The shift of global politics and economy towards the Pacific is quite evident. The eyes of the world are now directed towards the events in the South China Sea and those involving North Korea and its growing tensions with Japan and bordering countries. Asia's growing economic power is a fact, too. While Europe is facing serious challenges with the refugees' crisis and its internal problems, especially after the Brexit, Asian countries are continuously growing and constructing new transnational relations. The U.S. its still the main trading partner of Mexico for obvious reasons, mainly the membership in the NAFTA and geographical proximity. Still a new scenario is emerging after Trump assuming the presidency of the country. He is considering raising taxes applied to Mexican imports, he withdrawn from the project of the TPP and he is adopting postures that may lead to an increasing international isolation of the U.S., such as the decision to oppose the Paris Agreement on Climate Change. Obviously, no country in the world can disregard completely its relationship with the U.S. Still, the latter is no more the sole paymaster supporting a global order universally founded on Western values, as in the post-Bretton Woods scenario. This probably entails the possibility for Latin American countries to obtain consistent benefits by re-orienting their view towards Asia and reducing their dependence from major economies. By the way, the main challenge is represented by the fact that Latin American economies have usually profited from the export of basic commodities. Still, their price is volatile and a country aimed at be successful must recognize the need to diversify the economy as fast as possible. It is not about completely disregard the production and export of commodities: the point is to expand other economic sectors and find a place in global value chains, exploiting growing industries such as the automotive one (that is particularly strong in Latin American countries) and the electronic industry. Latin America is consistently behind other dynamic regions, such as South East Asia, in terms of intra-regional integration and, as a consequence, formation of regional value chains (RVCs). An agreement of increased cooperation between the PA and

Mercosur can create a wide free trade area of Latin American scope that may be considered attractive by other countries in the region. As mentioned above, external changes are now providing a new environment that may favor beneficial developments. Moreover, internal political changes in countries such as Brazil and Argentina may also favor greater economic openness and the adoption of more liberal trade policies, since the two countries have traditionally been the two main promoters of a protectionist Mercosur. A recent meeting between this latter bloc and the Pacific Alliance has been held in Buenos Aires on the sidelines of the World Economic Forum for Latin America in April 2017. It is desirable that the proposal of increased cooperation that resulted from the meeting will be translated into practice as soon as possible, by addressing the main LA deficiencies. The underlining idea is that given the failure of previous experiments at regional integration in LA, a possible convergence between the PA and Mercosur could be a first step toward a more integrated region. The latter blocs, being the largest in the region, could have a carry-over effect on other Latin American countries. Bolivia already asked for membership in the Mercosur, while Ecuador is part of the Andean Community that (even if quite exhausted) links the latter with Colombia and Peru. Caribbean economies may be also attracted by a perspective agreement of regional scope. Indeed, they are already open economies and this is especially true in the case of small or insular countries, because of their reliance on trade. Recent developments seem to be promising about a future strengthening of the relationship between the PA and Mercosur. Cooperation between the two blocs could finally put an end to the double dichotomy Latin America/South America and Pacific/Atlantic coast. Indeed, it can be said that currently the PA constitutes the most dynamic pole in the region, in comparison with a suffering Mercosur, that necessarily need to undergo a process of metamorphosis, since it has experienced a serious crisis of credibility. This is also an historical opportunity, since a coordinated effort could bring LA as a whole at the center of international trade and economic relations, connecting it with Africa, Europe and the Mediterranean through the Atlantic as well as to Asia-Pacific nations. During the fourth Summit of the Americas, held in Mar del Plata in November 2005, divergences emerged between Mercosur and Venezuela (that was still not part of the bloc) on the one hand, and Mexico with some Andean countries that are currently part of the PA (such as Colombia and Peru) on the other hand. The divide between an open and a closed pole survived until today. In spite of that, the most recent initiatives shows a willingness to find a common ground of cooperation, maybe as a consequence of a new diagnostic of the current global situation. No formal agreement has been signed yet, but since 2014 there has been a growing interest about the issue, especially supported by Chile under the presidency of Michelle Bachelet. It is desirable that the initiative that has been put in motion will not result into another political forum for a sine die postponition of crucial themes. Moreover,

considering the relationship between the Mercosur and the PA only in conflictive terms is reductionist and wrong: it means to ignore the already profound ties that connect their member countries in multiple ways. The PA countries, in particular, currently trade more with Mercosur's members than with each other. These commercial networks are continuously growing, especially those involving Chile, Peru and Colombia, on one side, and Brazil and Argentina on the other. Previous agreements already allowed for a complete tariff reduction between Chile and Mercosur, an 88% reduction in the case of Peru, and a 90% one for Colombia²²⁷. If the PA represents half of total LAC external trade, Mercosur members overcome the PA's record in terms of intra-bloc trade. Intra-industry trade is among the sectors that should be developed as soon as possible. By using the Gruber&Lloyd Index (IGL) as a measure of intra-industry trade²²⁸ and by looking at intra-industry flows between the PA and Mercosur, we can observe that only three relations have an IGL superior to the critical value of 0.33: trade between Argentina and Brazil; trade between Brazil and Mexico and between Colombia and Peru. And yet there are some relations with intra-industrial potential that should be further stimulated: Brazil-Colombia, Argentina-Chile, Brazil-Chile and Argentina-Mexico²²⁹. Hence, there is a margin for mutual learning and in a framework of cooperation the two sub-regions could address their respective deficiencies as well as facing common challenges. It is more difficult to have a comprehensive picture of the bilateral and multilateral flows of capitals, since countries such as Venezuela and Peru do not publish data about the source of the FDI they receive. Still, LA multinational corporations, the so-called Multilatinas, gradually gave birth to a de facto integration. The term "de facto" integration means that integration itself has been the product of market forces, since the regional expansion of the multilatinas contributes to increasing capital flows but also to the creation of regional networks of providers and subcontractors and commercial linkages. LA enterprises involved in processes of internationalization mainly operate in sectors such as basic commodities (mining, steel industry), services (communications, aerial transportation) and goods of mass consumption. The main multilatinas are the Brazilian or Mexican ones, even if there is a growing presence of enterprises from Chile, Colombia and Argentina. One of the major LA multilatinas, the Brazilian Petrobras, is already active in all the member countries of the two blocs, with the exception of Peru. To sum up, it seems that changes in the international environment, as

²²⁷ Peña F., *Regional integration in Latin America: the strategy of "convergence in diversity" and the relations between MERCOSUR and the Pacific Alliance*, Paper presented at the Seminar "A New Atlantic Community: The European Union, the US and Latin America", Jean Monnet Chair/European Union Center, University of Miami Miami, February 27, 2015

²²⁸ Intra-industry relations are superior when the value is near to 1; An IGL value near to 0 indicates the absence or insignificance of intra-industry flows. The critical value, above which we can start to talk about intra-industry trade is 0,33.

²²⁹ Economic Commission for Latin America and the Caribbean (CEPAL), *Panorama Social de América Latina*, 2015

well as a political shift in Brazil and Argentina towards more open and business-friendly policies could finally lead the PA and Mercosur on a convergent path. The ministerial meeting of April 2017 already implied the drafting of a cooperation roadmap: now we must hope that the process will not end up being a mere rhetorical exercise, as past experiments of regional integration. As pointed out by the Chilean Chancellor Muñoz, convergence does not imply a merger of the previously existing organizations. Rather it must be based on the identification of common interests and mutual similarities. If the convergence will proceed and prove to be beneficial it may confer to the region a new dynamism, making it an active and growing economic pool. The convergence agenda must focus on a multi-level cooperation. And yet, some challenges are more urgent than others, especially infrastructural quality, diversification, improvement of human capital and the formation of RVCs.

The last section of this work explored the possible role of Argentina as a bridge between Mercosur and the PA and, in a wider sense, as a new regional leader. Indeed, even if the possibility of convergence between the two blocs was first envisaged by the Chilean Michelle Bachelet, Argentina has both economic and political assets that make it the ideal candidate. Indeed, it is the third economy in the region, right after Mexico and Brazil, and the current administration is exploiting its diplomatic skills in order to strengthen its ties with multiple regional partners. If it wants to be recognized as a regional power pole, Argentina must improve its portfolio of economic capacities but also smartly exploit its diplomatic skills and promote an effective activity of nation branding. It must propose itself as an agenda setter and agent of change. Argentina could be the ideal bridge between the PA and Mercosur in a broader sense, but especially between Brazil and Mexico. Indeed, the latter are the main economies in the region and they will never accept any proposal under the leadership of their counterpart, being linked by a history of long-lasting rivalry. Argentina is a more “neutral” player and, at the same time, it is valued as a strategic partner by both countries. Brazil already has profound ties with its neighboring country but it is also probable that Mexico will strengthen its relationship with Argentina in order to diversify its foreign relations and open a sustained dialogue with Mercosur’s countries. If Brazil is excluded as the main Mexican interlocutor for the reasons outlined above, Venezuela is not feasible either, since it is currently suspended from the bloc. Uruguay and Paraguay historically tried to support a more open economic paradigm from within Mercosur. Still, their relative demographic and economic size hinder their possibility of being considered by Mexico as strategic partners. And yet, assuming the role of a leader also requires addressing internal significant deficiencies. Hence, the Argentinean government must focus on external projection as well as on its internal weaknesses. Néstor and Cristina Kirchner maintained the presidency of the country from 2003 to 2015. Their governments have

been characterized by ideological confrontation and the adoption of protectionist measures that even provoked sanctions from the World Trade Organization. Kirchners' policies obviously benefited certain sectors of the population but they also ended up damaging Argentinean consumers, unable to access certain products and services, and local producers too. The latter had to face a lack of access to imported intermediate and capital goods, a lack of credit lines and an asphyxiating taxation system. Economic openness is mandatory for a country like Argentina, which needs both local investors and substantial capital flows from abroad. FDI will also entail new jobs and transfers of technology, know-how and management techniques. Mauricio Macri, member of the center-right political party Republican Proposal (*Propuesta Republicana*-PRO), became president of the country on December 10, 2015. He is an exception in Argentinean history since he is the first president since 1916 who doesn't form part of a Peronist party or of the centrist Radical Civic Union (*Unión Cívica Radical*-UCR). He's not the leader of a majority party, hence he does not control labor unions and he reestablished the normal functioning of the National Congress. After one year and a half of administration, the President is the object of both criticism and praises. Data diffused by the National Statistic Institute, the INDEC, showed that in 2016 there has not been any major economic improvement. By the contrary, inflation reached 40% and public expenditure has not been reduced significantly. Still, we must keep in mind that the result of a change in economic policies normally materializes in a relatively long term. Hence, it is still not possible to give a comprehensive evaluation of Macri's Presidency. And yet he also obtained some significant successes: he put remedy to a country without numbers and statistics, a huge anomaly that eroded investors' trust, and he also put an end to the Argentinean debt crisis after 15 years from the declaration of the sovereign default (US\$ 100.000) in 2001. In April 2016 Argentina finally started to pay its creditors, returning to international capital markets and modifying the Argentinean reputation as an international financial pariah. In a country with an economical pattern like Argentina it is not possible to export without before importing key production's inputs. For that reason, the decision to abolish the previous DJAI (*Declaraciones Juradas Anticipadas de Importaciones*) system has been fundamental, since it hindered the possibility of growth of SMEs and it even caused sanctions from the WTO. The new regime was established with the General Resolution 3823 of the Federal Administration of Public Revenues (AFIP) in December 2015, less than one month after the election of the new President. Now the Integral System for Import's Monitoring (SIMI) substitutes the previous DJAI regime introduced by Cristina Kirchner and her minister Guillermo Moreno in 2012. The SIMI has been conceived as an instrument to reduce delays and streamline bureaucracy. Moreover, the new procedure is again in line with the WTO system of automatic and non-automatic licenses. In December 2015, Mauricio Macri also launched

the ambitious infrastructural project known as Belgrano Plan. It was already announced during the electoral campaign and it is aimed at improving infrastructure in the 10 Northern provinces of the country, which have historically been the less integrated and developed ones. It is not a project of minor importance since poor infrastructural connection significantly hinders the country's economic development and integration. The focus of this work is not Argentina itself, but rather LA regionalism and the perspective of a convergence between the PA and Mercosur. Still, regional integration does not take place automatically, but committed leaders must support it. Argentina can now profit from a positive juncture, both at the regional and international level. Even if it is not the first LA economy, it is showing an increasing commitment to regional cooperation. Mauricio Macri is strengthening its ties with PA leaders and even the decision of becoming an observer member of the latter bloc has a huge symbolic value. Argentina, together with Brazil, is one of the founding members of Mercosur. Still it is demonstrating a strong willingness to go beyond Mercosur itself without disregarding it. Cooperation with the PA is not aimed at destroying previous achievements of the Southern Common Market. It is rather aimed at improving it and increasing its credibility through a more comprehensive and region wide strategy. Argentina could mediate between Brazilian and Mexican views, but this balancing role is not sufficient to define it as a possible leader. Guiding a process of convergence is not the mere result of actions in the diplomatic arena. The country cannot be a promoter of free trade and capital flows without implementing the same model at home and in its bloc of reference, the Mercosur. It cannot promote integration and the formation of RVCs without eliminating national deficiencies that may hinder the country's insertion in regional economic dynamics. For this reason Mauricio Macri, regardless of any political or ideological consideration, seems to follow the right path when working on a multiple level, both regional and national, and when simultaneously focusing on internal growth and soft power's projection abroad. Now both economic and political factors are pushing for increased integration in LA and they are meeting responsive politicians. If regional leaders will manage to focus on long term and convergent objectives they will also individuate a common path towards growth.

