CENTER FOR ECONOMIC AND POLICY RESEARCH

The Gains From Trade: South American Economic Integration and the Resolution of Conflict*

Mark Weisbrot and Jake Johnston

November 2010

Center for Economic and Policy Research
1611 Connecticut Avenue, NW, Suite 400
Washington, D.C. 20009
202-293-5380
www.cepr.net

* This paper is based on a presentation by Mark Weisbrot at the Fletcher Symposium on Colombian and Venezuelan Affairs, at the Fletcher School of Law and Diplomacy, Tufts University (October 23, 2010). See: http://colombia-venezuela-symposium.eventbrite.com/

Acknowledgements

The authors would like to thank Sara Kozameh for research and editorial assistance.

About the Authors

Mark Weisbrot is an economist and Co-director of the Center for Economic and Policy Research in Washington, D.C. Jake Johnston is a Research Assistant at CEPR.

It has long been argued that expanding commercial relations between countries acts as an incentive for nations to avoid hostilities up to and including armed conflict. Indeed this was a major impetus behind the economic integration of Europe[1] after World War II, which led to the European Union and more recently the currency union of the Eurozone. While the traditional efficiency gains from the reduction of trade barriers have often been played up in the context of, for example, the Doha round of the World Trade Organization, these gains are at this point generally very small. The standard efficiency gains from a successful completion of the Doha Round, for example, are extremely small – as low as a penny a day per person for developing countries.[2] It may well be that there are much more important gains from trade, especially regional economic integration, in the form of reducing conflict.

In recent years there have been steps toward further economic and political integration in South America. Since 2003, intra-regional trade has increased from 15 percent to 23 percent of total exports, and Venezuela has been invited to join as a full member of Mercosur. On the political side, the constitutive treaty of UNASUR (the Union of South American Republics), was signed in 2008 and the organization played a significant role in resolving conflict in Bolivia the same year, throwing its weight behind the government of Bolivia against extra-parliamentary and separatist challenges.[3] It also intervened, with less success, against the military coup in Honduras last year;[4] and was quick to mobilize against the threat of a coup in Ecuador in September. UNASUR also established the Bank of the South as a development bank of the member countries.

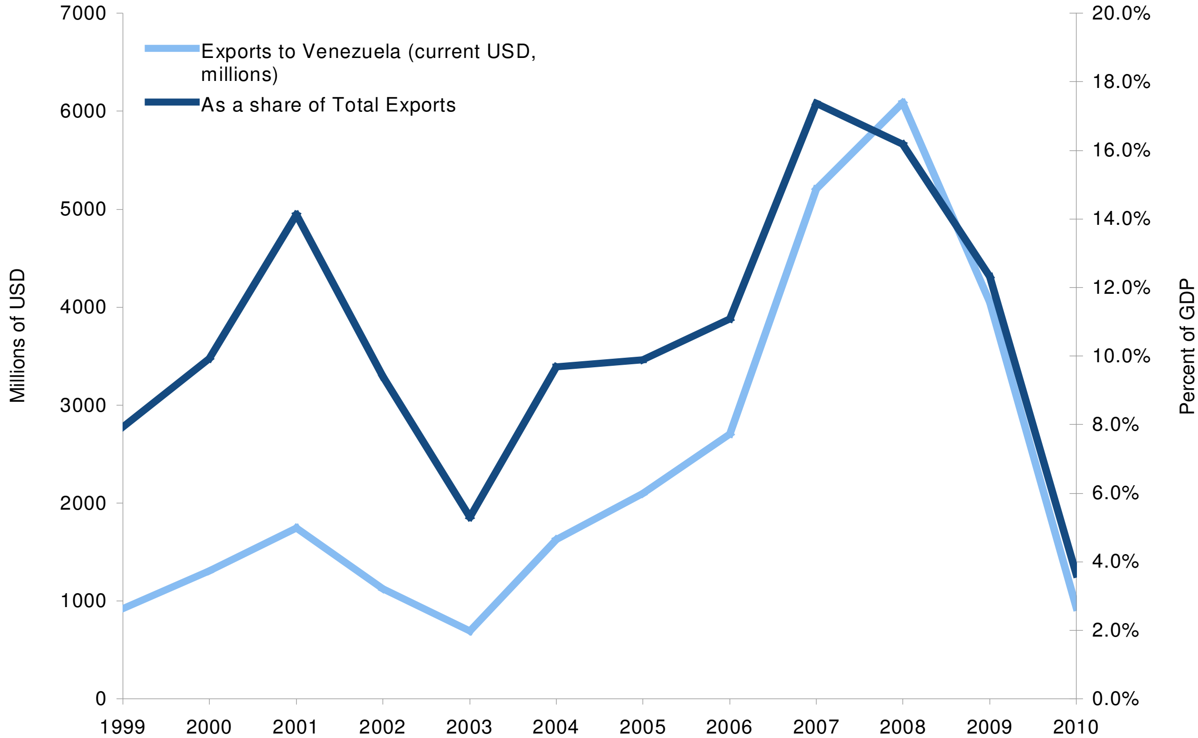
The case of Venezuela and Colombia may provide an example of how economic integration can establish important incentives to conflict resolution**. Figure 1** shows the evolution of trade between the two countries in recent years. From 1999 to 2007 Colombia's exports to Venezuela more than doubled as a share of its total exports, from 7.9 percent to 17.4 percent.

In more than a half century of civil war in Colombia, the conflict had often spilled across the 2000 kilometer border with Venezuela. For most of President Alvaro Uribe's first five years in office, which began in 2002, relations between the governments of Colombia and Venezuela were good.[5] However, tensions mounted in the last two and a half years[6] of the Uribe Administration, especially after Colombia bombed and invaded Ecuador in March of 2008, in an attack on a FARC (Revolutionary Armed Forces of Colombia) camp there. On the basis of computer files allegedly found in the raid, Colombia and the United States government increasingly accused Venezuela of providing support for the FARC – charges that could not be independently confirmed[7], and that Venezuela denied.

---

1 See, for example, Souza Silva (2009).
2 See Ackerman (2005); Weisbrot and Baker (2002); Martin and Anderson (2005).
3 See UNASUR (2008).
4 See Main (2010).
5 One exception was a two-month period of tension and economic sanctions imposed by Venezuela in response to the kidnapping of FARC representative Rodrigo Granda from Caracas in December 2004. The dispute was resolved in Feburary of 2005.
6 For example, see Weisbrot (2008).
7 See INTERPOL (2008). The widely-cited Interpol report on the computer files explicitly said that it did not attempt to confirm the origin or authenticity of the files. "The verification of the eight seized FARC computer exhibits by INTERPOL does not imply the validation of the accuracy of the user files, the validation of any country's interpretation of the user files or the validation of the source of the user files."

FIGURE 1
Colombia Exports to Venezuela, 1999-2010



Source: DANE, 2010.

The sharpest conflict emerged in July 2009, when the U.S.-Colombia Defense Co-operation Agreement (DCA) was leaked to the press. This agreement between the governments of the United States and Colombia increased access for U.S. military personnel at seven Colombian military bases. It was met with concern and opposition throughout South America. Then President of Chile Michelle Bachelet referred to the agreement as "disquieting," and asked for assurances that the bases would not be used for forward operations in other countries. Brazilian president Lula da Silva was also concerned; "I'm not happy with the idea of another U.S. base in Colombia," he said. He also urged President Obama to attend the meeting of UNASUR where the issue would be discussed.[8]

More worries came from the U.S. Air Force's Air Mobility Command White Paper on Global En Route Strategy :

> "Recently," according to the White Paper, "USSOUTHCOM has become interested in establishing a location on the South American continent that could be used both for counter-narcotics operations and as a location from which mobility operations could be executed... Until such time that USSOUTHCOM establishes a more robust theater engagement plan, the strategy to place a CSL at Palanquero should be sufficient for air mobility reach on the South American continent."[9]

8 Bronstein (2009).
9 Washington Office on Latin America (2009).

There was also concern in the U.S. Congress: two of the most important Democratic Senators concerned with foreign policy issues, Senators Christopher Dodd and Patrick Leahy, wrote to Secretary of State Hillary Clinton, registering a complaint about the lack of consultation with Congress:

> Despite the obvious foreign policy and budgetary implications of such an agreement, neither the Foreign Relations Committee nor the State, Foreign Operations Subcommittee of the Appropriations Committee was even informed of the negotiations, much less consulted on then. Even after press reports divulged their existence, the negotiations were acknowledged only in response to staff inquiries.[10]

On August 28, the UNASUR countries met in Bariloche, Argentina and discussed the problem of the U.S.-Colombia DCA. The final declaration[11] described South America as a "Zone of Peace" and the UNASUR nations' commitment to respect the "territorial integrity" of all UNASUR states. It also took note:

> "To reaffirm that the presence of foreign military forces cannot, with its means and resources linked to its own goals, threaten the sovereignty and integrity of any South American nation and as a consequence, the peace and security of the region."

In other words, the governments reached agreement, with Colombia signing on, that the U.S. military forces could not use these bases for forward operations out of Colombia, which had been the stated or implied purpose according to various U.S. government documents.

In October, the Colombian magazine *Semana* reported on a U.S. Air Force document that outlined plans for the Palanquero base, one of the bases included in the U.S.-Colombia DCA. The document states:[12]

> "[D]evelopment of this CSL (Cooperative Security Location) provides a unique opportunity for full spectrum operations in a critical sub- region of our hemisphere where security and stability is under constant threat from narcotics funded terrorist insurgencies, **anti-U.S. governments**, endemic poverty and recurring natural disasters."

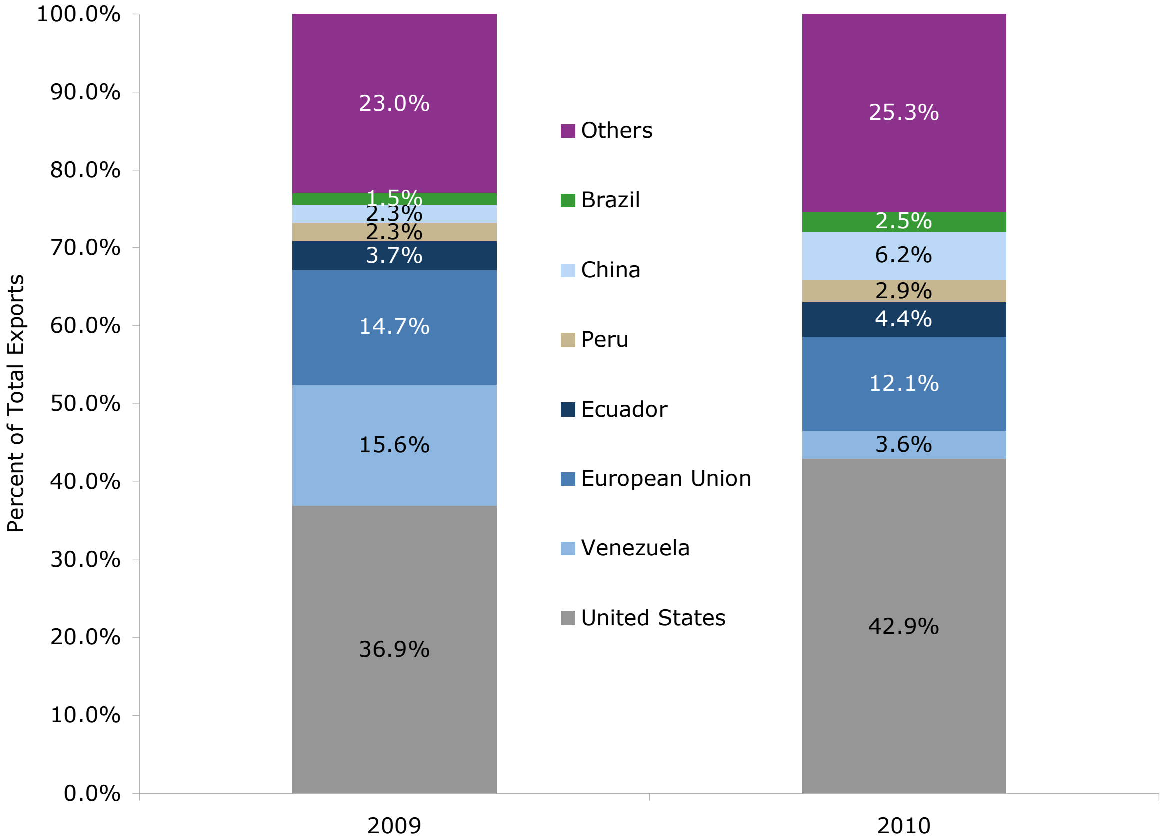
The mention of "anti-U.S. governments" as part of a "constant threat" to "security and stability" raised alarm bells among the left-of-center governments in South America.

The Venezuelan government responded to the U.S. Colombia DCA by cutting off imports from Colombia. **Figure 2** shows the share of Colombia's exports going to Venezuela in 2009 and 2010 (through August).[13] It fell from 15.6 percent to just 3.6 percent of exports.

---

10 See letter from Senators Christopher Dodd and Patrick Leahy at http://www.forcolombia.org/sites/www.forcolombia.org/files/20090728%20Colombia%20base%20letter%20to%20HRC.pdf
11 UNASUR (2009).
12 Department of the Air Force (2010).
13 For means of comparison, throughout the rest of the paper when referring to Colombia trade statistics 2009 refers to the period January, 2009 – August, 2009; 2010 refers to January, 2010 – August, 2010.

FIGURE 2
Destination of Colombian Exports (including Venezuela) in 2009 and 2010.



Source: DANE, 2010.

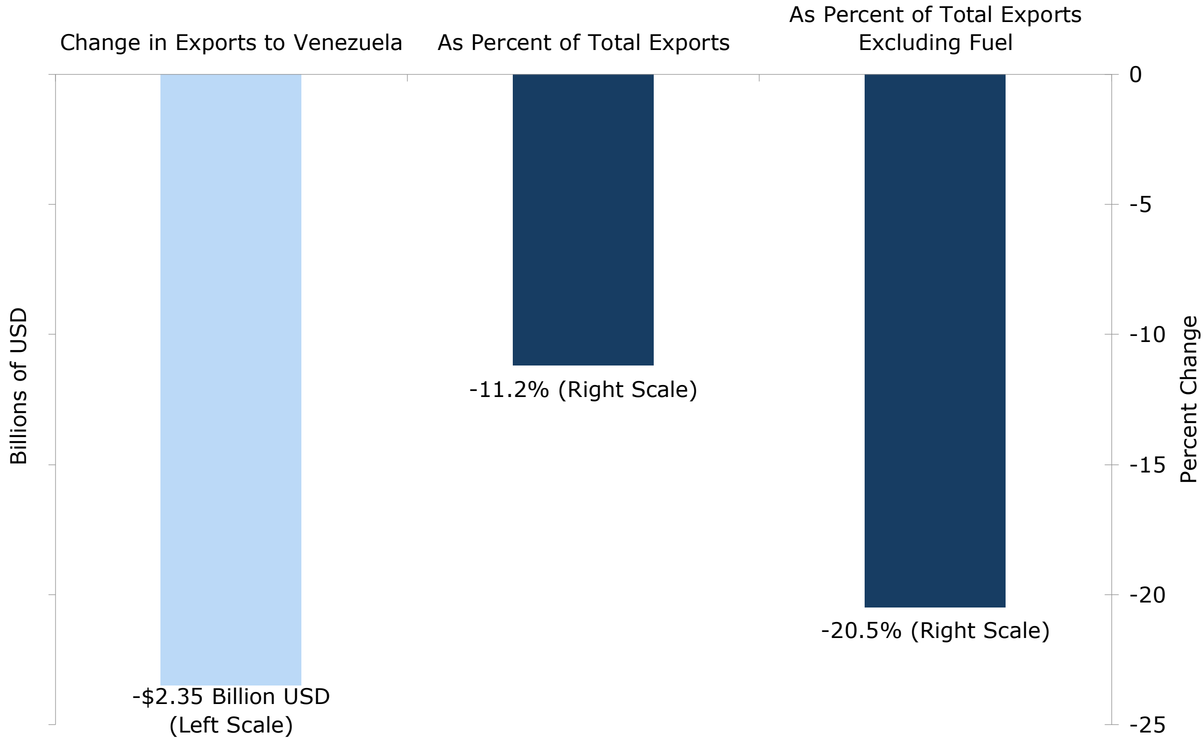
Figure 3 shows the loss of Colombia's exports to Venezuela, in dollars and as a percent of total exports. From 2009-2010, the loss of $2.3 billion in trade with Venezuela represented 11.2 percent of Colombia's total exports. Perhaps more importantly, it was 20.5 percent of Colombia's non-fuel exports.

There is no question that this had a significant impact on the Colombian economy**. Figure 4** shows the change in Colombia's exports from 2009-2010. While total exports grew by $4.6 billion or 22 percent, this was all due to fuel exports. Non-fuel exports actually fell slightly. Most importantly, this was a year in which exports worldwide, and in Latin America, rebounded very strongly from the depressed year of 2009. For example, in Argentina, Chile, Peru, Uruguay and Venezuela exports grew by an average of nearly 30 percent in the first half of 2010 compared to the same period in 2009.[14]

The slight fall-off in Colombia's non-fuel exports from 2009-2010 shown in Figure 4 represents a large loss relative to the rebound that would have occurred if exports to Venezuela had not been cut off.

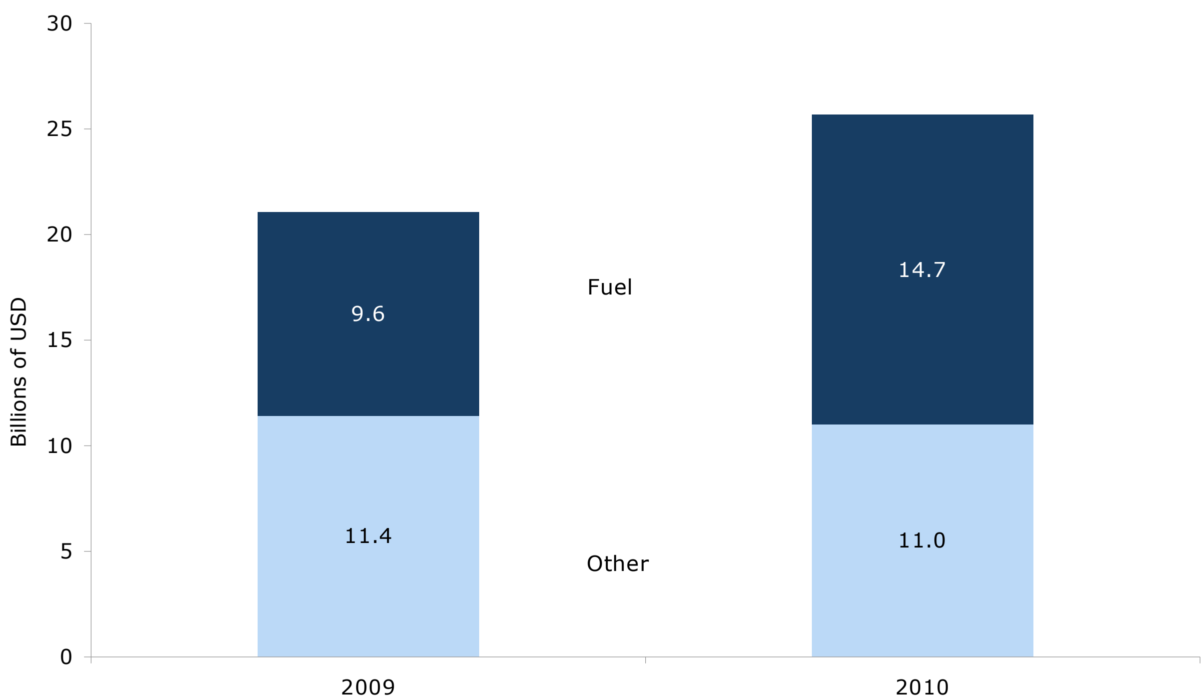
14 Complete data was only available for these countries. IMF (2010).

FIGURE 3
Change in Exports to Venezuela, 2009 vs. 2010, in billions of USD (left scale) and percent (right scale)



Source: DANE, 2010.

FIGURE 4
Colombia's Total Exports, 2009 vs. 2010



Source: DANE, 2010.

Figures 5 and 6 show that the lost exports were especially concentrated in two sectors. As seen in Figure 5, for livestock and related products the loss of $632.8 million in exports to Venezuela represented 83 percent of total exports in this sector. Similarly, Figure 6 shows that the loss of $286 million represented 63 percent of Colombia's textile exports. Unlike the fuel exports, for which there was mostly a readily accessible world market, these export markets were not easily replaced elsewhere – as shown in Figures 5 and 6.

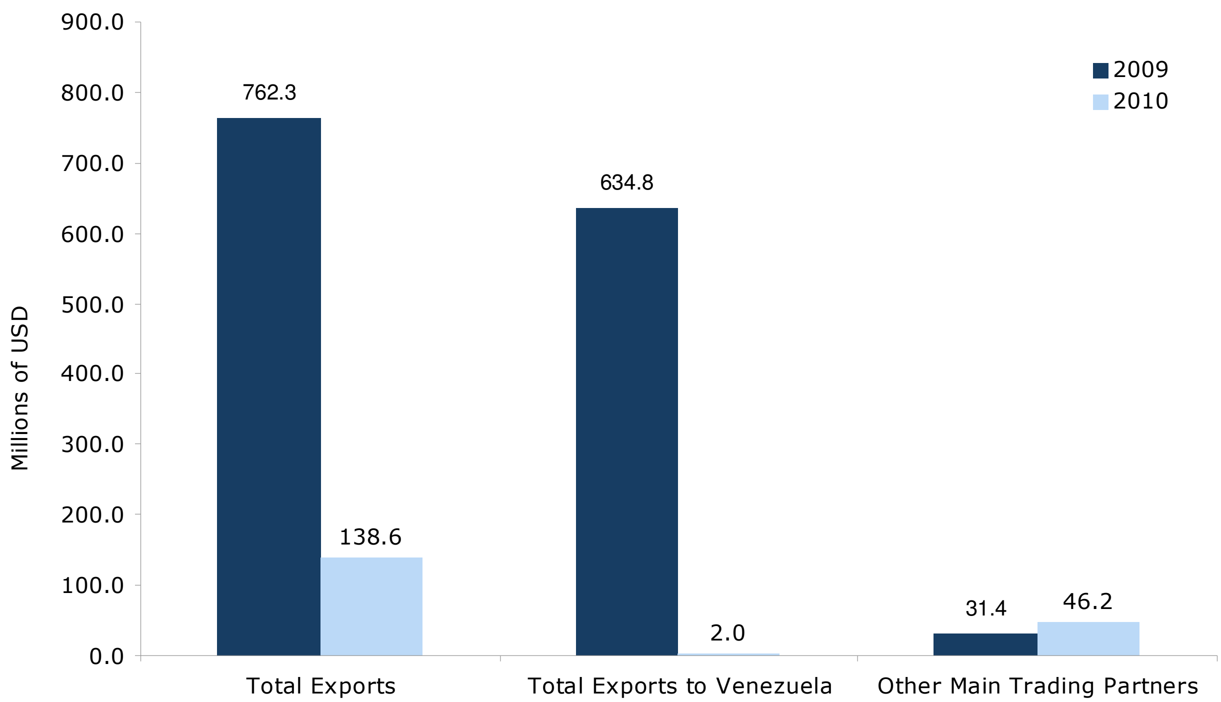
President Juan Manuel Santos took office on August 7 and announced an abrupt change in Colombia's policy toward Venezuela. "We have decided to turn over the page and look to the future," he announced. In a thinly veiled reference to Washington, he also said: "Hopefully nobody will interfere to see if we can fight again, because that's not our intention. To the contrary, what we want is to improve our relation with Venezuela even more."[15]

Within three days of his inauguration, Santos met with Chávez in Santa Marta, Colombia and re-established diplomatic relations. The two established a cross-border security committee and reached an agreement on the payment of some $800 million in outstanding debt owed to Colombian exporters. Santos and Chávez met again in early November in Caracas, signing the Miraflores Declaration. The Declaration outlined how Colombia and Venezuela would work together on trade, energy, the border zone, security and infrastructure projects.[16] For the Santos government, closer relations with Venezuela are the key to improving relations with all of Latin America. As the Colombian foreign minister put it recently "Once we began drawing closer to our neighbors (Venezuela and Ecuador), relations improved with Latin America." The "most important thing," she added, is to "have good relations with our neighbors and with Latin America and return to integration with the rest of the continent."[17]

On August 17, 2010 the Colombian Supreme Court ruled that the U.S.-Colombia DCA was unconstitutional because it would require Congressional approval, and had not been passed by the legislature. The Santos administration could have responded to this decision by seeking congressional approval. However, the administration has not done so, and as of this writing the agreement appears to have been abandoned.

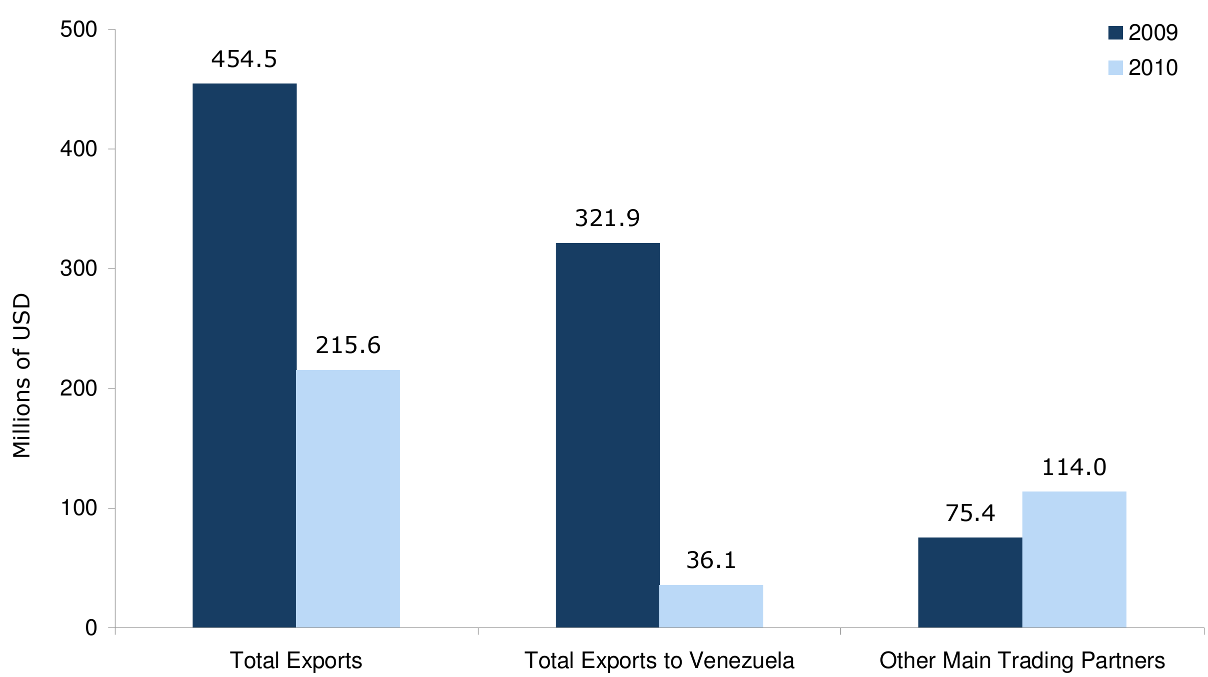
15 Alselma. 2010.
16 See Declaración de Miraflores (2010).
17 *El Espectador*. 2010.

FIGURE 5
Colombia: Livestock & Related Products Exports, 2009 vs. 2010



Source: DANE, 2010.

FIGURE 6
Colombia: Textile Exports, 2009 vs. 2010



Source: DANE, 2010.

Conclusion

The loss of export markets to Venezuela, which are not easily replaceable, amounting to 11 percent of Colombia's exports and 20 percent of its non-fuel exports, clearly provided a strong Incentive for President Santos' decision to try a new approach to Venezuela. The prospect of expanding export markets in Brazil, as well as Brazilian investment in Colombia, were also likely considerations in the country's decision to move closer to its South American neighbors. Expanding commerce with other neighbors, as South American countries made a commitment to expanding regional integration, provided further incentive for Colombia to re-prioritize its relations within South America – rather than relying as much on the United States. The Bush Administration had pursued a policy of trying to isolate Venezuela from its neighbors; but this has clearly failed, and the result is that Venezuela and its neighbors have ended up mostly on the same page on regional issues. Although President Obama has been personally much more liked by South American leaders and by the general population (according to public opinion polls), his State Department has continued the Bush Administration's policies in the region,[18] thus leaving Washington in nearly the same position as the prior administration with respect to U.S.-South American relations. Thus, Colombia had additional incentives, besides its expanded trade with Venezuela, to move closer to its neighbors, and resolve disputes with Venezuela as well as Ecuador.

It is worth noting that Colombia's expanded trade with Venezuela gives that country a stake in political stability in Venezuela. As can be seen in Figure 1, Colombia's exports to Venezuela also plummeted during the oil strike of 2002-2003, which plunged the Venezuelan economy into a severe recession. The effect is an added incentive for the Colombian government not to support efforts to destabilize its neighbor, which Washington has supported in recent years.[19] This can also help to promote stability in the region.

This episode shows how important regional economic integration can be as a force for stability and resolving conflict. It is undoubtedly one of the reasons that regional leaders, mostly from the left-of-center governments that have been elected over the past decade, have moved in this direction instead of the "hub-and-spoke" model of increasing trade with the United States through bilateral "free trade" agreements, or the failed attempt to forge a multi-lateral Free Trade Area of the Americas.

18 For example, see Weisbrot (2009).

19 For example, see Weisbrot (2006). For citations and links to U.S. government documents relating to U.S. support for the 2002 military coup in Venezuela see http://southoftheborderdoc.com/2002-venezuela-coup/ and : http://southoftheborderdoc.com/declassified/

References

Ackerman, Frank. 2005. "The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections." Global Development and Environment Institute, Working Paper No. 05-01 http://ase.tufts.edu/gdae/pubs/wp/05-01ShrinkingGains.pdf

Alselma, Adriaan. 2010. "Santos expects full restoration of Venezuela ties this year." Colombia Reports. October 11. http://colombiareports.com/colombia-news/news/12317-santos-expects-full-restoration-of-venezuela-ties-this-year.html

Bronstein, Hugh. 2009. "Criticism grows over Colombia's U.S. military plan." Reuters. August 3. http://www.reuters.com/article/idUSN03539055

Departamento Administrativo Nacional de Estadisticas (DANE). 2010. "Comercio Exterior." Online Database. Accessed on October 20, 2010. http://www.dane.gov.co/daneweb_V09/index.php?option=com_content&view=article&id=48&Itemid=56

Department of the Air Force. 2009. "Military Construction Program: Fiscal Year (FY) 2010 Budget Estimates." May 2009. http://www.justf.org/files/primarydocs/091104pal.pdf.

El Espectador. 2010. "Acercamiento con Venezuela mejoró relaciones con la región: Colombia." November 9. http://www.elespectador.com/articulo-234018-acercamiento-venezuela-mejoro-relaciones-region-colombia

IMF (International Monetary Fund). 2010. "International Financial Statistics." Online database. Accessed on October 20, 2010. http://www.imfstatistics.org/imf/

IMF (International Monetary Fund). 2010b. "World Economic Outlook (WEO): Recovery, Risk and Rebalancing." IMF. October, 2010. http://www.imf.org/external/pubs/ft/weo/2010/02/

INTERPOL. 2008. "INTERPOL's Forensic Report on FARC Computers and Hardware Seized by Colombia." INTERPOL. May, 2008. http://www.interpol.int/Public/ICPO/PressReleases/PR2008/pdfPR200817/Default.asp

Main, Alex. 2010. "UNASUR: An Emerging Geopolitical Force." Washington DC: Center for Economic and Policy Research. http://www.cepr.net/index.php/blogs/cepr-blog/unasur-emerging-geopolitical-force/

Martin, Will and Kym Anderson. 2005. "Agricultural Trade Reform and the Doha Development Agenda." World Bank Policy Research Working Paper, No. WPS3607.

http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:20716544~menuPK:207652~pagePK:148956~piPK:216618~theSitePK:239071,00.html

Presidencia, República de Colombia. 2010. "Declaración de Miraflores." November 2. http://wsp.presidencia.gov.co/Prensa/2010/Noviembre/Paginas/20101102_19.aspx

Souza Silva, Karine. 2009. "Pedagogy of Peace: The Contribution of Jean Monnet to the Construction of the European Union." Jean Monnet/ Robert Schuman Paper Series, Vol 9, No. 5. http://aei.pitt.edu/11046/01/Silva-MonnetLong09edi.pdf

UNASUR. 2008. "Declaración de La Moneda." September 15, 2008. http://www.presidencia.gub.uy/_Web/noticias/2008/09/declaracion_la_moneda.pdf

UNASUR. 2009. "Declaración conjunta de Reunión Extraordinaria del Consejo de jefes y jefas de Estado de la Unión de Naciones Sudamericanas." August 28, 2009. http://www.comunidadandina.org/unasur/28-8-09bariloche.htm

Washington Office on Latin America. "WOLA Expresses Concern on Palanquero Base." August 7, 2009. http://www.wola.org/index.php?option=com_content&task=viewp&id=970&Itemid=2

Weisbrot, Mark. 2008. "Hostage Drama Shows Flaws in Washington's Policy on Colombia." WashingtonPost.com, January 15. http://www.cepr.net/index.php/op-eds-&-columns/op-eds-&-columns/hostage-drama-shows-flaws-in-washingtons-policy-on-colombia

Weisbrot, Mark. 2009. "More of the Same in Latin America." *New York Times,* August 11, 2009. http://www.nytimes.com/2009/08/12/opinion/12iht-edweisbrot.html

Weisbrot, Mark. 2006. "Venezuela's Election Provides Opportunity for Washington to Change Course." McClatchy-Tribune Information Services, December 6, 2006. http://www.cepr.net/index.php/op-eds-&-columns/op-eds-&-columns/venezuelas-election-provides-opportunity-for-washington-to-change-course/

Weisbrot, Mark and Dean Baker. 2002. "The Relative Impact of Trade Liberalization on Developing Countries." Washington DC: Center for Economic and Policy research. http://www.cepr.net/index.php/publications/reports/the-relative-impact-of-trade-liberalization-on-developing-countries/