

Integration in Latin America Trends and Challenges

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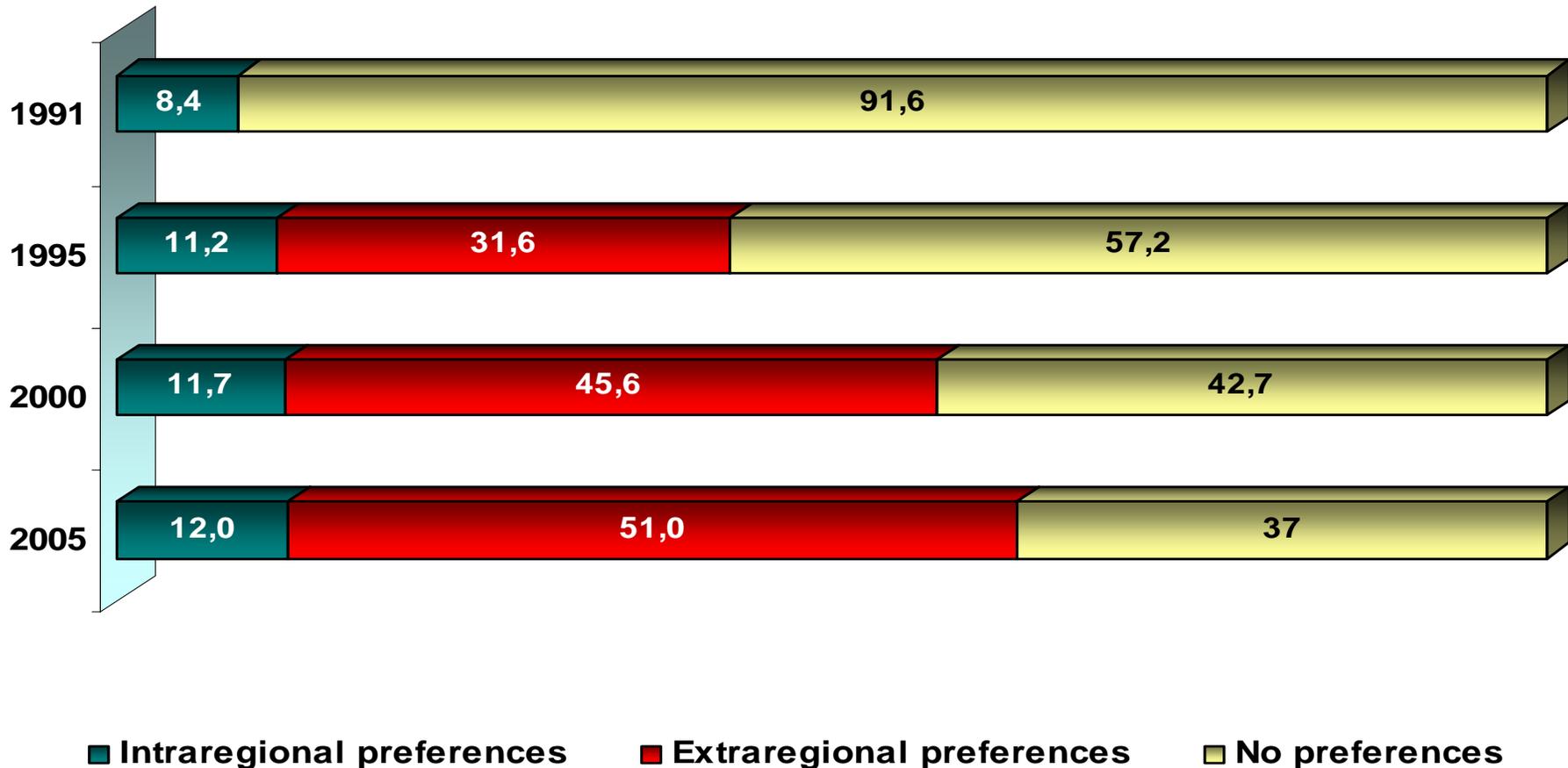
Some Elements for Basic Reference

Preferential Trade Agreements have 'gained momentum' in the region

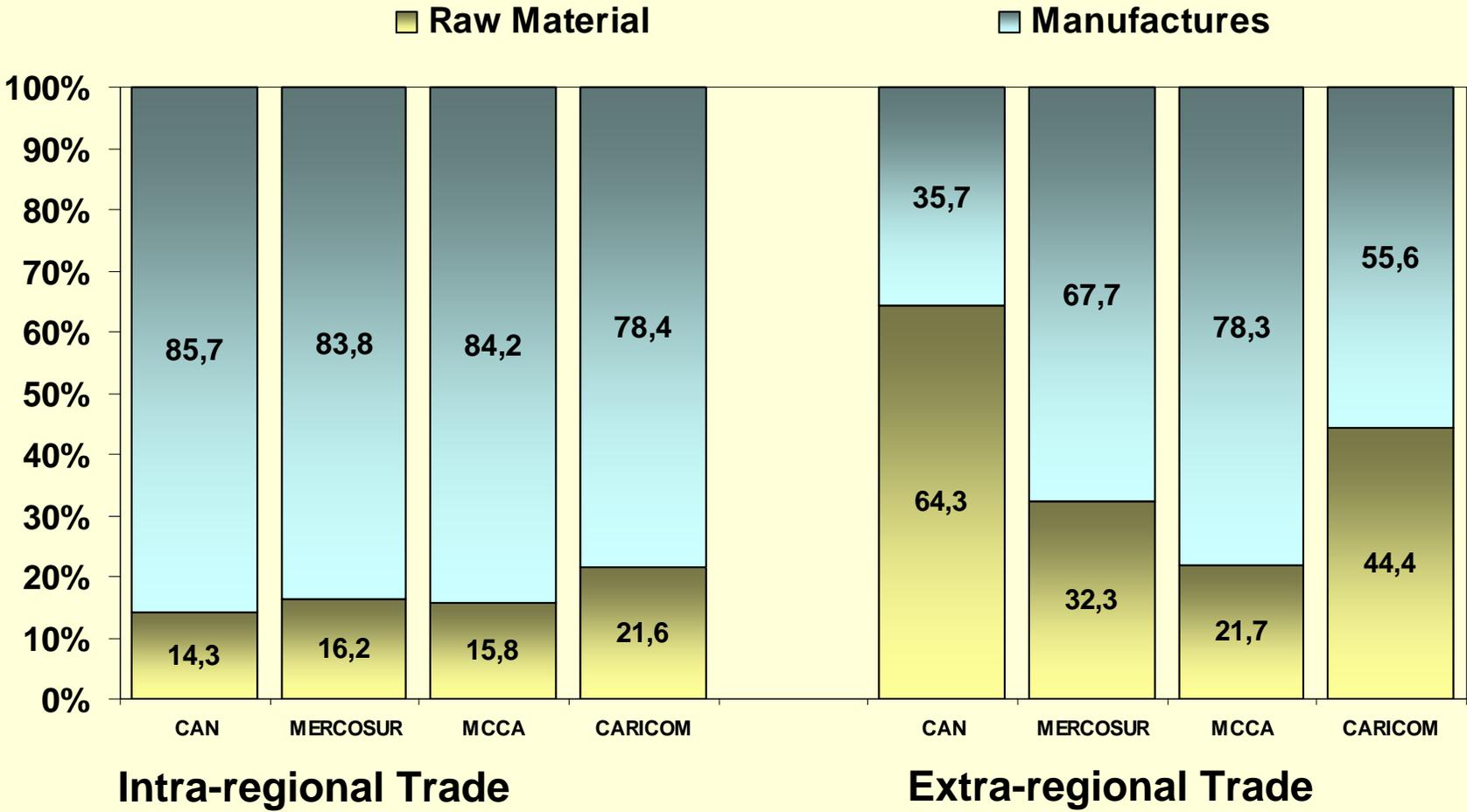
(the unprecedented fact is that
there is also an increasing number
of extra-regional agreements)

Tariff preferences correspond to an increasing share of trade by Latin American and Caribbean countries

(Percentage of total exports)

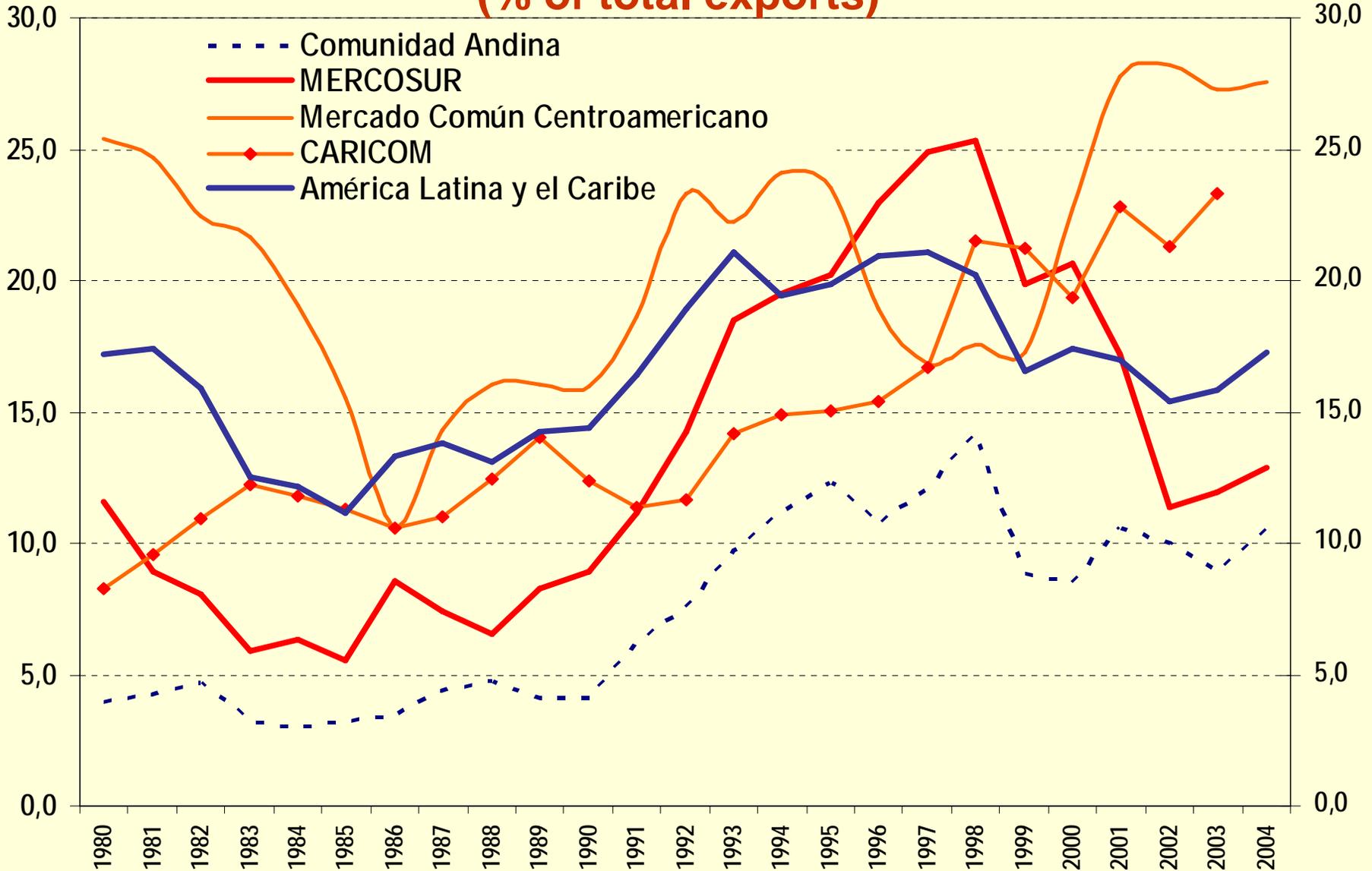


Regional integration schemes favour the exports of products with higher value-added



Intra-regional trade has been slower in South America than elsewhere

(% of total exports)



Regional Integration by Sub-regions

South America

- Today: 11 Preferential Agreements (of which 10 Agreements within LAIA) => 45 bilateral relations and 90 tariff liberalization chronograms

LAIA:

- 2006: 35% to 60% of trade (*whether measured by tariff lines or trade value*) would be freed from tariffs
- 2014: 60%-70% free from tariffs
- 2018: 65%-90% => still away from free-trade, even among LAIA 'partners'

MERCOSUR

- Common External Tariff (CET) equals national tariff rates in 70% of tariff lines
- CET is effective and equal to national tariffs for 35% of total trade. From these, products stemming for 20 percentage points have zero tariff => i.e., only 15% of Mercosur trade adopts CET

Relevant Facts for Regional Integration in South-America

- Negotiations between Mercosur & the Andean Community completed in 2004 (*essentially bilateral concessions*)
- 2004: creation of the South-American Community of Nations (CASA), drawing upon existing institutions
- 2004: creation of ALBA (Bolivarian Alternative for Our America)

Relevant Facts for Regional Integration in South-American (cont)

- 2005: Venezuela out from the Andean Community; applies for full-membership in Mercour
- 2006: bilateral FTAgreements signed-> Peru-USA, Colombia-USA
- 2006/7: Argentina-Uruguay border conflicts
- 2006: LAIA creates the Free Trade Space (*market access, common norms and disciplines, support to less developed countries*)
- 2006: Chile-Andean Community agreement (Chile to become associate member)

Central America

- Context: low growth, trade deficits (compensated by remittances), strong competition with Asian products (both in US market and in local markets)
- Agreement with the US (CAFTA-RD) ratified in 2006 (except by Costa Rica -> submitted to referendum in 2007): major regional event
- Regional integration comprise: trade concessions, norms for government procurement, investment, trade in services, property rights, labor and environmental issues, among others

THE CARIBBEAN

- Strategic option: Unique Caribbean Market and Economy, to start in 2008
- Haiti and Suriname joined CARICOM
- Common important problems: energy and labor movement
- Demand for special and differentiated treatment in the WTO
- Increasing concern with the progressive elimination of preferences of the Cotonou Agreement and the WTO

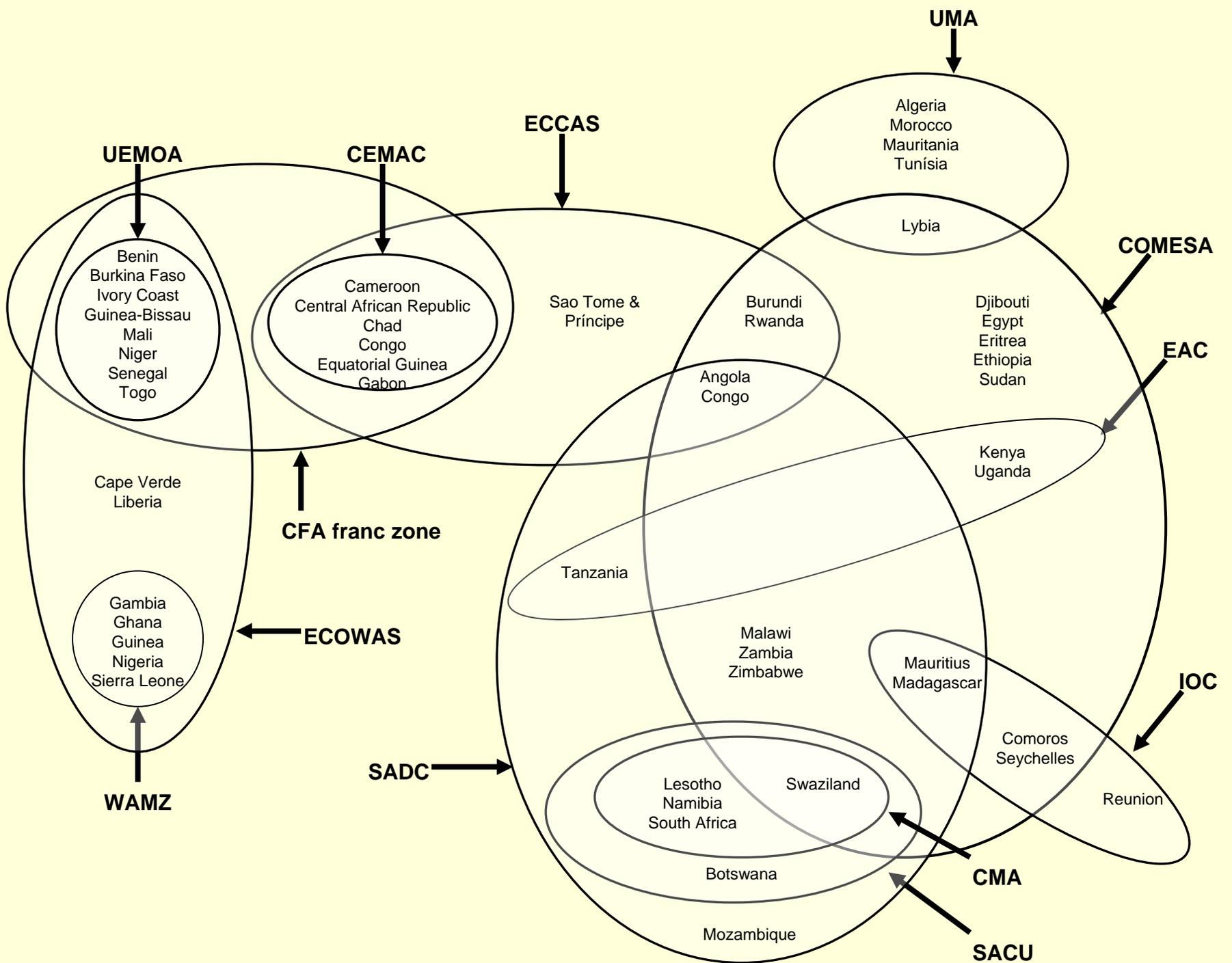
Diverging Trends in Regional Integration

- Regional integration slow in South America, but getting stronger in Central America and the Caribbean
- In CARICOM the smaller countries have opted to form a Custom Union, and are creating a development fund
- An increasing number of countries has negotiated agreements with countries of other regions (USA, European Union, Japan, China, India and others from Asia and Africa)
- Risk that the norms agreed at the regional level might be surpassed by extra-regional negotiations

**Latin American countries have
adopted a strategy of variable
geometry**

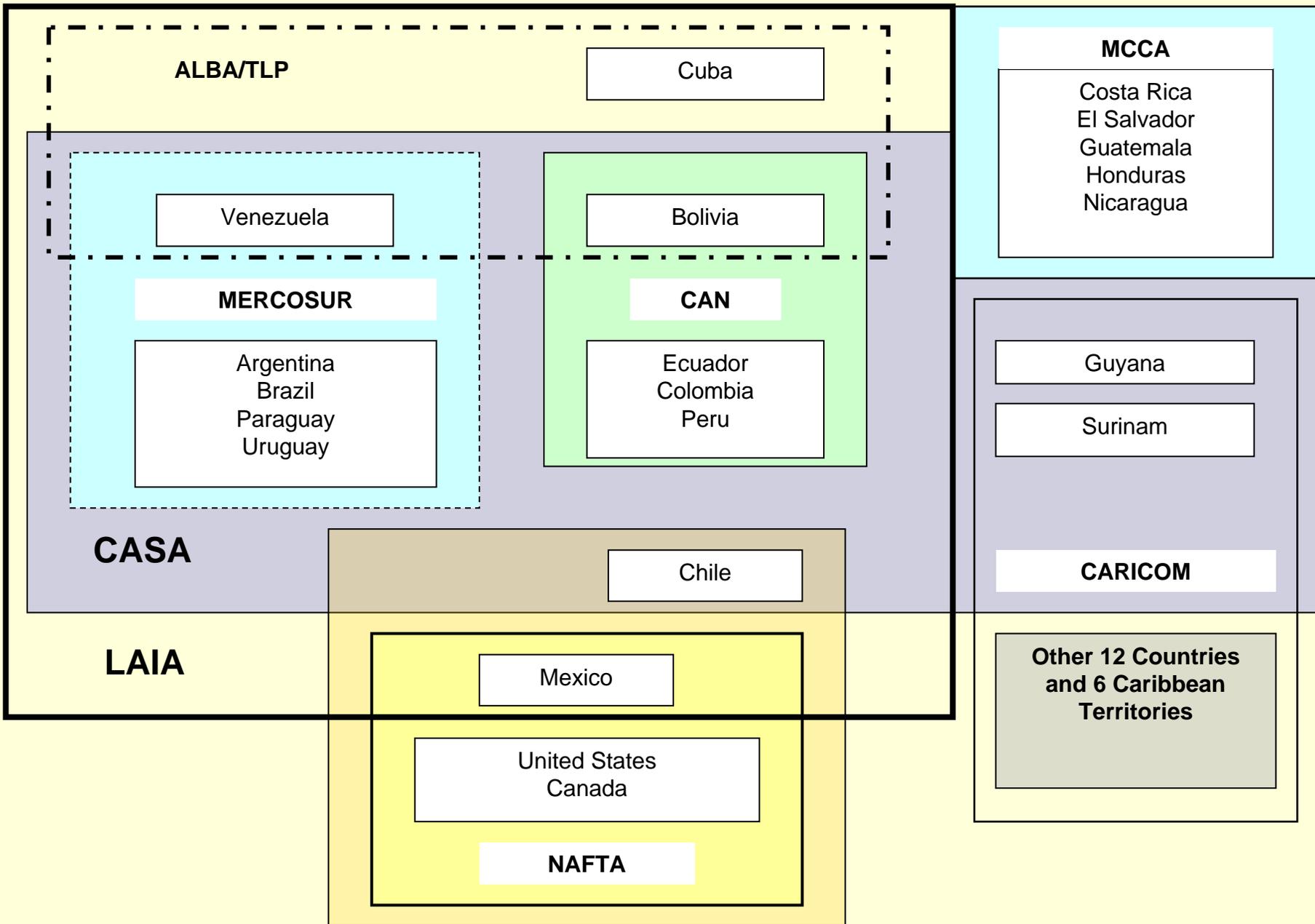
**UNCTAD (*Trade and Development Report, 2007*)
HAS ALERTED FOR THE 'WEB' OF
PREFERENTIAL AGREEMENTS IN AFRICA**

Message => the existence of
various Agreements is not a
sufficient condition to provide
regional integration or to promote
development



**LATIN AMERICA HAS ALSO
DEVELOPPED ITS OWN 'WEB' OF
PREFERENTIAL AGREEMENTS**

Both in Regional 'Blocks'...



**...As well as Trade
Agreements within and
outside the Region**

Variable Geometry in Latin America and the Caribbean

INTRA-REGIONAL

CAN (Bol, Col, Equ, Per, Ven)
 MERCOSUR (Arg, Bra, Uru, Par) / Chile, Bol
 MCCA (C. Rica, Guat, Hond, El Salv & Nica)
 Chile – CAN, MCCA, Mexico, Panama
 Mexico – Central America; Mexico – Uruguay
 Mexico – Bolivia; CAN – MERCOSUR
 Caribbean Community (CARICOM);
 CARICOM – Costa Rica
 CARICOM – Venezuela; CARICOM – Colombia
 G-3 (Colombia, Venezuela & Mexico)
 MCCA – Dominican Republic

CARICOM – MERCOSUR
 CAN – Guatemala, El Salvador e Honduras
 Mexico – MERCOSUR

EXTRA-REGIONAL

Chile – Canada, USA, EU, EFTA
 Mexico – USA, Canada, EFTA, EU, Japan
 CAFTA – RD – MCCA, Dom.Rep. - USA
 Costa Rica – Canada

Ecuador - USA
 MERCOSUR – European Union
 CARICOM – European Union
 CARICOM – Canada
 MERCOSUR - Israel

Chile – Korea; Chile – New Zealand, Singapore, Brunei
 MERCOSUR – India

Chile – China;
 Peru – Thailand
 MERCOSUR– Persian Gulf Countries
 MERCOSUR – SACU
 Brazil – Morocco: Brazil – Egypt

TODAY (Signed Agreements)

FUTURE (Negotiations)

Problems with Simultaneous Agreements

- Administrative costs
- Risk of having to adopt more ambitious norms than those agreed at the WTO
- Weakening of the WTO

Characteristics of regional integration

- Low degree of opening to trade
- Intra-regional trade more intensive in products with higher value added: more sensible to the business cycle
- Weak institutions, in particular for dispute settlement
- Low credibility: limited adoption of common norms
- Absence of: macroeconomic coordination, treatment of asymmetries, non-trade disciplines

ECLAC: Proposals to foster Regional Integration

- **Strengthen the existing institutions**
- **Harmonize norms** (Similar rules of origin, Homogenize technical norms, Uniform Custom practices)
- **Uniformize dispute settlement mechanisms** (*in accordance with WTO procedures*)
- **Promote consistency among different commitment levels within each integration scheme**
- **Attract external investors and multilateral agencies to help deal with infrastructure and energy needs**
- **Deepen integration processes by promoting convergence among the different agreements**

**But there are
Stronger Constraints: What
is the Purpose of Regional
Integration?**

Pro-Integration Arguments

1960s

- Widen domestic markets
- Allows for scale gains, thus allowing for industrialization

Pro-Integration Arguments

1980s

- Reactivates unused productive capacity with less need for foreign currency
- Allows for a 'learning-effect' in the export activity

Pro-Integration Arguments

1990s

- Reduces rents stemming from the lack of competition
- Contributes to price stability

What are the pro-integration arguments in the present decade?

New Conditions

- The outcome of trade concessions is affected by the international movement of capital
- Regional negotiations (regional agenda) should go beyond trade dimension: there is an increasing need to deal with development financing and infrastructure themes (energy)
- Increasing demand by the Legislative and Judiciary Powers to participate (ex-ante) in the negotiating processes

Integration in the 2000s

- Slow progress
- Regional integration in parallel to extra-regional preferential agreements
- Agreements: an approximation to new international centers (living with a new 'policentrism'?)
- Domestic political environment in several countries not compatible with the concessions required to foster integration processes

Present Dilemma:

Without clear views about the purpose of regional integration the negotiating processes lack clarity and the outcomes are slow and unclear