Uncertain Outlooks of Regional Integration¹

Antonio Jorge R. Rocha²

1. Introduction

This paper analyses different dimensions of regional integration processes in course in the Western hemisphere, particularly in South America. By focusing on some of the contradictions inherent in these processes, it aims to instigate the reader to look at the FTAA process from different perspectives, hoping that it will manage to shed light on some of the underlying dynamics of regional integration in South America. Some of these dynamics strongly condition the deepening of trade liberalization in the Hemisphere, insofar as they challenge the capacity of several governments to perform some of their basic functions on a satisfactory basis. In this context, the FTAA appears as one mere dimension of the relations between South American countries as a whole and the U.S. – a dimension that has apparently lost some of the importance it once had as a result of the developments that took place after the September 11 tragedy.

One could think about, and produce empirical evidences of, different types of integration in South America, which in fact are part of the same complex reality we are immersed in. Indeed, some of the most important dimensions of the interactions observed between social, political and economic agents in South America take place in contexts that normally do not receive due attention from analysts. Put differently, these dimensions of the regional reality continuously challenge the capacity of the governments involved in the construction the Free Trade Area of the Americas to conduct the formation of an integrated commercial space in an orderly manner.

As a result, if it is clear that, on the one hand, one could expect the development of an integrated market as well as of free flows of goods and services crossing the Hemisphere according to the schedule of the FTAA, on the other hand it is very difficult to figure out how the parallel processes of integration – some of which governments hardly acknowledge – will evolve, though one may imagine that they may substantially impact trade negotiations and human security in the region. References to these processes and discussions on how they relate to trade negotiations constitute most of the arguments in the next section of this article.

Though it is obvious that the reality comes in a continuum, i.e., that the conception of regional integration as separate well-defined processes are mere intellectual

² Antonio Jorge Rocha is full professor at the Department of International Relations of the University of Brasilia, Brazil, PhD by the University of São Paulo. (ramalho@unb.br)
constructions, which are far from neutral\(^3\), for the sake of dialogue let us accept the common approach in the field of International Relations and look separately at each of the dimensions of regional integration in South America. The second section of the paper is short and provocative; it discusses some of the dimensions of regional integration in the Hemisphere, as well as their implications for human security in some of the most important countries in the region, illustrating with processes already in place in some of these countries. Some of the concepts it briefly presents and discusses will be necessary to develop further arguments.

The third section focuses on the tensions between trade liberalization at the global level and at the regional level, pointing to the need to take into account the peculiarities inherent in the governmental approaches to the possible complementary nature of these initiatives. It analyzes the Brazilian approach to initiatives of regional integration in the context of its negotiations at the global level, stressing the fact that the Brazilian government perceives great compatibility in carrying on trade liberalization within MERCOSUR and within the FTAA simultaneously. Moreover, its negotiations with the European Union are also perceived as one of the blocks built on foundations that are compatible with WTO commitments\(^4\). This part of the paper uses a greater deal of technical language and treats basically trade negotiations, unlike the second section, which contrasts this dimension of regional integration with other social, political and economic events that jointly condition and, in a certain sense, constitute, the processes by which the countries in the Hemisphere interact with each other. A brief conclusion follows in the last section.

2. Puzzles of Regional Integration in South America

Complementary dimensions or uncertain outlooks?

In many different ways scholars organize the complex reality of international relations, usually with the purpose of making it more intelligible to other scholars, initially, and, by this means of gaining their respect\(^5\). A second purpose would be to make sense of the world we live in to their students and to other social actors, since the characteristics we may attribute to reality do not come to us organized in categories, which are mental constructs. Nature itself, including social facts, come in a *continuum*, which we organize in systematic discourses validated during the process of scientific inquiry. This said, this paper will not elaborate theoretical or methodological discussions, but only warn the reader that what follows aims at provoking alternative (some would prefer complementary) readings of the uncertain

\(^3\) As constructivists remind us so eloquently: see Onuf, 1989, 1998; Wendt, 1999; Ruggie, 1998.

\(^4\) By contrast, the U.S. government tends to treat specific negotiations for trade liberalization as self-contained processes.

\(^5\) (To say nothing about developing careers, getting tenure in universities, becoming something like an oracle or a media star…)

---

2
outlooks of regional integration in South America. In part 3 of this paper I may analyze more carefully the dimensions of regional integration more commonly studied by International Relations scholars and economists, mainly the negotiations of trade liberalization arrangements. For now, let me propose one way of organizing our discussion and a first, rather unsystematic approach, to other dimensions inherent in the integration processes already in course in this part of the world.

If we accept the organization of the current theoretical production in International Relations as a continuum that would have rationalists in one extreme and constructivists in other, each assuming different premises and making different methodological and ontological claims about international relations, there will still be some issues on which they would agree – or they would not use the same vocabulary to discuss particular themes and problems that are commonly associated with this branch of social sciences. Obviously, a number of thoughtful arguments fall between these extreme points in the continuum, falling partially in one or in another research agenda, referring to different aspects of current international relations, treating processes at distinct levels of abstraction and at distinct levels of analysis.

One thing all constructivists and rationalists have in common is the assumption that, to a certain extent, international relations has to do with relations of power and relations of authority (the extent to which one type of relation prevails, the actors involved, the mechanisms of either enforcing particular wills or getting others’ acceptance, all this constitute their differences, but shall not be discussed here). Usually scholars think in terms of relations between agents, which are immersed in structures that, some would say, help constituting the very identity and preferences of agents; others would say that the structures are mere facts of life, which, with the appropriate tools, we may be able to explain. In some cases, constructivists may sophisticate their argument, pointing to the fact that agents may follow rules that are not imposed by other agents, but merely embody values and preferences that suit some interests – and not others. If this is true, than one would not observe a clear struggle for power, to recall Morgenthau’s foundational book, by which agents intend to advance their preferences (and /or to preserve their capabilities in relation to others), possibly dominating the whole system, but successive disputes to define norms in the international realm, as one would observe a process of

---

6 My hope is to receive as many critics as possible during the Summer Institute, so that I will be able to enhance this paper, producing a version compatible with the quality I foresee in the other papers presented in the Institute.

7 By levels of analysis I refer basically to Waltz’s first distinction (Men, the State, and War, 1959), later elaborated by Allison, 1971, rather than to Singer’s treatment of the theme, more in line with the discussion on the Agent – Structure problem (See Singer, 1961). By levels of abstraction I refer to the contemporary discussion on the adequate epistemological and methodological attitudes in IR analyses. See Rocha, forthcoming.

8 I shall not develop this discussion here. The readers who may be interested in it may see Ruggie, 1998 and Waltz, 1979, on the one hand, and, with somewhat of a narrower focus, Wendt, 1992, Dessler, 1989 for thoughtful discussions of the subject.
global governance, i.e., some kind of “governance without government”. In Onuf’s words, this would constitute a rule by specific rules – which, one should keep in mind, are not neutral.\(^9\)

Whatever is the case, if these values are structurally built in the international system, they favor the condition of specific agents to impose their preferences on others, in a process that Strange explained by establishing a clear difference between “structural” and “relational” power.\(^10\) Still, the relations of power would characterize the interaction of agents in the international realm, some of which would be legitimized by their adequacy to specific rules (or tradition, and even the sense of authority embodied in charismatic relations of leadership, if one wants to recall Weber’s ideal types).\(^11\) As a result, relations of power and relations of authority take place in real life, depending on the extent to which observers perceive agents as, to say it crudely, “accepting” or “having to accept” the rules.

It is clear that total acceptance of the normative structure by agents whose behavior should conform to the established rules is an ideal type, inasmuch as total imposition of rules by a totalitarian ruler. What Olson called structures of “selective incentives” do apply, and real life lies somewhere between total acceptance and total imposition of given sets of rules, conceived as directions for behaviors, rather than as strict positive legal rules.\(^12\) Various mechanisms of group affiliation concur to encourage individuals to accept the rules of the group, while constituting their identity in opposition to others.\(^13\) Arguments such as these are hardly controversial, no matter how their developments and their implications may be. For the moment, if the reader is persuaded that relations of power and relations of authority characterize international relations, I would be happy. We could progress in our discussion of the uncertain outlooks of regional integration in South America.

**Complex dimensions of complex realities**

Most analyses of regional integration processes focus on the legal framework negotiated by diplomats and other civil servants, on the one hand, and on the economic flows that result from the possible changes observed in the institutional (including the normative) framework in which trade and other social relations take

---

\(^9\) See Onuf, 1988, 1998. In fact the treatment of rules and rule is far more interesting and persuasive than it may appear in this context; the important argument in this context is to recall that rules serve specific interests and are not reproduced, influencing the very constitution of identities and definition of structures of preferences, by inertia or by acts of God. They are social processes and agents consciously (some more than others, it is true) reinforce some rules and challenge others as a result of their (perceptions of) interests, conditions and interactions.


\(^12\) See Olson, 1971; 1982.

\(^13\) Simmel, 1955, is perhaps the better known essay on this theme, but sociologists like Barrington Moore, Jr., and political scientists like Skocpol have treated these processes of legitimation in specific groups taking into account their insertion in what now is known as the international system.
place. We will discuss some of these processes in part three, with particular attention to the trade-offs inherent in specific strategies for trade liberalization.

Before that, one may have in mind that these processes of trade liberalization do not occur in void space, merely connected with other international commitments governments may have in terms of regulating their insertion in the international economy. It is obviously necessary to pay attention to the compatibility between MERCOSUR or NAFTA and the GATT. Put differently, ensembles of normative structures, which allegedly embody countries’ mutual commitments in regard to the regulation of trade flows, constitute the infrastructure on which the geographic dispersion of productive structures takes place, engendering what is better known as the “globalization of the production”. The extent to which each economy is connected to others, allowing their agents to behave both as consumers and as producers of components and of final goods, defines its insertion in the global economy. Large economies frequently tend to be less dependent on foreign trade in absolute terms than small economies, but in general trade flows in the last half-century produced a huge increase in the world economic interdependence.

From trade to finance

By the same token, financial flows integrate economies more deeply than trade flows, as private agents in the international financial system continuously redefine the conditions that both private and public agents in emerging economies face in their intention to access credit. In fact, some of the economic indicators taken into consideration by international institutions, banks and other financial actors result from the state of the art of scientific knowledge in the field of economics. Other result from the perception built in the market by the agencies that evaluate countries’ risks and by other important agents, such as the managers of investment funds and international banks with good reputation among their counterparts. It is not a coincidence that after the crisis in Mexico, Asia, Russia and Brazil in the mid-1990s, most experts agreed on the fact that the countries that recuperated their status and their economic stability more rapidly were those whose markets were more open to international investors and whose government could develop a professional interaction with the International Monetary Fund based on mutual trust and on technical discussions.

In fact, it is not a surprise that, to a large extent, the reputation of emerging economies in terms of fiscal and monetary responsibility depends on their governments’ relations with key agents, such as the Bank for International

---

14 See section three for the figures. This does not imply that the increase in interdependence brought fair distribution of wealth or that all countries equally benefited from the increase in the networks of production all over the world – although there are reasons to suppose that the whole process has brought more benefits than costs to all countries involved. A thoughtful discussion of the creation of economic and social networks appear in Castells, 1996.

15 Indeed, it is arguable that few fields of study characterize so well Haas description and analysis of the impact of epistemic communities on political decisions than Economics, even though they are so distant from consensus on many important issues. See Haas, 1982.
Settlements and the IMF. As a result, if it is true that the rules of the international financial system emerge from the "network externalities" that result from the interaction of key agents, to accept Eichengreen's argument\textsuperscript{16}, than one should take into account that, at least in the case of emerging economies, some of these externalities result from the relative ability of their governments to establish a fruitful relationship with some private agents, both academic and economic. The rules of the game, in this case, are defined, to a large extent, by private agents, which like others, are self-interested and tend to develop rules that serve their own rule.

The important point to keep in mind in regard to this discussion has to do with the fact that these rules are constructed socially, along with the very identities of the agents that participate in this process. This is not the place or the moment to confront ideological positions in relation to the degree to which thinkers and investors can influence the definitions of the standards adopted in the international financial system and, by this means, the types of behavior considered adequate for governments in emerging economies. People have different views on these issues, most of which, at least in Brazil, tend to be ill informed and perhaps excessively biased. It is the moment, though, to highlight the fact that these agents can influence the expectations about the behavior of these governments, therefore creating movements in the markets that may evolve into self-fulfilling prophecies, insofar as economic agents, being predominantly risk averse, tend to anticipate consequences of specific policies, eventually producing the very results they wanted to avoid.

A second point to highlight in this discussion is the fact that South America is already integrated by these movements of capital, as the contagion of specific process (particularly those that are negative) illustrate. The recent spill over of the Argentine crisis to Brazil and Uruguay is merely the most recent instance of this phenomenon. Some of the countries in South America have already establish the U.S. Dollar as their main currency, either exclusively, as Ecuador, or in tandem with their own currency, which is more used to make exchanges and is not considered as the main reserve of value, as in Bolivia, Peru and Argentina. It is difficult to imagine a more effective way to produce a deep integration in the economies of this region, which would probably have great difficulties in negotiating something close to a monetary unification – which, as the European experience has shown, can produce so many extraordinary benefits. Instead, for different reasons, mainly related to these economies stability and to the control of inflationary processes, many countries in the Hemisphere have adopted the U.S. Dollar; as a result, this process of monetary unification has gradually, but firmly, advanced in the last decade. The problem is that it has not been negotiated with the U.S., whose monetary policy takes into account, unsurprisingly, basically its own interests.

\textsuperscript{16} See Eichengree, 1996.
In any case, some governmental initiatives engendered initiatives that may lead to a greater level of integration in the region. As one important example, the Brazilian Bank for Economic and Social Development (BNDES) in 2002 has a larger portfolio of loans to South American countries than the Inter-American Development Bank (IDB). Most loans have to do with infrastructure projects and works conducted by Brazilian firms, but they still represent a form of developing the conscience of a regional space, particularly given the economic situation of the country.

Legal and illegal integration

The integration produced by financial flows and by the adoption of common macroeconomic policies in the region results from specific political decisions of these countries' governments, which have not negotiated with each other the conditions for adopting the same rules in the same manner as they did in regard to the liberalization of their markets. Still, some patterns of behavior and expectations are reproduced and international regimes, in the sense proposed by Krasner’s consensual definition, continuously take place in South America. In this context, relations of power and relations of authority characterize the interaction between the agents who are able to build and to influence the emergence of specific sets of norms and those who just decide whether or not to follow such norms. Although different in the degree to which these norms are institutionalized, they are still norms, accepted as such and command some legitimacy in their application.

What about illegal regular behaviors? May anyone doubt that the integration produced in South America by drug traffickers and arms dealers is at least as effective, in terms of flows of information and resources, as the legal efforts to integrate markets? Obviously one cannot trust even the official figures, which allegedly estimate the size of the black market in various countries, but the effectiveness with which drug traffickers deal with their counterparts in other continents and the extensiveness of their control over parts of the territory in many countries in the region is impressive. Indeed, the role of the FARC in Colombia is simply one among other well known examples. The situation in Paraguay is not tranquil in this respect.

In Brazil there are reasons for concern. President Cardoso had to affirm in a public event that “the sole power in the country is the one that has been elected by the people”. This happened after an attack against the office of Rio de Janeiro’s Mayor, in late June 2002. Weeks before, the President of Rio de Janeiro State Supreme Court, Dr. Marcus Faver, recognized the existence of “parallel states”, which the state itself was unable to control. He was concerned with the fact that drug traffickers in one “favela” in Rio established a holiday in honor of one of their

---

17 See Krasner, 1982.
18 In Brazil, IPEA, a governmental thionk tank, has estimated the “informal economy” in Brazil somewhere between 35% to 40% of the country’s GDP.
19 See Veja, June 19 2002: 89.
leaders who died exchanging fire with the police, which, in its turn, had to enter and stay in the "favela" for more than one week because of the pressure imposed ton the state government after the assassination of one journalist in this “favela”\textsuperscript{20}. Drug traffickers distribute medicines and food, plus their particular kind of “justice” in specific suburbs of these large cities, monopolizing the use of violence in these territories and in relation to their inhabitants, directly challenging the capacity of local governments to impose order. Indeed, in these regions the rules of the game are imposed by those bandits and it is well known that most of them are astonishingly popular among “their people”, whose perspectives for living according to the laws are far from satisfactory.

One attempt to respond at least to the capacity drug dealers have shown to manage an efficient network of production and distribution of drugs in the region is the SIVAM/SIPAN\textsuperscript{21}. It is too soon to evaluate whether this effort will produce the expected results, but, as one of Cardoso’s government strategic projects, it departs from the correct premise that any serious action to control international criminal networks depends on international cooperation. Considering that the last census recorded that the sector of private security constitutes almost 10% of the Brazilian GDP\textsuperscript{22}, one may consider that it is already time for the government to realize that the country is living a non-declared war – war nonetheless.

In section 2 I touched some of the dimensions of regional integration in South America, pointing to the fact that one may consider more than traditional trade negotiations in order to understand the extent to which societies integrate in this region of the globe. My objective was merely to provoke the reader, indicating other elements that are worth considering if one wants to make sense of the processes of regional integration, particularly those of trade negotiations, in course. Now it is time to discuss the simultaneity of the processes of regional integration in which the Brazilian government takes part.

\textsuperscript{20} In late October 2001 São Caetano, one of São Paulo's most important industrial cities, experienced exactly the same situation, with two major differences: the drug trafficker had been killed in a fight with a former partner and the holiday applied to the whole city, including schools and stores.

\textsuperscript{21} Developed by the Brazilian government, this surveillance system in the whole Amazon basin will combine satellite monitoring with the use of modern war airplanes, besides the exchange of information in the context of the Amazon Cooperation Treaty and the destruction of clandestine airports. The main problem with this project so far has been the difficulty to maintain and to train personal, due to the fiscal restrictions imposed by the combination of the commitments the Brazilian government has with the IMF and the extremely high service of its debt. As a result, contradictions abound: until the end of 2002 the Brazilian government may buy over U.S.$ 700 million in equipments for the Air Force but has dispensed its military twice a week to save the money of the food served in the military installations.

\textsuperscript{22} See www.ibge.gov.br
3. Regional Arrangements and the FTAA in Global Trade Liberalization: Complementary Tensions

The global context

As governments are questioned in relation to the implementation of their commitments under the Uruguay Round and challenged with the ambitious agenda settled in Doha, some regional trade agreements progress and consolidate, both by strengthening their internal economic and political ties and by consolidating their presence in the international arena through agreements with third countries and other regional economic arrangements. Indeed, despite the failure in Seattle and the recent protectionist wave exemplified by the E.U.’s resistance to negotiate agriculture and by the U.S. safeguards on steel products as well as its Farm Act, to say nothing about the Japanese delicate situation, free trade remains on the agenda. Though against the advice of most free-trade ideologues, in the last 50 years countries have made extensive use of regional agreements, while participating in the GATT – WTO negotiations. Among the members of the WTO, only two are not part of preferential trade agreements, FTAs, customs unions or common markets, not to mention more ambitious arrangements, such as MERCOSUR and the EU.

Opinions about whether these arrangements facilitate or hamper trade liberalization at the global scale diverge, essentially focusing on discussions about trade diversion versus trade creation and on the need to concentrate human, economic and political resources on promoting global trade liberalization. In the Western Hemisphere, this polemic has been highly promoted by Yeats' paper on MERCOSUR, which received an immediate tough response from the Brazilian government and from other economists, such as Devlin. If Yeats demonstrated that MERCOSUR had diverted a large amount of trade, his critics argued that the net result in terms of trade creation both within MERCOSUR and between the block and other regions in the world so far is positive. Indeed, the data collected by the IADB point to an impressive increase in MERCOSUR’s internal exports of 25.4% in average between 1990 and 1997 (from U.S.$ 4 billion to over U.S.$ 18 billion). Through the same period, its exports to third countries in the hemisphere grew at 5.7% in average. As for the imports, the figures point to an average increase of 26.8% intra-MERCOSUR and of 19.1% of extra-MERCOSUR imports in the same period. All these processes took place before the crisis in Brazil, in early 1999, and in Argentina, at least from that moment onwards. Since late 1998, and mainly from January 1999 onwards, trade between MERCOSUR countries has only decreased, as a result of the successive crisis observed in the region.

23 Japan and South Korea.
25 One should keep in mind that Argentina was already in recession at that moment, observing huge difficulties in its trade balance as a result both of its domestic inefficiencies and of the strengthening of the US Dollar against other currencies.
Was the trade creation effect more important than the trade diversion effect? To what extent has the MERCOSUR’s foreign trade grown faster as a result of the bloc effect (the preferential trade policies) or as a result of the geographical proximity, incorporated in Frankel’s gravity model? Both proved to be statistically significant, at least between 1991 and 1994. However, the fact that MERCOSUR countries had just survived the “lost decade” and had unilaterally opened their markets, including by promoting privatization schemes, is not discussed by Frankel, Yeats, Devlin or other analysts of this process. Both Brazil and Argentina, the biggest economies in the bloc, promoted unilateral liberalization and reduced tariffs to a large extent, as a result of political decisions that may be more related to changes in their governments (Menem and Collor de Mello) than with any other factor, including the regional integration negotiations. Furthermore, such evaluations do not control for the expansionary economic cycle observed in the early 1990s, although it is true that world trade in general grew less than the intra-regional trade.

In other words, I do not argue that the specific trade promotion policies have not produced measurable results, neither that the trade creation will necessarily be higher than the occasional trade diversion inherent in such processes of regional economic integration. I just stress that one should be careful when looking at the aggregate trade data, for the figures can only tell us about the trends of each countries’ foreign trade, not about the causal relations that determine such trends. In fact, such figures may be the result of events that took place at least at three different levels: the global, the regional and the domestic levels.

At the global level, one shall look at the negotiations within the WTO, which have both reduced tariffs and identified/combated other forms of protectionism. In 1997 the GATT - WTO completed 50 years of efforts to promote both the liberalization and the “fairness” of international trade. After 8 rounds of multilateral negotiations and a set of issue-specific agreements, the figures point to a very positive contribution of these efforts: between 1948 and 1997, merchandise exports grew by 6.0% per year, in average, while the global output grew by an average 3.8%. By the end of the Uruguay Round, in 1994, over 100 countries had joined the 23 countries that first met in Geneva in 1947. Now the WTO has more than 140 member countries, while other 3 dozens negotiate the conditions for their accession to the organization. Estimations point to a reduction in tariffs from 40% in 1947 to 4% in 1997. All member countries have consolidated their maximum tariffs to each of the over 10,000 tariff lines and expressed in quantitative measures most of the important non-tariff barriers.

In quantitative terms, the figures are impressive: the gradual liberalization of trade did produce significant results, as the graph below illustrates:

Graph 3.1:Evolution of world exports, US$ Billion (FOB) - 1950 to 2002 (***)

---

26 See Frankel, 1997.
From a flexible arrangement to discuss and mutually concede tariff reductions, the GATT-WTO evolved into a solid organization with permanent issues in negotiation and a built-in agenda for the following rounds, besides a set of reasonably effective dispute-settlement procedures. Gradually, non-tariff barriers to trade have been negotiated and reduced, and polemic issues such as intellectual property rights, investments and services have become part of the organization’s daily discussions and initiatives. In other words, the rules of the international trade game were gradually negotiated and defined, partially setting the agenda for regional agreements and structurally constraining each country’s capacity (although in distinct measures) to define her own specific interests.

The very controversy around the succession of its General Director, finally settled with the joint taking by Messrs. Moore and Supachai, was interpreted as an evidence of the extent to which national states consider this position as a relevant and influential one in terms of defining the future of international trade. After all, governments would not struggle for unimportant issues: they care about who is in charge of the organization because they perceive this as an important issue, insofar as, at least by settling the agenda, the organization can interfere in the evolution of international trade relations. By the same token, as the manifestations in Seattle and the very decision to hold the meeting to launch the Development Round in Doha illustrate, social actors work hard to produce inputs to the agenda that will frame the negotiations in the years to come.

---

One should also pay attention to the trend in foreign investments, as well as to intra-firm transfers, which rarely are represented in trade statistics despite the fact that they now tend to be even greater than the trade of final goods and services. As firms develop electronic connections between their customers and suppliers, such transfers tend to increase even more rapidly. As most regional agreements are Article XXIV consistent, it is fair to say that these processes do reinforce each other, particularly when it becomes clear that the WTO mechanisms for dispute settlement have been extensively used in cases involving members of the same regional bloc.

Still at the global level, other processes that take place contribute to promote trade liberalization. The gains of scale companies search for when they globalize their production are part of the explanation for the decrease in trade barriers, as networks of production begin connecting production lines across the continents. This is already the case of the automobile industry, which tends to concentrate the production of components in specific regions, the design in others, R & D spread all over the world and assembling lines where labor costs make it more profitable. The IT industry is still more dispersed in its production, to say nothing about the software and other knowledge-intensive industries. In part, the result of this process is that governments not only lose control over the flows of intermediate goods, but they also tend to homogenize their regulations and to offer interesting fiscal environments, as they dispute the flows of foreign direct investments. As firms employ people, i.e., voters, all over the world, the pressure against trade liberalization begin to consolidate itself, at the social level, where these industries are settled.

A second result of this process is that social actors develop their own interests and frameworks through which they can advance their interests. The extent to which firms now use the internet and other electronic networks to connect themselves and to promote business, the apparent disconnection between stock-markets and the real side of the economy, the extensive use firms make of non-banking financial devices to reduce the price of their international operations, all these factors point to the creation of an economic environment where states’ regulations play a less significant role than in traditional foreign trade operations. Not surprisingly, this environment tend to be more dynamic and less stable than the part of the economy in which governments still control (some would argue that more than they should) the flows of goods and services. Whatever is the case, even after the partial burst of the bubble, particularly illustrated by the 60% fall in the Nasdaq index, one cannot ignore the fact that this ‘virtual economy’ (however difficult it may to measure it) does affect traditional economic processes, and tend to press for the homogenization of processes and for trade liberalization

---

28 In this sense, the argument that developing countries should not focus on e-commerce because this is “too premature” is an perhaps an attempt to avoid dealing with a complex reality, but certainly an ill advice (see Michalopoulos, 1999).
If technological tools and logistic sophisticated services allow firms to substitute geographical considerations with cost-benefit analysis, geography does condition marketing considerations. The Andes mountains impose greater costs in terms of integrating markets in South America, though initiatives to set infrastructural common facilities to organize the regional market are already in course. Indeed, few economists doubt that initiatives of economic cooperation encourage further investments, as the perspective of gains from larger markets become real. In the case of developing countries, the fact that such agreements make far more difficult governmental hesitations and policy changes constitute an important positive externality produced by FTAs initiatives. Not only do firms see a larger potential market, but also a more stable one, since any change in the rules of the game has to be negotiated among the parts before taking place. If one takes into consideration that part of the costs associated to emerging economies has to do with the traditional volatility in their political commitments, this turns to be an asset of considerable value 29.

Moreover, still at the regional level, states have simultaneously developed many processes of economic integration in the last decades. As a result, investments in a given country can in fact have differentiated (in terms of tariffs and other restrictions) access to other markets. In the case of Latin America, few contradictions have been produced, as most sub-regional agreements have been developed under the umbrella and based on the protocols of the Latin America Integration Association, but significant tariff differences do exist. In the case of the European countries, the picture is more complex, and is perhaps best illustrated by the term “spaghetti bowl agreements” 30, widely used to describe the extent to which such initiatives of economic cooperation between countries interfere in each other’s sphere. In any event, Frankel has found that statistically the overlap of preferential trade agreements has not hampered the positive effect created by these agreements in the trade of the countries involved 31.

In other words, economists have demonstrated that both global trade liberalization efforts and regional preferential trade agreements 32 increase trade among the countries involved, while reducing tariffs and contributing to promote “fair trade” – whatever the meaning one may have in mind by using this term. It makes little sense, thus, to oppose such regional agreements to global negotiations, particularly in the cases that are consistent with the Article XXIV provisions. This

---

29 Arguably, the decision to enhance Mercosur by creating a customs union partially resulted from the decision of the Brazilian government to crystallize the degree of openness of its economy, rendering more difficult to new governors to reestablish barriers when pressed by the sectors that were forced to compete in their previous preferential markets. The idea is fundamentally rooted in the strategy that Putnam (1988) once called “two Level Games”, which Milner (1997) modelled and improved. See also, in relation to Mercosur, Vaz (2002) and Costa (2000).
30 Bagwaty introduced the term and popularized this metaphor in his numerous articles on regional integration processes.
31 See Frankel 1997, mainly Chapters 5 and 6.
32 The effect is even more significant for FTAs, customs unions, common markets and economic integration.
does not mean that such cases are easily identifiable, even after the improvements specialists and practitioners associated with the interpretation of this article during the Uruguay Round.

Neither does it mean that governments shall not push for the implementation of the Uruguay Round determinations while attempting to further liberalization in the Development Round. However, to ignore the gains that can be achieved through preferential trade agreements is far from an intelligent strategy, particularly when such agreements can be established in tandem with, and based on the framework of, the WTO negotiations. Perhaps the sole conclusion that can be taken from this discussion is that "the interrelationship between regionalism and globalism depend on the management of the process by the key countries involved".

A final warning to the readers interested in finding definitive answers to such complex questions: so far I have stressed the difficulty to isolate the impact of either the GATT - WTO negotiations or regional preferential trade agreements on foreign trade. In fact, when the WTO reported its achievements in its 50 years of activity in Geneva, it listed the series of negotiations involving reductions of billions of U.S. dollars and accounting for most of the trade between countries. It also pointed to the increase in world trade and speculated about the extent to which such growth has contributed to augmenting the world GDP and human welfare. We have good reasons to believe that there is a causal connection between these negotiations and the growth in world trade, but the ceteris paribus clause does not necessarily apply. Yet, regional trade agreements also took place through this period, technological developments have allowed opportunities to industrialize in huge scales and to trade in an extent unimaginable 50 years ago, and the world population has more than doubled in this period.

More importantly, at the domestic level national governments have perceived the potential gains of unilateral liberalization, particularly in sectors once considered strategic, such as telecommunications and energy, besides privatizing public enterprises. The absence of resources and the high costs associated to debt services impose disincentives for governments to make public investments in these sectors; by the same token, they realize that such sectors are key in terms of infrastructure and the global competitiveness of their economies. Finally, an apparent consensus emerged among economists all over the world, but especially in the Bretton Woods system, in regard to the desirable attitude toward foreign trade. It is not reasonable to assume that all these factors have not contributed to liberalize and increase trade globally. The fact that it is difficult to measure the impact of such phenomena is not an excuse to assume that they played no role in this process and having them as a background may help us identifying more

---

33 See Bergsten, 1997:3.

34 Among social scientists, economists are certainly the best example one can find of what International Relations scholars denominate an “epistemic community”, as they share the same understanding of cause – effect between phenomena in the reality, not to mention the particular language used to communicate their thoughts. See Haas, 1982.
accurately the real impact caused by both regional agreements and global negotiations.

**Brazil’s Position in MERCOSUR: Building Blocs and Building Bridges**

Against this background, MERCOSUR countries tend to perceive the sub-regional agreement as part of an effort to promote trade liberalization at the global level. Brazil stresses this condition to a larger extent than Argentina, which has used MERCOSUR to get preferential access to the Brazilian market, sometimes, and to receive greater benefits from the U.S., some other times. In any event, these processes are considered as inherently complementary to each other: negotiations at regional level are frequently used to gather information and to advance interests in the negotiations occurring at the global level, and vice versa. Indeed, from the point of view of the Brazilian foreign policy, MERCOSUR is part of a strategy to consolidate a preferential trade zone in South America, which in turn is seen as a step in the process of Hemispheric trade liberalization. The concept of “building blocs” once widely used in official declarations, does orient, for different reasons, the approach taken by the Brazilian negotiators, both in the sense that the whole process shall be gradual and in the sense that the regional agreements are the basis upon which the Hemispheric project, plus the WTO negotiations, shall be established.

In this sense, there exists not only an attempt to coordinate MERCOSUR positions in multilateral negotiations, particularly in the area of agriculture, but, in the negotiations about tariffs, the four countries, though speaking with different voices, concert positions in multilateral negotiations more often than not. After all, the customs union is already established and the deadlines for the some of the lists of exceptions have already expired. It is true that the Argentine crisis and, more recently, the Brazilian elections, constrained the capacity governments once had to maintain the schedule of liberalization, both by reducing the sectors in their lists of exception and by reducing tariffs and non-tariff barriers. This “strategic patience” in the short run, as one Brazilian diplomat has named the attitude adopted by the Brazilian government, may produce more significant fruits for the integration process in the long run.\(^{35}\) This possibility is highlighted by the perception, among Argentinean politicians and civil servants, that the American government simply did not care or understand the deep crisis in their economy, while the Brazilian government not only accepted their demand to keep barriers a little longer, but tried to convince foreign investors and international organizations to support the Argentinean economy during the crisis.

Although in a difficult moment, not only a great number of technical negotiations continue to happen between MERCOSUR countries, but ideas such as the creation of a common currency reappeared in the political debate. Moreover,

\(^{35}\) Formerly responsible for MERCOSUR negotiations, now Amb. Botafogo Goncalves represents Brazil in Argentina.
MERCOSUR has already negotiated PTAs with Chile and Bolivia, while a similar treaty with Peru that came into force in 1999. Negotiations with Venezuela were initiated, but never really prospered, mainly because of Mr. Chaves dynamic foreign policy agenda (to say the least) and, more recently, to the political crisis the country has undergone. By contrast, negotiations with the Andean Pact, though slow, have shown to be reasonably acceptable to all parts. All these initiatives are ALADI (Latin American Integration Association, LAIA) consistent and started from its protocols, just like MERCOSUR itself.

As a result of the efforts of integration already in course, and to a large extent as a result of Brazilian foreign policy, preferential trade zones emerge gradually in South America. By simultaneously negotiating preferential trade agreements, Governments provide economic agents with regulatory frameworks that serve multiple specific interests, while leaving the door open to deepening the FTAA process and to negotiate with third parties at the WTO. The figures of the Brazilian foreign trade are eloquent:

Graph 3.2: Brazilian Balance of Trade - 1950 a 2001 - US$ billion (FOB) (blue curve - exports; pink curve – imports; orange curve – net result)

Source: Brazilian Ministry of Industry, Development and Foreign Trade

The upward curves may give the reader the impression that Brazilian participation has grown in world trade, which is in fact wrong. Indeed, in the early 1950s the country was responsible for over 2.2% of world trade, while in 2000 it responded for less than 1% of both world imports and exports. Meanwhile, the government opened the Brazilian economy significantly: The average tariff imposed to imports fell from over 40% in the late 1980s to 14% in the late 1990s and early 2000s. As the graphs below show, this has not changed significantly the profile of the country’s foreign trade, which remained reasonably diversified in the last decade,
following a trend designed still during the military rule, back in the 1970s. The sole significant move was the growth in trade with MERCOSUR countries until 1998 and the decadence that followed.

Graph 3.3: Brazil's exports to selected countries:

![Graph 3.3: Brazil's Exports (FOB) to Selected Markets](image)

Source: Secex, Brazilian Ministry of Development, Industry and Foreign Trade (based on data updated on May 13, 2002).

Graph 3.4: Brazil's imports from selected regions/countries:
In sum, in the 1990s there has been much talk about processes of regional integration and trade liberalization, but trade figures point to small changes in the country’s insertion in the international scene, while the preferential trade agreements actually implemented may have produced more diversion than creation in trade. In fact diplomats and other trade negotiators worked in the last years to build normative infrastructures that permit different degrees of economic integration among the economic agents placed in the continent. To a large extent, the definition of these agents' strategies may acknowledge the advantages envisaged in the norms that result from governmental negotiations, forging with flows of trade and investments the concreteness anticipated in the normative decisions of governments. The extent to which governments will succeed remains to be empirically observed some years from now, since the preferential access to specific markets may prevent private firms from investing in third countries, rather than encouraging them to do so. Meanwhile, other dimensions of regional integration take place…

From trade to infrastructure

Not directly connected with trade, but as an important dimension of the Brazilian presence in South America, is a set of initiatives the country has taken in the last decade, in create other channels of communication, develop social and political understanding, and facilitate economic relations. Among the most important issues
one shall keep an eye at: 1) the efforts for promotion of democracy (i.e. the “Democratic Clause” in MERCOSUR and its actual bilateral initiatives in the events in Paraguay since 1999); 2) the participation in solving the conflict between Ecuador and Peru; 3) the support for changing, and for enhancing, the role played by the OAS in the region, particularly by implementing the Resolution 1080; 4) the active participation in the Contadora Group, later in the Rio Group; 5) the strengthening of the Amazon Cooperation Treaty; and 6) the development of the concept as well as the initial negotiations to create a free trade area in South America - SAFTA. These actions are seen as part of a whole strategy, not as isolated courses of action carried on by different agencies, hence the importance of having a broader view when defining a strategy to guide decisions in multilateral negotiations. In this context, the contrast between the conduction of the U.S. foreign & trade policy, on the one hand, and the conduction of the Brazilian foreign & trade policies, on the other, is remarkable. Of the two countries, Brazil would certainly come closer to the traditional model of analysis that assumes the state as a unitary and rational actor than the U.S.\(^{36}\)

Brazil is also developing an important infrastructure network that connects its economy with the economies of other South American countries, in a way that not only is advantageous for all countries involved, but also that consolidate the region as an economic bloc. The natural gas pipeline that already connects Bolivia to the Center – South-East of Brazil and reach Buenos Aires, a project worth more than U.S.$ 4 billion, is but the more illustrative example. To the north, the Federal government works with state governments in building roads that may continue in other countries, particularly Colombia, Venezuela and Guyana, offering Brazilian exports alternative ways to reach new markets, both through the Pacific and through the Caribbean seas. As a result of the recent energy crisis, the project to built new transmission lines has been reinitiated, despite the fiscal constraints imposed by the agreement signed with the International Monetary Fund. Moreover, in a few years, the Amazon will be deeply incorporated to the economic development of the country, as the projects to integrate the logistics of transportation in the country (internal navigation routes, trains, and roads) now receive greater attention from states and from the Federal governments. As a result of the physical contact between the countries becoming a reality, one may expect that their societies will have better conditions to tend to find the ways to develop closer economic ties.

The origin of these developments may be found in Collor de Mello’s first governmental “strategic plan, which established “environmental”, “development” and “transportation” corridors, in the country, as a means to organize long term development plans. Some of these ideas remained in the bureaucratic organizations of the Executive branch and were later condensed in Cardoso’s first Four year “Pluri-annual Action” Plan, better known as “Brasil em Ação”. His second term presented another plan, the “Avança Brasil”, which basically

---

\(^{36}\) This was already considered a serious problem in the US government before the September 11, which shed light on the evident lack of communication between security agencies.
continued the projects initiated before. One important characteristic of these governmental plans is that the projects, though formally integrated in and regulated by their respective specific Ministries, are conducted by bureaucrats that respond directly to the President and have to reach targets and levels of performance previously established. It works almost in the same way that Kubitscheck’s “Target Plan” did, back in the 1950s, and insulate the efforts to develop these infrastructural works considered strategic from common bargains in Congress.

One example of these efforts appear in the integration of energy sources, illustrated in the maps at Appendix 01. Another example is the specific agreement that the Presidents of Brazil, Ecuador, and Peru will sign, in late July 2002, during the Presidential meeting in Guayaquil, destined to launch the final works to construct the so-called Amazon Inter-modal Axis. Along with other six “transporation axis”, this is supposed to help produce deeper levels of integration in the continent. A result of the Presidential meeting held in Brasilia in 2000, these axes will allegedly reduce transportation costs in the region. In the case of the Amazon Axis, numerous ports of Ecuador and Peru, beginning in Sarameniza, Ecuador, and continuing to the port of Paita and Piúra, in Peru, will be directly connected with Manaus, producing conditions for the enhancement of trade between the three countries, besides direct access to the Atlantic ocean for Peruvian and Ecuadorian producers and to the Atlantic to Brazilian firms. Moreover, a new road connecting Rio Branco (Acre, Brazil) to Illo, in Peru, will favor the access of Brazilian producers to markets in the Pacific.

From physical to normative infrastructure

As for the legal structuration of trade negotiations, one example of this integrated approach is the extensive use of the WTO mechanisms of dispute settlement even in cases that involve only MERCOSUR countries, particularly Argentina. In part, this is related with the nature of MERCOSUR’s own mechanism for dispute settlement37, but in part this is also related with the fact that the WTO is seen as a legitimate forum for solving issues that could otherwise be considered “internal” to MERCOSUR. Since the whole initiative is Article XXIV consistent, the logical and institutional link between actions in each fora is taken for granted.

This is true not only for MERCOSUR, but also for the Brazilian regulations with other countries and blocs. In 1998, Brazilian exports remained diversified, a trend

37 Not only are there many diplomatic steps and political instances, which allow postponing a real clash, but there is no institution responsible for arbitrating controversies. Indeed, any attempt to solve a controversy involving two countries might begin with bilateral diplomatic negotiations. If an agreement is not reached, after a certain period the case is send to consideration by the MERCOSUR Trade Commission. In the case the Commission does not have the legal competence to solve the issue, the Common Market Group will be the instance to solve it. Finally, if the Group is incapable of solving the issue in a given period, a panel with three jurists is set, whose decision has to be accepted by the parties. Not surprisingly, in the recent Summit of the E.U. – Latin American and Caribbean countries, the E.U. officials, based on their experience, kept stressing the need for creating a institution capable to settle MERCOSUR trade disputes in a timely manner.
initiated in the 1970s and pursued since. The E.U. imported 29% of Brazilian exports, almost the same percentage as the 11 countries that integrate the ALADI, which received 26% (17% to other MERCOSUR countries alone). The U.S. received only 18% of the Brazilian exports. If the trade partners remain diversified, the exports are nowadays more concentrated than in the past, essentially on commodities and, among industrialized goods, automobiles. As Brazil took the initiative to host the Summit of the 15 E.U. countries and the 33 Latin American and Caribbean countries, it stressed both that its objective was to create new opportunities for trade, instead of using a preferential relation with the E.U. (as MERCOSUR concentrates over 40% of the commerce between the E.U. and Latin America). It also highlighted that the WTO remained the main forum of negotiation for the Brazilian trade policy, as well as that it would not try to revive the “pendular” foreign policy, by bidding its policies on preferential trade between the U.S. and the E.U.\(^{38}\). The fact that the importance of the relations with Europe has always been presented as a process parallel to the negotiations in the FTAA, both of which point to the WTO, illustrates the low level of expectations in regard to a concrete result from the Summit.

In fact, aware of the political difficulties to achieve an immediate reduction in the European tariffs for agricultural products, the idea was to stress the economic-political-cultural nature of the E.U. – MERCOSUR, while creating an environment in which the real extent of the E.U. subsidies, tariffs, and other types of barriers could be denounced and combated openly. On the one hand, this puts pressure on the E.U. to implement the reductions negotiated at the Uruguay Round\(^{39}\). On the other hand, the emphasis on creating a different space in which economic relations can develop more easily does contribute to further investments and trade in each side. As the European investments create root in South America, they will also be interested in lobbying for diminishing the barriers to trade between the continents. It is worth noting that Spain now ranks first, among European countries, in investments in Brazil, followed by Germany. The development of a common Ibero-American stock market almost took place, an initiative that may still create a new market with sufficient economies of scale to create a virtual cycle of investments and trade between the two continents.

From the point of view of the E.U., such a level of commitment is perfectly adequate. Real negotiations on trade liberalization have already begun with the presentation of one list of demands by Europe, in late 2001, which MERCOSUR responded by May 2002 (remember that the E.U. signed the first international agreement with MERCOSUR after Ouro Preto, when the legal personality of the bloc was created for certain purposes). More important, it maintains a door open in the region, avoiding the situation that ultimately convinced the Europeans to

\(^{38}\) Such statements were commonplace immediately before and during the Summit. See, for instance: Lampreia, 1999.

\(^{39}\) The E.U. agreed to reduce all tariffs on agricultural products by 38% in average, and at least by 15% in each tariff line. By 1996, the average tariff for agricultural products was still 25.4%, but some products, basically milk, meat and specific juice fruits & vegetables, observed more than 100% of entry tariff.
conclude the Uruguay Round. Indeed, once the U.S. begun investing too much in the APEC in the early 1990s, the E.U. saw itself isolated, without a clear alternative to the potential failure of the negotiations at the global level. By so doing, it can always increase the pace of negotiations, or the level of concessions, whenever it considers this to be in its interest.

Whatever is the case, again, it is important to note that such negotiations with the E.U. are not necessarily incompatible with the FTAA or with the WTO. All will depend on the way such processes are managed.

As for the main issues, agriculture remains the most important issue in MERCOSUR’s agenda for multilateral trade negotiations. The Summits with the European Union and other Latin American & Caribbean countries was part of a broader strategy to reduce barriers, tariffary or not, to agricultural trade. This effort includes the active participation in the CAIRNS group; direct bilateral negotiations of the MERCOSUR countries with the E.U.; the attempts to push for a technical recognition of the issue, at the UNCTAD, as much as a political one, at the G-77. Within MERCOSUR, specific agricultural products also produce serious controversies, as the actual liberalization of flows of goods has already forced less competitive firms out of the market.

In the last years, MERCOSUR passed by many different crises, which some consider as a good sign, insofar as they constitute evidences that the reallocation of production is in firm course. Through the last week of July 1999, for example, MERCOSUR passed by a serious test, whose results engendered processes that may be similar to the ones to be expected for the current crisis in the process of integration. Once the Brazilian crisis of January 1999 was under control, the consequences of the devaluation of the Real, particularly in MERCOSUR, produced a crisis in the whole process. In the previous five years, Brazil had faced a deficit in its balance of trade with Argentina, in part because the Real was overvalued in relation to the U.S. dollar, hence, to the Peso. The crisis forced the government to let the currency float, and, so far, the trade gains for devaluation have not been expressive, but this is expected to happen at the second semester, for it takes time for contracts to be negotiated and settled. By late May and June, the industrial production begun to show positive numbers and expectations for the second semester are to improve the country’s export performance, particularly after the cabinet move Cardoso produced in July.

It may be noted that, once the overshooting was corrected, the devaluation became in fact a correction, for the Real was overvalued in relation to the U.S. Dollar. From then on, it reached a reasonable parity purchase power ratio to the U.S. dollar, except for circumstancial short-term shocks. It was not intended as a tool to promote exports, although this has been considered a positive externality of the measure. However, once the Real was in its real value, Argentinean exports no longer received the indirect subsidy offered by the exchange rate system, and, in June the country faced its first deficit in the trade balance with Brazil since the Real plan. In the middle of an electoral campaign, the Argentinean government imposed
tariffs to Brazilian exports, which have been received as a threat to the whole process of integration. One week of suspension in the permanent technical negotiations, intense political contacts between Cardoso and Menem, and the call for an emergency meeting seem to have convinced the Argentinean government to give up from imposing these tariffs.

The bottom line, frequently forgotten by foreign observers, is that these countries are promoting extensive trade liberalization while stabilizing their economies. Both Argentina and Brazil came from enormous levels of inflation and have still many reforms to do in order to guarantee a stable economic environment. In part, the trade liberalization has helped to reduce inflation, by promoting competition and enhancing the productivity of local firms. In both cases, local firms faced external competition with no cushion mechanisms, and most failed. The perception that the liberalization of the MERCOSUR’s markets has not been reciprocated by the developed world, particularly the U.S. and the E.U., is widespread among public and private actors. At the same time, these countries have also consolidated their democratic institutions, and face levels of pressure, mainly from the domestic actors who may lose immediately from further liberalization, comparable to those faced by the U.S. and by the E.U. governments.

Moreover, these countries face increasing tariff and non-tariff barriers imposed by developed countries, as the U.S. recent increase in subsidies to agricultural goods and safeguards in favor of the steel sector illustrate. Another possible source of protectionist policies is the treatment given to the so called “new issues”, introduced in the Multilateral Trade Negotiations during the Uruguay Round. In relation to trade and labor relations, Brazil does insist on treating labor issues at the ILO, very strongly. This is a consensus among Brazilian decision-makers. As for environment, one may keep in mind that Itamaraty hosted the Rio Conference as part of an effort to reinforce the separation between trade and environmental negotiations. Since 1992 this has been the policy of the Brazilian government, and it will apparently remain so in the foreseeable future. After all, argument in favor of considering agriculture as “multifunctional”, as those presented by the E.U. and Japan when preparing for Seattle and for Doha, point to the correct perception of emerging countries’ diplomats that these connections between trade and social rights, as well as trade and environment, may easily turn into protectionist non-tariff barriers.

4. Almost a conclusion… A search for dialogue

This paper discussed some aspects of regional integration from the point of view of the type of regional insertion promoted by the Brazilian government. Essentially, the Brazilian perception of the regional arrangements for creating preferential trade is based on a long-term strategy, aiming at creating a better environment for Brazilian exports at a global level. The government will hardly get involved in issues that are not important for this building blocs strategy in terms of the Brazilian economic diplomacy, however important they may be. This strategy begins at MERCOSUR, extends to South-America, envisages deeper economic spaces both
with the FTAA and with the E.U. and contributes to produce more sound negotiations at the WTO. However, it also engenders the construction of infrastructural conditions to promote further integration in South America. To a large extent, the Brazilian government invests in developing energy, telecommunication and transportation facilities that would produce an integrated economic space in this region.

The article has also instigated the reader to think about these processes of regional integration from the point of view of other dimensions inherent, but frequently ignored, in these processes. It basically pointed to the financial integration observed in this region and to illegal networks, which constitute efficient networks through which flows of information, financial assets, and merchandise circulate. By pointing to these illegal activities, the article aimed at encouraging further reflection on the extent to which local groups challenge states, by ruling, through the imposition of their rules, specific suburbs of large cities as if they were sovereign. Relations of power and authority appear in the interactions of these agents, inasmuch as they do, in a different context, in the interaction between public and private agents who help constituting the rules of the game of international finance. These highly different, but deeply integrated worlds, command the attention of analysts, traditionally concerned with figures and discussions exemplified in section three of this article.

As any academic articles intends to engage in dialogue, I hope to receive suggestions on how to continue my effort to render less uncertain my outlooks of regional integration in South America.
References:


Appendix 01: Energetical integration
The maps below show the transformation intended by the Brazilian government in terms of combining the country’s infrastructure in South America, contributing to create an integrated economic area:

(Blue lines stand for gas pipelines; black lines for transmission lines; red points for hydroelectric power plants; and yellow points for thermal power plants). Source: Brazilian Ministry of Energy and Mining.