Executive Summary

In recent years, several proposals have been put forward to advance Latin American integration, one of which has been the initiative for convergence between Mercosur and the Pacific Alliance. In this regard, multilateral organizations have contributed, academics and research centres have estimated feasibility criteria, and regional agreements have made their own efforts in this direction. Despite this, progress in this area has been partial. This is due, among other things, to the crises inherent to each of these Latin American integration agreements —brought about by the coexistence of different integrations strategies— as well as the deepening of differences because of external shocks such as the changes in the commodity price cycle and the COVID-19 pandemic. This policy brief aims to identify the status of the convergence initiative between Mercosur and the Pacific Alliance, and to analyze where it is heading in the current Latin American political, economic, and social context.

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**Introduction**

The Pacific Alliance and Mercosur are two integration mechanisms that between them concentrate about 80% of the population and the Gross Domestic Product (GDP) of the Latin American region. In addition, they constitute about 85% of trade and receive nearly 90% of their Foreign Direct Investment (FDI) flows (ECLAC, 2018b). At first, due to the ideological diversity of the governments of each State party, they were considered as oil painting and water. This was because the Pacific Alliance was associated with neoliberalism and the enthusiasm generated by the new ideas associated with the free request, while Mercosur in that period –2011– was linked to an autonomist vision.

Thus, it’s important to identify the diversity of factors that have conditioned the development of both agreements and have affected their possibility of convergence. In other words, to diagnose the convergence initiative between Mercosur and the Pacific Alliance by feting the factors that have conditioned it.

**Mercosur and Pacific Alliance motives**

Despite the characteristics of both integration initiatives, given the reasons for their creation – economic preponderantly– or the objects they pursue, this regional integration has been proposed as a tool for Latin American countries to insert themselves more fluently into global economic dynamics. In this sense, it’s necessary to consider the economic and commercial factors, as well as the legal, political, and social factors that have told the results achieved so far.

When considering economic-trade dynamics, it is important to highlight the predominant role of these motivations in materialize to the Pacific Alliance and Mercosur. In the case of the first agreement, it was motivated by the objective of achieving sustained economic growth and development. And the second regional bloc was driven by the goal of carry on the region’s insertion into international economic dynamics. In relation to these objectives, the absence of a large intra-bloc trade exchange stands out, together with a reduction in the preponderance of the United States as a trading partner of both regions (Magnífico, Curbelo and Jung, 2018; Gutiérrez and Márquez, 2019; Zerpa de Hurtado and Mora Mora, 2020). In other words, within the Latin American regional blocs under study, there is no significant level of trade exchange between the member states; instead, there are efforts to strengthen ties with economies outside the region.

In terms of the legal framework, Latin American integration depends to a large extent on how international legal norms operate. In other words, the incorporation of more countries from the region into the World Trade Organization
(WTO), together with intergovernmental dynamics, start to develop. At the same time, each member country of both the Pacific Alliance and Mercosur has its own legal framework on trade, investment flows and other areas of the international economy. This legal framework is quite diverse in developing since no progress has been made in a supranational legal framework between the member countries.

Now, in relation to politically motivated factors, it is important to address the regional preferences for intergovernmental interactions, where multiple actors participate in representation of national governments. Thus, in both the Pacific Alliance and Mercosur within the organizational structure the executives powers play a key role. This is complemented by the role assumed by foreign ministers and other government officials, who are responsible for decision making. And the lack of representation of other actors of Latin American society that would allow regional responses to problems that affect all the integrated countries. Therefore, political sphere has been an important factor in the evolution of both Latin American integration agreements (Bianculli, 2020; Giacalone, 2022).

In this order, intergovernmental ideological differences have prevailed in both integration mechanisms, leading to dissimilar positions when there is divergence or convergence in the ideas of political mainstream. In the first scenario, when there is ideological coincidence, the degree of institutionalism increases or the degree of coherence of the integration projects increases. In the second scenario, when there is greater ideological divergence, regional integration initiatives are paralyzed, institutional dismantling occurs and regional cooperation projects multiply (Peixoto Batista and Perrotta, 2018; Gomes Saraiva and Granja Hernández, 2019; Félix Jaramillo, 2022).

A regional context characterized in this way makes visible the fragmentation and political polarization that prevents the region from advancing around integration. This makes it difficult to establish a common position in response to crises that affect all the countries of the region and require a solid institutional framework to overcome them—for example, the Venezuelan migratory crisis or the health crisis generated by the pandemic of the new coronavirus (COVID-19)—. In the case of Mercosur, it increases Brazil’s political incapacity to carry out its traditional regional leadership, as well as the ideological divergence between the governments of Argentina and Brazil regarding the destiny of the regional bloc. And, in the Pacific Alliance, it increases the risks of a paralysis of the agreement that prevents progress to higher levels of integration.
Mercosur-Pacific Alliance Convergence

In recent years, several proposals have been put forward to advance Latin American integration. One of which has been the convergence between Mercosur and the Pacific Alliance, which had the support, guidelines, and proposals of the World Bank, the IDB and ECLAC. Even before this initiative, the general secretariats of the Latin American Integration Association (ALADI in Spanish), Mercosur and the Andean Community made efforts, with partial results, to achieve Mercosur-CAN convergence.

In this order, a strategy of convergence in diversity was put forward where the international insertion of Latin American countries could be improved through an integrated regional market (Rosales, 2014; IDB, 2018; CAF-SEGIB-ALADI, 2018). This implies more diversified baskets of exporters with higher value-added goods and services and a free trade area for the entire region. The need to facilitate the development of regional value chains as a strategic axis to consolidate Latin American integration was also suggested (Bown et al., 2017; Rocha and Ruta, 2022). And, from the study of how integration and regional value chains feedback on each other, their articulation was proposed as an alternative (ECLAC, 2014, 2018a, 2021). In other words, to advance in the complementarity of Latin American economies and productive sectors by stimulating the formation of export clusters.

Similarly, academics insist on the need to advance in the convergence of Latin American integration agreements; a way to overcome regional paralysis and achieve a better position in relation to the rest of the world. In this regard, a common regulatory framework must be developed to lay the foundations for multidimensional integration (Hurtado Briceño and Vieira Posada, 2020; Mirabelli, 2022). The identification and consolidation of forward and backward linkages of regional productive activity (Durán, 2018, 2019), where the private sector would have an important role in promoting and advancing the formation of linkages that allow a change in the regional productive matrix (Bown et al., 2017). There is even an insistence on coordinating the certification of origin of technical standards and on the convenience of a space for convergence between the Pacific Alliance, CAN, and Mercosur (Fairlie Reinoso, 2013, 2022).

In addition, the Pacific Alliance and Mercosur have made their own efforts in this direction. In the case of the Alliance, given its greater dynamics, an attempt was since 2017 to promote a joint worksheet that finally took shape at the XIII Summit of the Pacific Alliance held in Puerto Vallarta, Mexico (Alianza del Pacífico, 2018). From this, it was agreed to facilitate trade and customs cooperation, the
implementation of the mutual recognition arrangement in terms of authorized economic operator, the creation of public-private interlocution mechanisms in terms of services and capital, the creation of a digital agenda—based on four axes: economy, connectivity, government, and digital ecosystems—, cooperation mechanisms in terms of public procurement, promotion of trade, investment, and tourism, among other areas. This joint declaration was an action plan that sought to create the conditions for further progress in the free movement of goods, capital, and people to strengthen the integration process.

In the case of Mercosur, the idea of convergence is based on Article 3 of the 1980 Treaty of Montevideo (ALADI, 1980), where it is defined as the progressive multilateralization of agreements of partial scope, through periodic negotiations between member countries. In other words, there is a legal basis for the convergence of Mercosur with other Latin American integration agreements.

Despite this, progress in terms of Pacific Alliance-Mercosur convergence has been partial. This is due, among other things, to the crises inherent to each of these Latin American integration agreements—brought about by the coexistence of different integrationist strategies—as well as the deepening of differences because of external shocks such as the changes in the commodity price cycle and the COVID-19 pandemic.

As a result of the internal crises in both Mercosur and the Pacific Alliance, little progress has been made in achieving the founding objectives of both agreements. As a result of which: a) interregional trade is still limited—even in the Pacific Alliance it is lower than in the rest of the Latin American integration agreements—, b) value chains have not been promoted, and c) partial progress has been made in the implementation of agreements on trade facilitation, customs cooperation, digital agenda, among others.

And, in the case of the global health emergency caused by COVID-19, each country in Latin America responded as best it could, individually, without trying to coordinate a common response to the crisis through integration agreements (De Lombaerde, 2021; Vieira Posada and Peña, 2021; Granja Hernández, 2022). In other words, they opted for rapid, unilateral, uncoordinated, and reactive responses to the pandemic, leaving aside the common places where regional responses could be articulated from each integration agreement.

Likewise, the negligence with which they used the institutions within each bloc that would have the necessary competencies to manage a health crisis such as the one caused by COVID-19 was also evident. For example, the meeting of
specialists and Ministers of Health of Mercosur; or the former South American Institute of Government in Health –the latter, a public intergovernmental entity which was part of the South American Health Council of UNASUR, and which experienced the crisis suffered by that institution in regionalism—. In other words, no priority was given to the regional level or to the appropriate use of the institutional framework that would allow regional management of the health crisis.

Conclusions

In view of the reality outlined above, it is necessary to highlight a) the role of political will, b) the function of extra-regional partners –the United States, the European Union, China, South Korea, among others—, and c) the role of new technologies as determining factors in the direction that the Pacific Alliance-Mercosur convergence initiative will take.

Considering the influence of the political variable, which is precisely inconstant, in the intergovernmental convergence-divergence of Latin American regional integration processes, it can be inferred that the region is in a moment of uncertainty. This is because local electoral processes have an impact at the regional level on the configuration of both Mercosur and the Pacific Alliance.

Thus, the politicization of Latin American integration has increased the challenges of each regional bloc. In other words, the comings, and goings ideological caused by each change of government has put the trajectory and resilience of each regional institution to the test. In view of this reality, it is necessary to advance in regional consensus based on the combination of political will and effective regional leadership. To achieve this, we can begin in areas that require regional public policies: the Sustainable Development Goals (SDGs), energy and food sovereignty, and environmental protection. These areas should be above political-ideological variations at the domestic level.

In this regard, it is recognized that the Pacific Alliance and Mercosur—as well as the other Latin American integration processes— have had political will as the main conditioning factor. Without political will, it is very difficult for them to advance and very easy for them to stagnate. Since changes of government at the local level, with different ideological positions and prioritizing the solution of national problems, hinder the progress of each integration process. Thus, Latin American integration has shown constant paradigm shifts that have hindered its consolidation. Thus, the lack of consensus and the absence of political will have an impact on the interrelatedness of the processes. It is therefore pertinent to seek, taking advantage of the post-pandemic situation, greater cooperation in areas that affect all member countries to reach clear internal positions that
will make it possible to rethink regional integration. These cooperative relations must serve to define where each regional bloc should be heading. In this order, Pacific Alliance-Mercosur convergence will not be achieved in the short-term, but common points between the countries of both blocs will be found.

This uncertainty generated by the lack of political will is the main difficulty facing the possibility of Pacific Alliance-Mercosur convergence—and Latin American integration in general—. However, at the economic level, the lack of consensus on economic issues has prevented greater progress in regional integration and common responses to asymmetric crises. An example of this is the pandemic and the crisis caused by the conflict between Russia and Ukraine. In this situation, there are winners—the food, oil, and gas exporting countries—and losers—the net food and hydrocarbon importing countries—in the region. Hence, the solution to the problem of food and energy insecurity requires the incorporation of these issues in the regional debate. In addition, it needs the consolidation of spaces for cooperation at the South American level. In other words, we must advance in spaces for the integration of common agendas, spaces committed to cooperation that will give new life to the region. And an effort must be made to set concrete goals that allow for short-term results in response to the current international situation and national urgencies, which are not waiting for a solution.

External actors play a preponderant role. They can generate conflict because of dissimilar positions that member countries in relation to the regional development strategy and the proposal for international insertion. The example of the Andean Community is very clear: the signing of free trade agreements with the United States and the European Union led to a crisis that ended with Venezuela’s exit from the integration agreement.

In this context, China has acquired greater relevance in Latin America, displacing the European Union and the United States as the main partners of the countries in the region. Therefore, any attempt to deepen Latin American integration must move towards a joint position with respect to China as an extra-regional partner, to minimize the risk of further regional segmentation due to the position that each country may have with respect to the Asian country—currently only Chile, Costa Rica and Peru has an FTA with China—.

The dynamics allowed by extra-regional actors is fundamental, since they would give rise to spaces for convergence by taking advantage of agreements previously reached with common trade partners—for example: the FTA signed by Mercosur (still without final approval by the EU) and all the countries of the Pacific Alliance with
the European Union have points in common, among them, on environmental matters—.

And in relation to the role of technology. During the pandemic it made it possible to manage the crisis: a) avoiding the breakdown of payment systems, b) promoting electronic commerce, c) reducing the paralysis of productive activities that did not require presence, d) bringing public policies closer to the low-income population, e) reducing the risks of contagion represented by presence, among other aspects. This implies a global change as a result of the use of new technology. An instrument to increase the levels of integration in Latin America, mainly by taking advantage of the potential of electronic commerce and advancing in the regional digital transformation.

**Recommendations**

In this regard, to consolidate the convergence initiative between the Pacific Alliance and Mercosur, the following should be prioritized:

1. Building a regional consensus on food trade to reduce the risks of food insecurity faced by the region, hydrocarbon trade and energy transition. These are fundamental agenda items in both integration agreements.

2. Promote the coordination of agendas on e-commerce, gender and diversity, and environment between the Pacific Alliance and Mercosur. This is due to the separate efforts being made by both agreements, the possibility of complementarity that can be achieved and the need for dialogue on these issues.

3. Increase decision-making at the regional level more effective, having political compromise with integration agreements and promoting institutional mechanisms with autonomy. This would reduce their vulnerability to changes in the political-ideological positions of national governments, more if those efforts are institutionalized inside the integration’s mechanism.

4. Take advantage of the changes generated by the pandemic in international trade to move towards areas of productive complementarity that will allow the consolidation of regional industries. In this way, it will be possible to form regional value chains, incorporate new technologies into regional productive activity, generate more regional value added, and reduce dependence on imports.

5. And, in the absence of political will, social participation is needed to push governments to act in accordance with the new challenges facing the two regional integration agreements. Challenges such as: a) digital transformation, b) migration, c) the change of energy matrix, among others that can be solved more easily in a joint manner compared to the fragmented response that has traditionally been given.
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