

# Regional integration and Industrial policies

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**Green Transition in Latin America: Harnessing regional integration and industrial policy to build the economies of the future**

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# Regional integration

Debate on regional integration based on industrial development as a tool for promoting socioeconomic development is not new.

- **ECLAC** – regional integration as a means of expanding markets, guaranteeing minimum scale of production, and learning to gain competitiveness in 3<sup>rd</sup> markets, ensuring some degree of competition.
  - Different proposals over time: 60' = ISI, 90' = open regionalism, 00' = Productive Transformation with Equity; 10' = Structural Change for Equality; 20' = *Productive Structural Change for Equality (environment and inclusion)*
- **Mercosur** in its principles: confronting the *commercialist* and the *industrialist* perspective (Chudnovsky and Campbell, 1991)
- Deep regional integration in Europe and Asia, even if conducted in different ways

***Is this debate still valid? New modes, new challenges?***



# International context

- Economic reasons: reorganization of international production and trade
  - *GVC after Covid*: reshoring, nearshoring, friendshoring, *someother-shorings...* reinforcing – more than before – the regional character of value chains
  - Technological changes (digitalization, etc)
  - Growing interest in critical minerals
- Institutional reasons: the crisis of multilateralism and the new aspects of trade negotiations ('larger' trade agreements), return of industrial policy
- Geopolitical reasons: technological and other disputes & wars – *all around the globe, including the region*
- **Climate and social emergency**



# Regional integration with *green and inclusive* industrial policy: opportunity

- Environment as a cohesive element
- Windows of opportunity for new uses for natural resources on a more technologically intensive basis (clean energies, biodiversity, critical minerals)
- Windows of opportunity for investment: a road to circumvent/bypass the austerity discourse and the fiscal limitations on investment and public actions
- Widows of opportunity for foreign investment and international cooperation



# Experiences and perspectives on regional integration in LA - Sectors

## Past/present

- Energy – towards clean energy
- Infrastructure – not only for international trade but also considering the needs of the population and tackling climate change (mitigation and prevention)
- Selected industries – automobile, chemistry, agro/food

## Future:

- Critical minerals – need of a combined strategy and regulation
- Services – knowledge-intensive sectors?
- Other sectors to be identified according to countries' specificities



# Experiences and perspectives on regional integration in LA - Tools

## Past/present:

- Trade agreements – need of ‘consolidation’ and deepening
- Macro: the Reciprocal Payments and Credits Agreement (periodical payment clearing system)
- Compensatory funds: Structural Convergence Fund such as FOCEM (Mercosur)

## Future

- Coordination of green industrial policies
- National policy instruments that can be expanded to the region: Public procurement and Local sourcing (preference for regional suppliers), national and regional funds for regional projects

## Average number of industrial policies implemented between 2009 and 2019

# Industrial policy tools

### High income countries

- Local sourcing
- Public procurement

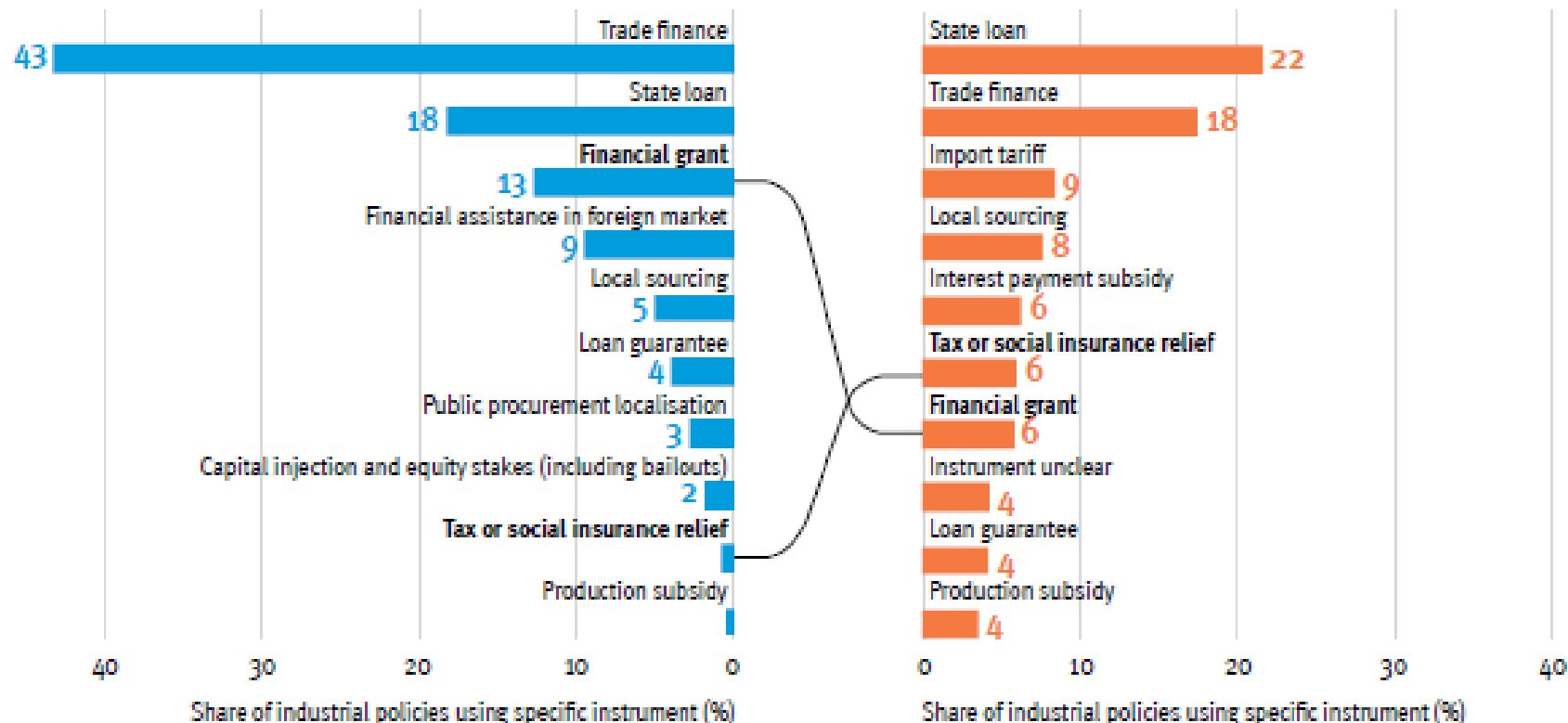
### Low and Middle income countries

- Import tariffs

HIGH-INCOME ECONOMIES

LOW TO MIDDLE INCOME ECONOMIES

Top ten instruments used



# Industrial and innovation policies: cooperation and articulation

- Environment as a cohesive element and a window of opportunity in several dimensions
- Latin American countries have been implementing green and inclusive strategies: different policy designs. **Need of regional articulation and cooperation** → information, government level meetings, joint projects... *Too late? Not yet.*
- Extra-regional relationship: an intra-regional conversation about sensitive issues (critical minerals regulation) and sensitive partners (China, EU, US)
- Regional articulation respecting national specificities
- *Industrial policy or Productive development policy?* Need to coordinate a set of instruments and policies beyond the limit of traditional “industrial activities” (including agro and service activities)



# Risks

- External agreements should not limit the gains/perspectives for regional integration – EU, OECD
- Political risks → *strengthening regional institutions and exchange mechanisms*



# Concluding remarks

- Acknowledging the transboundary effects of environmental problems and the relevance of joint mitigation and prevention strategies gives us a new argument to encourage cooperation and regional coordination: *Environment as a cohesive element, Environment as a window of opportunity*
- *Global value chains: regionalize to internationalize*
- *Strengthening national and regional companies*
- *Regional strategy for critical minerals and energy... identifying other projects & chains*
- *Strengthening financial instruments aimed at regional productive development: compensatory funds, productive financing, and payment compensation mechanisms*
- ***Coordination and cooperation in trade, industrial and innovation policies and others (i.e. public procurement)***



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