REGIONAL INTEGRATION IN SOUTH AMERICA

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INTRODUCTION

In the 2000s, Andean Community of Nations (CAN) and the Common Market of the South (MERCOSUR), the main economic integration blocs of South America, went through periods during which questions were raised in terms of disappointing trade performance, as well as in terms of political and diplomatic experience. In this context, to avoid the weakening of these economic blocs, in 2008 UNASUR was created, to be an alternative and final project of economic integration in South America.

The main objectives of UNASUR are: political coordination, free trade agreement, infrastructure integration – especially, in terms of energy and communications – cooperation in technology, science, education and culture, integration between business and civil society and integration and regional development.

At the same time, a set of institutional bodies were created to boost the economic integration in the Region, such as: Latin American Reserve Fund (FLAR); Reciprocal Payments and Credits Agreement; Structural Convergence Fund of the MERCOSUR (FOCEM); Bank of the South; The Payment System in Local Currency (SML); Single System of Regional Compensation Payments (SUCRE).

To sum up, some integration process in South America became reality in the 2000s, especially after the implementation of UNASUR, due to, at least, two reasons: first, it created a set of institutional bodies that allow greater monetary, financial and fiscal cooperation among the South American countries; and second, policymakers and international institutions have argued for the restructuring of the global economic order once the 'great recession' has ended, which encompassed both restructuring of the international monetary system and the speed up of the regional integration process.

OBJECTIVE

(1) Is the Union of South America Nations (UNASUR) the most viable institution to achieve a consistent regional integration process in South America?

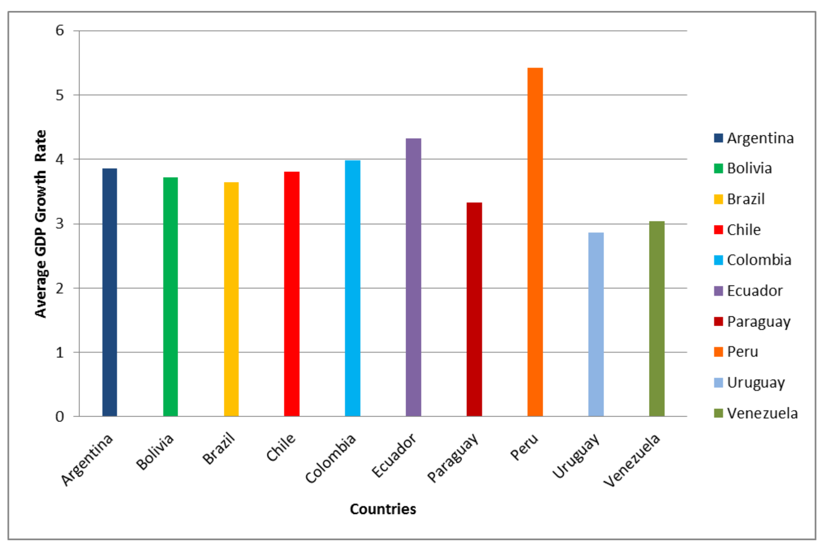
(2) What model of regional integration should be adopted in the case of UNASUR, which would ensure macroeconomic stability and avoid financial and exchange rate crises in South America?

THE ECONOMIC INTEGRATION OF UNASUR (2000 – 2010)

Summarizing the macroeconomic variables for UNASUR countries:

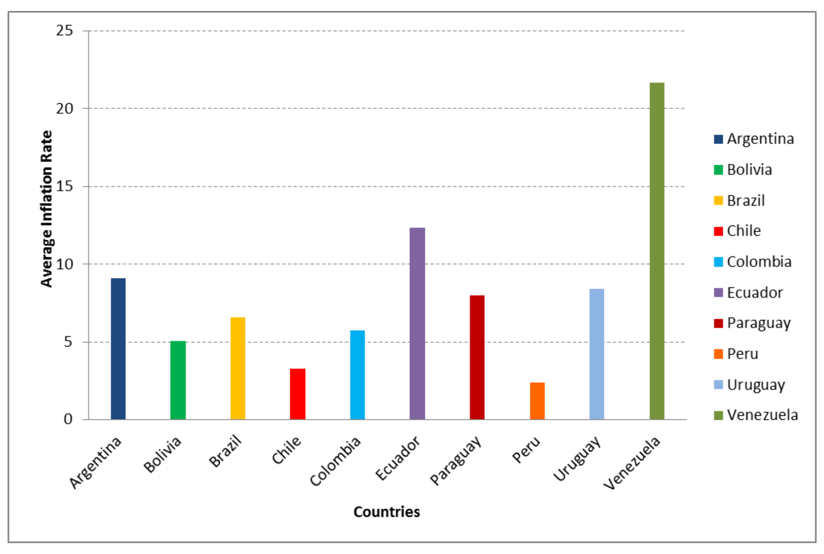
(a) the average growth rate and inflation rate have been relatively similar for all countries. The exception was Venezuela, basically in terms of the inflation rate;
(b) the unemployment rate decreased and converged, over the period under scrutiny, for all countries;
(c) despite the difference in the exchange rate regimes, the effective real exchange rate (ERER) became relatively stable for all countries. The range of the ERER variations was relatively close, with the exception of Argentina and Ecuador;
(d) the volume of intraregional trade among the UNASUR countries is still low, but it improved from 2000 to 2010;
(e) the relationship between the current account and GDP, for all countries, was volatile over the period, showing a slight improvement in the last years of the series, despite the 'great recession';
(f) after 2005, the nominal fiscal/GDP ratio, for all countries, improved considerably, even with the problems arising from the 'great recession' that forced countries to adopt countercyclical fiscal policies, thereby deteriorating the primary fiscal surplus; and
(g) the gross public debt/GDP ratio showed different performance for the UNASUR countries. However, the trend in the gross public debt/GDP was falling and tending towards stability.

Figure 1. Average GDP Growth Rate, %, 2000-2010



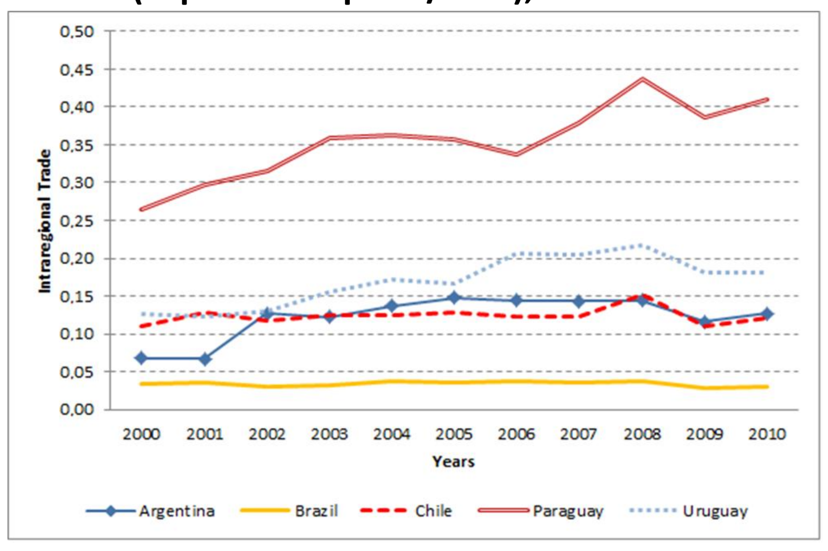
Source: ECLAC (2012)

Figure 2. Average Inflation Rate, %, 2000-2010



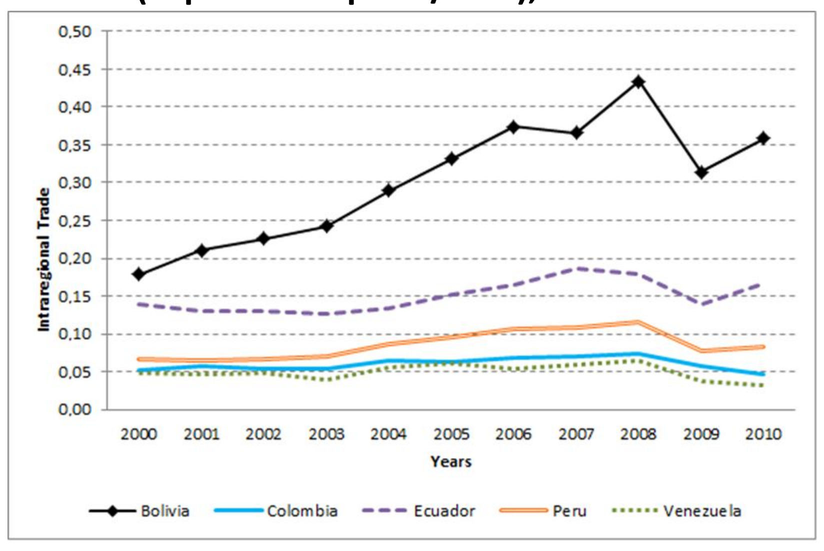
Source: ECLAC (2012)

Figure 3. Intraregional Trade (Exports + Imports/GDP), 2000-2010



Source: ECLAC (2012)

Figure 4. Intraregional Trade (Exports + Imports/GDP), 2000-2010



Source: ECLAC (2012)

Some degree of economic integration in South America seems to have become a reality. However, there are still some economic and social problems to be overcome in the South America countries: for example, a growing disparity of the most dynamic countries in comparison with the less dynamic countries.

AN INTEGRATION PROPOSAL FOR THE UNASUR

Despite the fact that South America is not economically and politically integrated, starting from the assumption that the process of economic integration in South America can be consolidated by UNASUR, here there is a relevant proposal for UNASUR. Unlike the original proposal for the creation of UNASUR, which is based on European Monetary Union (EMU), our proposal would suggest the following: **(i)** that the EMU is not a relevant arrangement to be adopted by the South American countries; and **(ii)** that our proposal focuses on the creation of a Regional Market Maker (UNASUR Regional Board, URB) that is capable of boosting trade and financial relations, discipline and standardize macroeconomic policies and prevent any disruptive situation resulting from financial and exchange rate crises.

The URB has to be powers to establish: **(i)** the adoption of common countercyclical macroeconomic policies; **(ii)** joint programs for removal of trade barriers; **(iii)** the use of national currencies for intraregional transactions; **(iv)** a stable exchange rate system; **(v)** conditions for eliminating the external imbalances; **(vi)** the management of foreign reserves; **(vii)** mechanisms of capital controls; **(viii)** fiscal transfer to reduce structural and economic disparities among the countries; and **(ix)** conditions to monitor and to prevent market failures. In other words, the idea is that the URB can be an institution able to regulate and stimulate the monetary, financial and trade relations of the UNASUR.

SUMMARY AND CONCLUSIONS

We have argued that regional integration in South America is the way forward. Should this be economic integration or political integration along with a monetary union is the really relevant question. We have suggested that the latter is rather premature and regional integration is more appropriate. In pursuing this objective, though, it is of paramount importance that the EMU model is avoided.

The proposed regional integration should involve the creation of a Regional Market Maker in the form of a URB. Our proposal suggests a new regional arrangement for UNASUR to promote full employment, growth and stability and to reduce the real disruptive outcomes derived from the speculative activity in financial markets in the South America.