

BUSINESS POLITICS IN COLOMBIA AND VENEZUELA DURING FREE TRADE NEGOTIATIONS BETWEEN THE ANDEAN COMMUNITY AND MERCOSUR

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INTRODUCTION

Regional integration treaties make part of the foreign economic policies of participating countries and are assumed to incorporate the economic preferences of both their governments and important domestic business groups. In this sense, according to Solingen (1999), the negotiation of a regional integration treaty should bring together a cluster of internationalist oriented domestic coalitions that co-operate with one another within a region in order to advance their economic preferences. Though security and strategic regional dimensions may exist in integration treaties, they are usually supposed to be secondary to the economic component of the coalitions, business, especially in recent years. But is always business a necessary member of these domestic coalitions in Latin America? What other type of preferences may foster regional integration treaties? And how and why are business interests incorporated into them? We will attempt to answer these questions while comparing the cases of Colombia and Venezuela, linking business politics to the history of relations between governments and business.

In this paper we will test Solingen's proposition in a study of business politics in Colombia and Venezuela during the negotiation of a free trade treaty between the Andean Community of Nations (ACN, Bolivia, Colombia, Ecuador, Perú, and Venezuela) and the MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay). In the first section we summarize the main stages of the negotiation, followed by another section that analyzes the positions and participation of Colombian and Venezuelan domestic business actors during the process of negotiation. In the third section we compare these positions, and the degree and form of business participation as well as the general relationship between business and governments, and we conclude with a discussion of the implications of this case study for the negotiation itself and for approaches about Latin American business in regional integration.

I. STAGES OF THE NEGOTIATION OF A FREE TRADE TREATY BETWEEN THE ANDEAN COMMUNITY OF NATIONS AND MERCOSUR

The idea of a free trade treaty between the two South American integration groups – the Andean Community of Nations and MERCOSUR—was put forward by the Brazilian government in 1993 apparently as a response to the U.S. decision to broaden the North American Free Trade Treaty (NAFTA) (Canada, México, and the U.S.) by the individual accession of other Latin American nations. Brazil proposed then to enlarge MERCOSUR incorporating the rest of the South American nations, in order to benefit both by the increased market size of the free trade area and by gaining negotiating strength in relationship to extraregional powers. However, it was not until february 1995 that formal negotiations between the two blocs began. That same year Presidents Fernando Henrique

Cardoso of Brazil and Rafael Caldera of Venezuela exchanged visits and declarations in support of the idea.

As a result of this first stage of negotiation, a Framework Agreement between the two groups was signed in March 1998 in Buenos Aires. The agreement established that both schemes would create a free trade area with emphasis on the integration of South American infrastructure and would promote the coordination of their external policy positions in other trade negotiations. The document included a chronogram according to which trade preferences between the two blocs would be established by September of that year and a free trade area would be in place by the beginning of the year 2000. (Grandi and Schutt, 1999) In spite of this positive beginning the negotiation has gone through different stages of “ups and downs” and only at the end of the year 2002 the signing of a free trade treaty took place in Brasilia. However, the document establishes that items granted preferences and their tariffs will be “negotiated” by the end of 2003, so still considerable technical work will be needed for this to be finished.¹ We will attempt to show in the following paragraphs why negotiations have taken so long and why the outcome is still inconclusive three years after the established date for a free trade treaty to be implemented.

In order to answer the question why have negotiations taken so long, we will test the hypothesis that at least four factors have contributed to slow down the process: 1) the existence of important economic asymmetries between the two integration schemes; 2) little complementarity between the economies of ACN and MERCOSUR, as most exports of the Andean nations are oriented towards North American markets, mainly the U.S.; 3) the ongoing negotiation of a hemispheric free trade treaty (the Free Trade Area of the Americas, FTAA) which concentrates most of the attention from business and governments; and 4) the enlargement of the original proposal incorporating the concept of the formation of a South American Union, based on geopolitical, non economic, considerations.

The main elements that illustrate the differences in the levels of economic development of the two schemes can be seen by looking at the aspects of the negotiation that have created more disagreement. Rondon and Urbina (2003) have listed the following ones: 1) the calendar to liberalize trade –15 to 18 years was the position of the Andean nations, and 12 to 15, that of MERCOSUR; 2) differential treatment – Andean nations demand this treatment for their less developed countries, i.e., Bolivia and Ecuador, while MERCOSUR supports strict reciprocity among all nations; 3) rules of origin – the Andeans want goods to have between 40 and 50 % of national or regional content, and MERCOSUR, 60 %; 4) lists of exceptions—Andeans support their inclusion in the treaty, and MERCOSUR opposes; 5) Andeans want special treatment and exceptions in areas such as agriculture, while MERCOSUR opposes the granting of such treatment; and 6) the Andeans want to put in place a mechanism to deal with controversies from the very beginning of the agreement, while MERCOSUR wants to postpone it for future negotiation.

Another conflict dealt with the form of the negotiation: ¿4 + 5 or 4+ 1? It was finally agreed that in a first stage norms would be dealt with in a 4+ 5 way (all of the MERCOSUR nations with all of the Andean ones), while trade preferences will be negotiated in a 4+ 1,

¹ See the text of the agreement in www.comunidadandina.org

i.e. each of the nations of the ACN would negotiate them with MERCOSUR as a unit.² But this was left aside in practice, due to internal disagreements among the MERCOSUR nations, and in fact the negotiation of trade preferences took place under the guise of a 4+1 mechanism but between each of the four nations of MERCOSUR and the ACN as a group. (Rondón and Urbina 2003)

During the second stage of negotiations – inaugurated with the signing of the framework agreement -- Brazil signed a preferential trade treaty with the Andean Community of Nations in August 1999, and Argentina did the same in July 2000. Uruguay refused to negotiate individually with the Andeans, and the Paraguayan government walked out of negotiations after an impasse with the Andeans regarding agriculture. (Zanin 2002: 252) Not only the chronogram established in March 1998 was not followed but also the treaties signed were still partial lists of products, that did not represent a major opening of trade among the countries of both blocs. Anyway, there was some opening between the two groups and the preferential trade treaties between Brazil and the ACN and Argentina and the ACN demonstrate this. It was the Brazilian government who in April 1999 took the lead in deciding not to wait for the other more reluctant members of MERCOSUR and negotiate its own trade treaty with the Andeans. In this negotiation Brazil multiplied by nine the number of items with preferential access to the ACN (some 5.545) while the Andean nations increased its number by four (some 6.483) (ALADI 1999). Negotiation with Argentina was not easier but also included longer lists of items for both Argentina and the Andeans. (“CAN destaca mejoras en mercados sureños” 2000) In spite of these treaties, the Andeans continued to experience deficits in their trade with MERCOSUR until the year 2000, which also illustrates the different levels of development of their economies. (Toro 2003)

Looking at the history of trade relations between the ACN and MERCOSUR between 1990 and 1999, we found that one of the Andean nations, Colombia, sent an average of 38.3 % of its exports to the U.S., 40.4 to the whole of NAFTA, 24.7 to Europe, 16.3 to the rest of the ACN, and only 1.8 to MERCOSUR. (ANDI. Vicepresidencia de Comercio Exterior 1999b: 9) Marin (2000: 100-101) recognizes that in 1995 all the ACN attracted a mere 4% of total MERCOSUR exports, and MERCOSUR received only 3.6% of Andean exports. For the two largest MERCOSUR nations, during those same years a strong export orientation towards Europe and/or equally divided between Europe and the U.S., together with a list of more diversified trade partners, existed. Though percentages of exports to MERCOSUR increased for Andean nations of the South (Peru and Bolivia), the situations of Ecuador and Venezuela were not any better than that of Colombia if we exclude exports of oil to Brazil. In fact, historically the major Andean exporter to MERCOSUR – in this case, to Brazil – has been Venezuela (almost exclusively oil and oil derivatives), while the major MERCOSUR exporter to the ACN has been Brazil, with a more diversified group of goods: machinery, cars, chemical products, paper, and electrical equipment. These numbers explain the fact that these two governments are the most interested in reaching a free trade treaty between their respective blocs, but Toro (2003) considers that in the case of Venezuela the treaty would only reinforce the state led orientation of its economy for, with the exception of certain exports of cement and steel rods (“cabillas”) for the construction industry of Northern Brazil, it would be the state oil and petrochemical industries the main beneficiaries. At the same time, Brazilian industrial and agricultural

² During the first stage of negotiations, Bolivia signed a free trade agreement with MERCOSUR in 1997, so the Andean nations presently involved in negotiations with MERCOSUR are only four – Colombia, Ecuador, Perú, and Venezuela. The Bolivia-MERCOSUR agreement can be seen in www.aladi.org

goods will easily dominate the Venezuelan market displacing domestic firms in private hands.

It is especially noteworthy that along the years between 1990 and 1999 the diversification of Andean exports to MERCOSUR has increased between 2 and a half and almost 4 times for Bolivia, Colombia, Ecuador, and Perú, while it has not even doubled for Venezuela, attesting to the fact that the same group of goods (oil and oil derivatives) are still being sold to MERCOSUR. (Toro 2003) At the same time, Brazilian interest in a treaty with the ACN is predicated in great part upon its needs for energy provided by Venezuela (oil and water generated electricity) and Bolivia (gas); (See Correa 1999) markets for their goods and services are not the main consideration because all together the Andean nations market is smaller than the one provided by the FTAA, for example.³ (Veiga 2002:73) Even if the ACN manages to complete its plans to establish a common market by the year 2005, it will still represent only a fraction (28 % in 1998) of that of MERCOSUR. (Ojeda 2001: 36)

At the same time, the existence of a parallel process of negotiation of a FTAA has affected the process of establishing a free trade treaty between the ACN and MERCOSUR, because the magnitude, possibilities and risks of the broader negotiation have overshadowed the South American negotiation. More human, financial, and technical resources have been devoted to discussion of the implications of the FTAA and also participating in meetings to negotiate it by both Latin American governments and business. On the other hand, it should be noticed that the FTAA negotiation has cast a positive shadow as well upon the two South American schemes, because in order to comply with the approved chronogram of that negotiation, MERCOSUR and the ACN have had to establish internal agreements around subjects such as their external common tariffs, a fact that has contributed to clarify matters among their members.

But another non economic factor is also an obstacle to negotiation between the two groups: the fact that certain analysts and governments have insisted in presenting the free trade area between the two groups of nations as the first step towards a South American Union. Let us briefly explore the elements of this notion. Since 1993 Brazil has been promoting the idea of establishing a South American Free Trade Area, based upon the convergence of the two largest integration schemes (ACN and MERCOSUR) and the association of Chile, Guyana, and Surinam. Most arguments supporting this idea are presented in geopolitical rather than economic terms. Even recognizing that heterogeneity in the levels of development of South American economies conspires against the project, supporters of the idea (Marín 2000: 127) posit that it is worth to establish the union, and also to deepen it following the example of the European Union, in order to gain power vis-a-vis the U.S., i.e. for political rather than economic reasons.⁴ This presentation of the South American Union as a means of confrontation with the U.S. is probably the aspect least shared by all South American governments,(Tokatlian 2001: 143) and might have influenced the decision of President Henrique Cardoso to tune it down during his last years in power. However, the Venezuelan government has chosen to emphasize this

³ According to Milner, 1997, economic integration between extremely asymmetric economies offers little incentive to the predominant state, in this case Brazil. Obviously this incentive increases when the smaller economies are an organized grouping, such as the ACN, and the regional predominant state risks integrating with them later as part of a larger scheme (the FTAA) in which it would be no longer predominant.

⁴ For more detail on the South American Union see the debate between Di Tella (2000) and Tokatlián (2001) in **Desarrollo Económico** (Buenos Aires) and Marín 2000. Giacalone 2002 also deals with this matter.

aspect in what may be called the third stage of negotiation, after the signing of the trade treaties between Brazil and the ACN and Argentina and the ACN.

Though the idea of some type of regional union has appeared and reappeared in geopolitical writings along history, it had been almost always couched in Latin American rather than South American terms. The historical geopolitical concept of a Latin American Union, able to successfully combine the region's resources in order to oppose U.S. "intervention" has a long history, (See Methol Ferré 1997) but what is new it is that now the concept of a South American Union, proposed by Brazil, seems to be a manifestation of opposition to the possibility of a geopolitical or economic role for Mexico in the region after its entry into NAFTA. (See Bouzas & Fanelli 2001: 233) Opposition is not only to the U.S. – though this aspect is very important in the political discourse of Brazilian politicians and analysts (Mota Sardenberg 1997: 87-88, 92) – but also to Mexico. In other words, Mexico is hardly mentioned but there are many derogatory remarks to NAFTA – which obviously includes Mexico. One of the few cases in which Mexico is explicitly named is the following statement by Marín (2000: 120): "Obviously this effort [the establishment of a South American Union] will require a great deal of political will by South American leaders, able to extend itself beyond present hegemonic attempts, such as the Mexican pole or NAFTA model ..."

Thus, the free trade treaty signed in december of 2002 between MERCOSUR and the ACN is the culmination of a third stage of negotiation after the two major MERCOSUR nations and the ACN had signed their preferential trade agreements in 1999 and 2000. The treaty of 2002, though still inconclusive, could be signed because it was negotiated in a context in which some participating countries were interested in working out technical details to maximize their economic preferences, while others inclined towards postponing or overlooking this aspect for the sake of other non economic considerations. The fact that President Cardoso was leaving power in december 2002 also influenced the decision to push for signing the treaty even without having completed all the necessary technical work.

In summary, the negotiation of a free trade treaty between the ACN and MERCOSUR has not been easy due to the history of trade relations and the differences in the levels of economic development and external orientation of the two groups. Presently, both the parallel process of negotiation of a hemispheric agreement and the intrusion of a geopolitical concept, such as a South American Union with anti-U. S. and anti - FTAA connotations, have added new problems. Let us have a look now at the positions taken by the business communities of the two economically most important members of the ACN, Colombia and Venezuela, along the different stages of the negotiation, and also to the way they have participated in the process of negotiation.

II. COLOMBIAN AND VENEZUELAN BUSINESS POSITIONS AND PARTICIPATION IN THE NEGOTIATION OF THE ACN – MERCOSUR TREATY

When the negotiation of the ACN-MERCOSUR treaty started, **Colombian** business was enjoying a privileged position in the Venezuelan market, which had become open to trade between the two nations in 1992. Bilateral free trade have materialized in an upsurge of exports and also investments between the two countries. At the same time, the Group of Three (G – 3) Free Trade Treaty (Colombia, Mexico, and Venezuela) have been signed in 1994, and Colombian businessmen were actively participating in the negotiation process

of the FTAA, having been hosts in 1996 of the II Business Forum in Cartagena. This latter negotiation was attracting most attention and interest due to the fact that more than 30 % of Colombian exports were headed towards the U.S. market. (Garay 1997; **El Tiempo** 18 & 19 March 1996)

At the beginning of the year 1998 numerous businessmen supported in statements to the press the decision of the Andean governments not to advance in negotiating with MERCOSUR if the latter did not grant recognition to the existing asymmetry between the two integration groups. (Sicard 1998) This position contrasted with the one assumed by businessmen towards the FTAA, as during the II Meeting for Productivity and Competitiveness (**Colombia Compite**) in Cali, the government of Colombia announced its decision to formally ask for accession to NAFTA. This position had been established with participation of representatives of several business associations –ANDI (industry), ANALDEX (exporters), FENALCO (commerce), and sectorial organizations of the chemical, petrochemical, publishing, agroindustry, steel, textile, and flower sectors-- in february 1998. (**El Tiempo** 23 February 2000) According to Marta Lucía Ramírez, (2000) Colombian minister of trade, government and business were eager to substitute the uncertainty of the U.S. Andean Trade Preferences Act (ATPA), a scheme of unilateral trade preferences granted by the U.S. government and periodically renewed, by an encompassing free trade treaty which would attract more investment to the sectors involved, and may be some others. She also mentioned at the same time that Proexport, a business funded organization, had already conducted a number of studies in order to determine Colombian sectors ready to benefit with hemispheric free trade. There was no mention at all in this high level declaration of the ongoing process of negotiation between the ACN and MERCOSUR, something that indicates not only the coincidence between business and government positions regarding both processes of negotiation, but also the secondary priority granted to negotiation with MERCOSUR..

The year 2000 also witnessed the establishment of a negotiating team for the FTAA, made up of government officials, 5 business representatives (3 from industry, 1 for the financial sector and 1, from services) plus academics. (**El Tiempo** 23 February 2000) Nothing similar has been created so far for negotiating with MERCOSUR, attesting to the second place this negotiation holds in both government and businessmen's attention and interest. Even the decision to ask for accession to NAFTA, when discussed in the Colombian press, was not seen as a question of opting between this agreement and one with MERCOSUR, but as an alternative between increasing trade towards North America or deepening the Andean Community. (**El Tiempo** 8 March & 18 May 2000; Sierra Montoya 2000)

The magazine of the most important business association of Colombia, ANDI (Asociación Nacional de Industrialistas), has published several articles about the ACN - MERCOSUR negotiation. According to these articles the free trade area with MERCOSUR has been seen either as a first step towards the hemispheric treaty sponsored by the U. S. (the FTAA) or as a danger, because opening Andean markets to Brazilian goods may translate into the loss of the promisory Venezuelan market for Colombian producers. (ANDI. Vicepresidencia de Comercio Exterior 1997; ANDI. Centro de Estudios Económicos 1997: 9, 13) Proexport also coincided that the excellent exporting position of Colombia in Venezuela would be considerably harmed by a treaty with MERCOSUR. (Majó y Peña 2001) At the same time sectorial studies published in diverse business magazines, such as one by the Chamber of Pulp, Paper and Carton (Cámara de Pulpa, Papel y Cartón de la ANDI 1997) and another on the possibilities of beef producers (Bejarano Barrera 1996), have presented a negative view of Colombian options of expanding exports, or even

maintaining their domestic and subregional markets, vis-a-vis the entry of Brazilian and Argentine products with comparative and competitive advantages. Bejarano Barrera, for example, concluded in 1996 that there were more risks than benefits for Colombia, and probably for the Andean nations as a group, in a free trade treaty with MERCOSUR.

It should be mentioned that both the Colombian government and business position of ordering different trade negotiations in a hierarchy of interest has not changed between 1997 and today, for in a speech of August 2001 President Andrés Pastrana insisted on granting priority to negotiation of the FTAA and deepening of the ACN, without any mention to the MERCOSUR proposal, and at the beginning of the year 2003 newly elected President Alvaro Uribe reiterated the willingness of Colombia to enter NAFTA. ("Palabra del señor presidente ..." 2001) At the same time, the coincidence between government and businessmen position remains,⁵ for along the year 2002 there were numerous statements in the Colombian press in that sense ("La CAN en prensa" in www.comunidadandina.org 8/11/2002) and finally, this coincidence is considered to have influenced MERCOSUR negotiators' decision to flexibilize their position in order to arrive to the signing of the treaty in December of that year. ("MERCOSUR dispuesto a flexibilizar posición para acelerar negociaciones con los andinos" in www.comunidadandina.org Notas de Prensa 10/11/2002)

The secondary position⁶ accorded by both Colombian government and business to negotiations vis- a-vis MERCOSUR could be clearly seen at the beginning of the year 2002 when the Ministry of External Trade announced the results of a survey about business position, knowledge and preparation for the FTAA. According to survey results, 75 % of businessmen mentioned that their firms were preparing themselves for the hemispheric treaty, and certain sectors, such as transport, mining, and commerce, even stated that they have already completed work in that direction. (www.presidencia.gov.co 19/03/2002) At the same time, diverse governmental and business institutions (www.mincomex.gov.co 20 /02/2002; www.camcomerciocartagena.org 6/05/2002) were publishing activities related to the FTAA, with nothing similar (no surveys, no meetings, no process of consultation) taking place on the matter of the treaty with MERCOSUR.

In the case of **Venezuela**, negotiation with MERCOSUR started under President Rafael Caldera with support from the private sector, as it was seen as a way to get closer to Brazil by means of trade and energy (mainly oil and water generated electricity) treaties. (Huguene 1995; **Declaración de Venezuela y Brasil** 1995) At that time, negotiation with MERCOSUR, mainly with Brazil, was justified only in economic terms and seen as an alternative to the erosion of the Andean group, something similar to the signing of the G – 3 Trade Treaty in 1994. (Giacalone 1997: 165-166) Chan Sánchez (1996: 332-339) agrees with this interpretation because, according to him, the slow process of implementation of ACN decisions after the withdrawal of Peru and two attempted military coups in Venezuela during 1992 have complicated trade matters within the Andean group.

Regarding Venezuelan businessmen position towards negotiation with MERCOSUR, from the very beginning of the process there were voices against it: an editorial of 1997

⁵ It has been noted before, Thorp 1991 quoted in Schneider 1999: 47, that the Colombian economic policy has been consistently more efficient than that of other Andean nations due to the fact that relations between business and the state are characterized by respect and mutual trust.

⁶ If an ACN-MERCOSUR treaty is placed second by Colombians, it is third for Argentine business and government, more interested in the FTAA and in negotiating with the European Union, Giacalone 2003.

(Herrera Vaillant 1997: 2) in **Business Venezuela** (magazine of the U.S. – Venezuelan Chamber of Commerce and Industry, VenamCham) explored what it called the “illusion of MERCOSUR” considering that Venezuela “rediscovered Brazil” each time that Caldera was in the presidency, in spite of the fact that Brazil was the most protectionist country in the hemisphere. The author of the editorial added that Brazil’s negotiation with the ACN, via MERCOSUR, served Brazilian purposes against the FTAA, but that once Brazil managed to reach a compromise with the U.S. it would drop the negotiation with the Andean nations, and the latter would find compromised their traditional relationship to the North. Also interviews and surveys conducted among business associations of the five Andean nations by the JUNAC (Junta del Acuerdo de Cartagena, which functions as an ACN secretariat) (JUNAC 1997: 54-58), on the matter of a free trade treaty with MERCOSUR, found lack of adequate information in CONINDUSTRIA (Association of Venezuelan Industrialists) and opposition among sectorial associations, such as that of metal producers and miners (Asociación de Industriales Metalúrgicos y de Minería) due to the fact that the Brazilian government granted subsidies to its producers.

Since 1999 for Venezuelan business the matter of a free trade treaty with MERCOSUR seemed to have been overshadowed by other concerns, mainly by clashes with the government inaugurated in december 1998 regarding aspects of its domestic economic policy. Though FEDEAGRO (www.fedeagro.org) and CONINDUSTRIA (www.conindustria.org) have made public their opposition to the suppression of customs duties for Argentine agricultural products and for Brazilian industrial goods, respectively, no national discussion has taken place on the merits and risks of the treaty.

When the time came for Venezuela to negotiate its trade preferences with Argentina in 2001, it was noticed that only 7 Venezuelan products (most of them oil derivatives) had exports to that country for over one million dollars a year, while 22 Argentine products imported to Venezuela (soy beans and soy oil, sunflower, and steel tubes, among others) surpassed that level. This situation was opposite to the one Venezuela enjoyed in relationship to Brazil, in whose market the trade balance was positive for Venezuela thanks to oil exports. (“Situación actual de las relaciones bilaterales con Argentina y Brasil” www.conindustria.org 22/09/2000) It can be concluded that, in economic terms, though a free trade treaty with Brazil could be beneficial for Venezuela traditional oil exports, one with Argentina and the rest of MERCOSUR would represent more benefits for the latter.

In spite of this economic reality that translated in a relative lack of business interest in the treaty, the Venezuelan government officially asked for accession to MERCOSUR in may 2001.⁷ (Suniaga 1999; Ojeda 2001; Capriles Baena 2001) Declarations of the government were many and they echoed expressions of the Brazilian foreign minister Celso Lafer, especially his statement that the FTAA was an option, not a destiny for Brazil, words that were repeated by Venezuelan president Chávez in a televised program, but applied to Venezuela. At that time, the Brazilian government publicly demonstrated support for the Venezuelan decision, considering that it would strengthen its internal position within the group, where Brazil was clashing with Argentina over the common external tariff. In fact, Brazil had been consistently pushing for an enlargement of the Southern Cone group but when Chile decided not to apply for official entry to MERCOSUR at the end of the year 2000, Cardoso turned his attention to Venezuela. (**El Universal** 5, 7, 14, & 20/04/2001)

⁷However, the Venezuelan government soon lost most of its enthusiasm for MERCOSUR due to the Argentine economic situation, and probably to the fact that its application for membership into MERCOSUR had been set aside. **El Universal** 11/08/2001, and Anderson 2001: 4.

At that time FEDECAMARAS, the umbrella association of Venezuelan business, declared to the press that the negotiation with MERCOSUR was clouded in secrecy by the government and it would be a much better alternative to strengthen the ACN with a view to negotiate not only with MERCOSUR but also within the process of the FTAA. (INTAL **Carta Mensual** mayo 2001: 4, & July 2000: 4)⁸ Important representatives of Venezuelan business also raised their voices against the unconsulted decision taken by government regarding Venezuela's accession to MERCOSUR. (Carmona Estanga 2001, Ross 2001) A month later FEDECAMARAS and CONSECOMERCIO (Confederación Venezolana de Comercio) insisted that the Venezuelan government should not negotiate with MERCOSUR isolated from the rest of the Andean nations. (Santistevan Gastelu 2001) Probably the position of Venezuelan business was established upon the basis of both its successful articulation with Colombian business since 1992 ("Las relaciones bilaterales. Posición de los empresarios colombo-venezolanos" www.conindustria.org) and the fact that most of the companies which could benefit from more trade with Brazil are in government's hands (oil, petrochemistry, and big basic industries from the mining sector owned by the Corporación Venezolana de Guayana, CVG) and producing near the Brazilian border.⁹ (González 2001) Also in 2001 Venezuelan businessmen stated their disappointment after attending a meeting with their Brazilian counterparts in Boa Vista because few Brazilian businessmen showed interest in participating in direct talks with the Venezuelans and these complained about the exaggerated cost of transport from Caracas to the Brazilian city, which is one of those closer to Venezuela. (Anderson 2001)

Formal application of the Venezuelan government in 2001 for full and rapid accession to MERCOSUR's membership also illustrates the difficulties in negotiation of a free trade treaty between the ACN and MERCOSUR. First, the very decision demonstrates that at the beginning of the year 2001 there was little possibility yet of the Andeans reaching a joint agreement with MERCOSUR; secondly, as Venezuelan accession would have reinforced the Brazilian position privileging a South American Union instead of the FTAA, Andean nations with economies that oriented most trade and investment to the North would feel more reluctant to join it; and thirdly, some Andean governments and analysts regarded the concept of an enlargement of MERCOSUR as a manifestation of the old Brazilian "design" of acquiring a dominating role over all its neighboring nations.¹⁰

So it is clear that in the Venezuelan case, there was no coincidence between the positions of government and business, something that may be linked to the fact that around 1999 and 2000 the ACN- MERCOSUR free trade treaty began to be supported by the government more in geopolitical than in economic terms, and also that the predominant position of the Venezuelan state in the economy (oil, and basic industries) would be enhanced with the signing of such a treaty, to the detriment of many Venezuelan companies of the private sector. From the point of view of Venezuelan business a free trade treaty with Brazil (or MERCOSUR) would have many negative effects: 1) it would weaken even more their negotiating position vis-à-vis the government; 2) it could also

⁸ In Venezuela there is not institutionalized instance of cooperation between the government and business in the matter of integration, be it with MERCOSUR or the FTAA, Hernández 2001.

⁹ Venezuelan state companies localized near the Brazilian border are competitive because they have vast reserves of inputs (iron, for example) and cheap energy, besides the fact that the distance from them to the North of Brazil is less than from Sao Paulo.

¹⁰ Some Andean negotiators in private talks to the author confirmed that they were more afraid of negotiating with Brazil than of doing the same with the U.S.

compromise the supply of aluminum, iron, etc, from basic goods state companies to national industries or make these industries pay more for them, because domestic prices would align themselves with those paid by Brazil and other MERCOSUR nations; and 3) it would flow the domestic market with Brazilian goods, without attracting investments and/or bettering the competitiveness of Venezuelan business.¹¹

III.COMPARISON AND DISCUSION

A first distinction between the Colombian and Venezuelan cases is provided by the fact that while in the first country the private sector holds an important position, in Venezuela relations between business and government are affected because the state is the main beneficiary of the flow of resources generated by oil exports, and this places the Venezuelan private sector in a weak negotiating position, which explains why the government can maintain an overvalued currency, high interest rates, and practically no export promotion policies for nontraditional products or services. (Quenan 1998:54-57) Politics have then a higher cost for business in Venezuela than in Colombia, especially when business assume an active position divergent from that of the state. The weakness and fragmentation of business vis-a-vis the Venezuela state also fosters informal and more traditional mechanisms of approaching the state, instead of institutionalized forms of channeling their demands to government.(Viguera 1995: 20) A second distinction is that the position of Venezuelan business is more reluctant to regional integration treaties than that of Colombian business, due to the different history of trade opening in both countries: while Colombia has consistently advanced in this direction during the 1990s, Venezuela has seen the process falter between 1994 and 1997, and again after 1999, so businessmen have little confidence in any government decision to support a continuous opening of regional or hemispheric trade.

Business politics around the signing of a regional integration treaty provide a good starting point to appraise the changes that are taking place in relations between governments and business in Latin America, but they also reflect the history of those relations, as well as some of the conflicts underlying them. It is not news that in Colombia, for example, direct contacts between the state and business have been strong, and business has hardly used the Congress and/or political parties as intermediary with central bureaucracy. (Viguera 1995) In Venezuela, however, business has played a less dominant role, and rent-seeking has determined the way in which firms approach and relate to the state, with the help of traditional political parties more than of the congress itself. (Gómez 1989; Naím 1993) Also in economic terms the state has been weaker in Colombia than in Venezuela. This case study shows no visible change in Colombia, but important changes in Venezuela since 1999, when the historic pattern of relationship became broken by the rise to government of a new political party with no ties to previous ones. It is also apparent that presently the state-led orientation of the economy of Venezuela is being deepened, disregarding the preferences of domestic business, while Colombia sees regional integration as one important mechanism to reach those preferences. In other words, the Colombian domestic coalition incorporates business and is oriented towards a policy of trade opening and more attraction of foreign investment, excluding certain sectors for whom temporary restrictions are being asked. While the Venezuelan domestic coalition does not incorporate business but other actors (the military?) and has a more statist orientation.

¹¹ The limitations of a South American free trade treaty centered in Brazil have been pointed out by Mayoral, 1999: 473; Naím & King 1997: 23, and Moneta, 2002: 105.

If we look now at how business participates in trade negotiations, a study of the Interamerican Development Bank about the way in which trade policy is formulated in eight nations of the Western Hemisphere, (Langebaek 2002: 45-53) including Colombia but not Venezuela, determines that the initiative to establish regional integration treaties has always rested with the Colombian government, by means of its Ministry of External Trade. Though business participation was quite low in previous negotiations, such as those of the G – 3 and the Colombian-Venezuelan bilateral trade opening of 1992, it has increased due to government initiative in the ongoing process of discussion of the FTAA. The most important business associations and the most important firms, which together comprise some 200 representatives of business, are included by the Colombian government. Business participation in trade discussions with government originated during the years of industrialization by import substitution, via INCOMEX, and the joint participation in the Andean Group of government and private sector representatives. However, since the 1990's there is more participation of individual firms in these discussions. The study concludes that representatives of big companies – which can also avoid the technical instances of negotiation and present their positions directly to ministers --tend to give dynamism to discussions while representatives of associations assume more conservative positions. Consultation between business and government negotiators during official meetings is worked out through the “room next door,” an informal mechanism of consultation initiated by Mexico in the NAFTA process. In Latin America participation of the private sector is mostly limited to business due to the fact that it has two important assets: money and knowledge. Thus only business so far can invest time and money to do so, providing government negotiators with the know-how they do not have. (Ostry 2002: iii)

The previous paragraph coincides with observations made by the author in a study of business participation in Colombia, Mexico, and Venezuela, during negotiation of the G-3 free trade treaty. (Giacalone 1999) Colombian business associations, such as ANDI, had a very conservative position that translated in their public opposition to Colombia participation in the treaty. Also representatives of this and other important associations did not participate in the official act of signing in Cartagena, Colombia, but heads of the largest Colombian companies and economic groups (Santodomingo, Sindicato Antioqueño, and others) were present at the ceremony. Business politics in Colombia point then to a close association or participation of the largest individual firms in the process of establishing regional trade treaties, but also that this process is not so easily identifiable as heads of these firms sometimes operate outside the channels of official participation. In the case of Venezuela, we found that the umbrella business association (FEDECAMARAS) officially supported a free trade treaty with Colombia and Mexico but the industrial association (CONINDUSTRIA) opposed it and was able to extract some concessions from government before signing it in 1994. The apparent paradox of a relatively weak private sector being supported in negotiation by Venezuelan state representatives was the result of a change in the position of two successive governments – that of Carlos Andrés Pérez (1989-1993) who was putting forward a market reform process and inclined towards negotiating with Colombia and the Andean nations, with or without business support, and a more conservative oriented Rafael Caldera (1994-1998) who preferred negotiation with Brazil. Caldera's lack of interest in the G – 3 allowed business some room for exacting concessions, and also explains why the treaty was not signed until mid 1994, though it was practically ready almost a year before. (Giacalone 1999)

Business politics in regional integration reflect not only changes in business-state relations but also changes both in the Latin American state and in firms themselves. While during the nineties the state saw its resources lost or reduced, it also centralized most decision-

making at the highest level of its executive power. Firms have concentrated their capital too and experienced a process of internationalization that grants them more power vis-a-vis the state but sometimes creates the need to exercise that power individually, instead of making use of their associations.¹² As a consequence, many traditional business organizations have seen their importance diminished while the largest firms have acquired more clout in trade and other economic negotiations. In this type of relationship the attitude of governments towards business and the perception of business regarding government may be the most important factors in how they react to the establishment of a free trade treaty.

Presently, the situation of the ACN-MERCOSUR negotiation seems to justify the statement that the Latin American rhetoric of integration has been employed by many governments as “politically correct” but has hardly been translated into liberalizing measures because when it comes to negotiating technical matters, conflicts of interest predominate. (Mayoral 1999: 450) Within this context, business reacts to this type of negotiation according to a combination of facts, among which has special weight their past and present experiences in relations with the state. Whenever business perceives the government as having a more receptive attitude towards its position and participation in integration efforts, it tends to react better to whatever proposal is presented because its access to government can be seen as a competitive factor for business. (Mayoral 1999: 460) At the same time, pro business governments – understood to be those more prepared to pay attention to business preferences – tend to support more easily integration treaties that generate little opposition from business. Obviously both these reactions by business and the state are still affected by considerations of firm size, ability to adjust, and sectorial possibilities, for the former, and by trade balances and regional equilibrium considerations, for the latter.

If we attempt now to place the Colombian and Venezuelan governments in a scale according to their relationship to business, we would have to place them in opposing poles of that scale, a fact that does not bode well for any joint negotiation of a regional integration treaty, be it with MERCOSUR or the rest of the hemisphere.¹³ This last observation seems to validate Solingen’s claim that other matters besides economic preferences may determine the signing of regional trade treaties. In this sense, these treaties sometimes respond more to the orientation of the state than to the influence of business. The notion of a South American Union, centered in Brazil, follows this tendency but, while in the case of Brazil, it may be predicated upon both geopolitical and economic preferences due to the fact that business preferences are incorporated into the government’s position – similarly to what we have discussed in the case of Colombia, in other cases, notoriously that of Venezuela, not only are business preferences not incorporated, but they are openly contradicted in support of a treaty that will not grant Venezuelan business any economic advantage either in outside negotiation or competitiveness; in fact such an agreement could end whatever competitiveness Venezuelan business has managed to develop.¹⁴

¹² Glade (1996) credited privatization with the responsibility for this change in Latin America, but other authors (Bisang, Fuchs y Kosacoff 1995; Bartell 1993) consider that the process of privatization was the symptom of the change in state-business relations taking place in the region.

¹³ For Pacheco 2002: 143, the only scenario in which the ACN can become stronger in the near future is if the Venezuelan government reduces or abandons its anti Western rhetoric and improves relations with Colombia.

¹⁴ Sandoval, 2001, claims that the 25 largest Venezuelan companies represent 11 % of the production of the largest Brazilian firms, and 66 % of those from Argentina.

Some tentative answers to the questions posed at the beginning of this paper are that: 1) on the matter of business being a necessary member of any coalition supporting a regional trade treaty, the answer is yes if the objective of such a treaty is economic, because business support enlarges the possibility of signing a “good” treaty as they have the expertise and knowledge that governments (even technocrats) do not have, and moreover, once the agreement is signed, business will have to actually implement it into action. If the objective of the treaty is not economic, business will not participate in negotiating it, but other domestic actors will do so; 2) about what non economic preferences may foster regional integration treaties, this case study supports the notion that they may be political and strategic, the latter meaning that geopolitics are still strong considerations in trade negotiation. Another example of this is the case of the European Union negotiations with Mexico, first, later with Chile, and now with MERCOSUR -- though they are predicated on terms of economic cooperation and the resurgence of a feeling of responsibility for the situation of Latin American countries, especially of concern about poverty and the environment, they would not have existed had not the U.S. put in motion in 1994 first NAFTA and then the FTAA negotiation. Let us add that the European negotiation has a strong component of business support too. 3) Whenever business is incorporated as a partner in negotiation of a regional integration treaty in Latin America, this increasingly means its participation in an advisory position from the very beginning of the process. In this negotiation both business associations and large firms participate and, though the latter may have more clout at higher levels, the process has been made more transparent because, whenever there is some institutionalization of that participation, everybody who cares to be informed can follow decisions being discussed and, in certain instances, associations make sure that their members have a chance to give their opinion on them (business surveys, articles in the general press, etc.).

In conclusion, if we attempt to place some of these findings within the perspective of current ideas about business politics in Latin America, we coincide with observations made by other authors such as the following: 1) coalition politics with institutionalized business participation tend to be part of more democratic than traditional forms of political systems (Thacker 2000); 2) the “internal make up of business determines the universe of available coalition partners for state policy makers” (Thacker 2000: 191) but also state orientation determines if business or other groups may become members of coalitions of support for their external trade policy; 3) the state has the initiative in coalition formation (Thacker 2000: 192); 4) two countries (Colombia and Venezuela) facing the same trade treaty and the same external (regional and international) context will react differently, showing the strength and importance of not only economic but also political considerations, as well as reflecting the relative strength and orientation of both their business and state; 5) with the vanishing from sight of the assumption of the state as a unitary actor, analysis becomes more complicated for academics, but also foreign policy making becomes more difficult for governments whenever domestic actors, such as business, are incorporated (Milner 1997: 234); 6) business becomes an important source of information for government during negotiation of a free trade treaty (Milner 1997: 240); 7) regional integration treaties are the consequence of prior changes in outlook or orientation of a country’s government, and this would determine what domestic actors are incorporated in coalitions of support for a given policy (Milner 1997: 246); 8) and, also, if regional integration treaties are a “function” of domestic politics, (Milner 1997: 252) they will continue to be affected by important changes in the political orientation of their member countries, not only during their negotiation but also afterwards.

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