A new Tordesillas in Latin America?

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IN THE 15TH CENTURY AN imaginary line cut through Latin America. The Treaty of Tordesillas, signed in 1494, split the New World—as a matter of fact, the entire world—between the Spanish and Portuguese empires. In a way, the region has been divided ever since. Beyond the language difference, Spanish America broke into many nations while the Portuguese side remained united. Republics flourished on one side, a European-style monarchy endured on the other. In the last century or so, numerous attempts to gradually erase the line through integration projects have been hampered on both sides, either by suspicion or by hubris.

When it comes to trade relations, in the last decade the regional divide has been getting starker. Notwithstanding the bold rhetoric that usually surrounds the innumerable regional summits, integration is still relatively rare. Despite unarguable advances to diffuse regional rivalries, Mercosur, the Common Market of the South, is still beleaguered by constant trade disputes between member states. Unasur, the Union of South American Nations, is a union in name only. It has no real impact on trade flows. Other regional groupings, such as the Andean Community and the Bolivarian Alternative to the Americas (Alba), are either near extinction or never actually evolved from an embryonic stage.

In addition to the lack of institutional teeth in regional trade agreements and the plague of disputes from within, the currents of global trade are carrying the regional blocs in Latin America apart. While many countries in the region have signed free trade agreements (FTAs) with the world’s major economies (the United States, the European Union, even China), Mercosur has signed only three FTAs outside the region: with Israel, Egypt, and the Palestinian Authority. Recent trade initiatives launched by the U.S., such as the U.S.-EU talks and the Trans-Pacific Partnership (TPP), may well exacerbate those trends as the U.S. draws the new Pacific Alliance (Mexico, Chile, Colombia and Peru) closer to its orbit.

As for Mercosur, part of the reason it lags behind when it comes to a more proactive trade agenda is the asymmetry of interests among its members. Four countries at different stages of economic development were recently joined by a fifth, Venezuela, with its interests mostly focused on oil and subject to the ideological whims of its leaders. Moreover, with Bolivia and Ecuador soon to join the South American bloc, its

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In addition to the lack of institutional teeth in regional trade agreements and the plague of disputes from within, the currents of global trade are carrying the regional blocs in Latin America apart. External negotiating cohesiveness will certainly diminish dramatically. In this light, the soon-to-be-restored talks between Mercosur and the EU should be taken with a very large grain of salt.

But Brazil is also to blame. In the last decade, the lack of major trade deals signed by Brazil and Mercosur was overshadowed by high commodity prices and booming demand from China. While Brasília boasted record-high export numbers, the country’s share in world trade was still relatively unchanged. Furthermore, targeted protectionism has been a key component of Brazil’s policy response to an unfavorable economic environment. This not only sends a negative message to potential trade partners, it may also fuel demand for more protectionism from other Mercosur members. Not a very sound strategy for a country seeking to lead the region by example.

Is change possible? Can Mercosur move away from being a trade-protecting fortress to become a trade-promoting platform? Given the Brazilian government’s current and growing concern with inflation, the announced intention to revise some of the recently implemented protectionist measures could slowly tilt trade policy to a more positive direction. In the longer term, as the global economic slowdown negatively impacts Brazil’s export sector and trade surplus, the government will be pressed to take a larger view of its trade policy. Less favorable trade winds are already affecting Brazil’s exports. The country’s trade surplus in 2012 was 35% lower than the previous year (from US$30 billion to US$19 billion). Ultimately, Brazil could decide to either promote more trade liberalization within Mercosur, downgrade the bloc from a customs’ union to a free trade zone, or leave the bloc altogether.

Until then, the dividing line in trade relations in Latin America will certainly become more visible, with one side being more open and revolving around the U.S. and the Pacific and the other, represented by Mercosur, stalled by protectionist measures.

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