

1. TRADE AND ECONOMIC INTEGRATION IN THE ANDEAN REGION

*César Gaviria**

The Andean countries have made tremendous advances in their efforts towards trade and investment liberalization. Still, they confront great challenges to enhancing the process of regional integration and encouraging further external opening. The progress made and the future challenges of the Andean Community preview some hurdles that other sub-regional groupings in the Americas must surmount to move closer to the goal of complete liberalization of trade and investment in this Hemisphere.

THE ANDEAN COMMUNITY AND THE WESTERN HEMISPHERE

Since the mid-1980s, the primary goal of economic integration in Latin America shifted from that of protecting the member states' markets for development purposes towards promoting their efficient and fair participation in the world economy. This meant revitalizing and readjusting old trade and integration arrangements like the Andean Pact – which recently became the Andean Community -- and creating new ones, like Mercosur and the G-3. These regional arrangements served to facilitate the re-insertion of the member countries into the world economy within a framework of systemic competitiveness, and to support and “lock-in” domestic strategies of growth and economic and political reforms.

Unilateral trade liberalization in the Andean countries translated rapidly into a collective approach to integration, and considerable headway has been made in consolidating the Andean integration scheme. Its recent accomplishments include the complete liberalization of trade among four of its five member countries (Bolivia, Colombia, Ecuador and Venezuela), the implementation of a common external tariff (CET) by three countries (Colombia, Ecuador and Venezuela), and the adoption of common sectoral policies in a number of areas instrumental to achieving the region's integration objectives, such as foreign investment, intellectual property rights, and transportation. Wide-ranging institutional reforms also have been implemented in order to strengthen the coordination of integration activities at the political level and to foster more effective collaboration between the various Andean institutions.

The recent success of the Andean Community can also be measured by its impact on the member countries' reciprocal trade. Between 1990 and 1996, intra-Andean trade expanded by an average of 29 percent per year, making the Andean Community the most dynamic trade entity in the Hemisphere. Yet, while the Andean Community has been successful in terms of progress by member countries towards freer trade amongst themselves and by the adoption of a common approach in a number of policy areas, a number of tasks remain to be completed. The Andean Community has been unable to consolidate itself as a customs union. The implementation of the CET --- achieved only in March 1995, and then, only by three of the five member countries --- proved to be a much more difficult and lengthy process than expected. Bolivia and Peru maintain their own external tariff structure, and Ecuador, while formally accepting the CET, maintains a significant number of exceptions. Colombia and Venezuela also have numerous temporary exceptions to the CET. Furthermore, the Commission's decisions on Peru's participation in the Andean free trade area have recognized Peru's intention to keep its own tariff schedule. The trade policies of Bolivia and Peru seem so well established now that their governments are unlikely to consider adjusting them to the tariff structure of the Andean CET.

The Andean Community has little to gain by being half customs union and half free trade area. In addition to limiting the economic gains to be derived from deeper integration, the failure of the Andean Community to consolidate and develop a common approach towards Latin American and hemispheric integration lessens its institutional credibility and dilutes its impact as a collective undertaking. It is critical for the Andean countries to start thinking about how to “multilateralize” their agreements at the sub-regional level.

The process, now backed by all countries, of creating an Andean political identity is essential to this task. Greater internal cohesion is expected to emerge from a consolidated Andean identity, sustained by solid

* César Gaviria is Secretary-General of the Organization of American States. He was a President of Colombia from 1990-1994.

democracies with dynamic civil societies. This would strengthen the legitimacy of the Andean integration system, help to guarantee the sustainability of the integration process over the long-term, and would better position the region in the integration dynamic in the Americas.

TOWARDS OPEN REGIONALISM

As the Andean countries strive to attain this cohesion that is so essential to their effectiveness and sustainability as a group, individual countries have proceeded to broaden the markets for their products by concluding bilateral free trade agreements with other Latin American and Caribbean nations. This combination of formal commitment to the Andean Community and simultaneous outreach to the other Latin American and Caribbean countries illustrates the development of a new integration movement in the Americas, which has come to be termed as "open regionalism." In this new context, sub-regional groups are not ends in themselves. Instead, they are seen as paths towards larger integration efforts at the Latin American, hemispheric, and global levels.

A dynamic and healthy picture emerges from the experience of open regionalism in the Andean region. In 1992, Venezuela and Chile signed an Economic Complementarity Agreement with the objective of eliminating all tariff and non-tariff restrictions to most of their reciprocal trade by early 1999. A similar agreement was concluded between Colombia and Chile in 1993. In 1994, Colombia, Mexico, and Venezuela entered into the G-3 Agreement, which provides for free trade among the three countries by 2005. Colombia and Venezuela concluded separate preferential trade agreements with the CARICOM countries, which envisage some degree of reciprocity within five years of implementation. Colombia and Venezuela also have committed to jointly negotiate a free trade area with the Central American countries. Bolivia has secured comprehensive bilateral agreements with Chile and Mexico, and Chile is negotiating separately with both Ecuador and Peru. The member countries of the Andean Community and Mercosur have recently agreed to redouble their efforts to complete free trade and to sign a framework agreement.

Further demonstrating their commitment to trade openness beyond the sub-regional level, Andean Community presidents were very much part of the ambitious and far-reaching decision, adopted at the first Summit of the Americas, to construct a Free Trade Area of the Americas (FTAA) Agreement by 2005. Since then, the Andean countries have been active participants in the preparatory process, setting the foundation for the commencement of negotiations in April 1998.

The FTAA will liberalize trade and investment in goods and services at the hemispheric level. Although negotiations are officially beginning, the continuing lack of presidential fast-track negotiating authority in the United States has, thus far, dampened U.S. leadership in the process. Although "fast-track" is not necessary to begin negotiations, its absence could create a great deal of uncertainty. The region needs a clear signal from the United States, and especially from the U.S. Congress, that it is actually prepared and willing to negotiate with all the countries of the Americas.

In the meantime, other Western Hemisphere countries will continue to forge trade agreements with each other, reinforcing the Mercosur-centered option of a South American trading arrangement that would include Chile, the Andean Community nations and their Amazon neighbors, Guyana and Suriname. Significant progress has already been made towards this goal, as both Chile and Bolivia are formally associate members of this sub-regional arrangement. A South American Free Trade Agreement, or SAFTA, may well serve as an eventual intermediary step towards the FTAA.

It is important to note that success in the FTAA negotiations will depend on balance and symmetry in dealing with the goals of the different participants as well as respect for existing trading relationships. The Andean countries are in a unique position within the Western Hemisphere, lying between the two main sub-regional poles of NAFTA and Mercosur. The Andean countries can play a positive role in pushing forward the negotiations and in helping to find areas of common ground. The Andean Community has achieved much progress in areas that will be of essence to the negotiations such as investment, intellectual property rights and standards and conformity assessment procedures, among others.

REGIONAL PROGRESS TOWARDS MULTILATERAL GOALS

Some have questioned the desirability of making too much progress at the sub-regional and regional level, fearing the proliferation of these arrangements in the Americas. The question of regionalism versus multilateralism is not new, and, as in any debate, there are supporters and opponents of regionalism. For the latter, regional agreements run the risk of becoming inward looking and discriminatory, causing diversion of trade and investment flows, and weakening the multilateral trading system. There are also worries that regional agreements may cause national leaders to lose interest in trade liberalization at the global level and divert resources and political capital away from their multilateral initiatives, slowing the pace of progress at the multilateral level.

Others, however, see a brighter side to this phenomenon. For them, regional agreements provide an opportunity to promote faster trade liberalization at the regional and multilateral level. The enhanced international competitiveness brought about by regional integration should build confidence and prepare countries for further advances in unilateral and multilateral liberalization. From this perspective, regional agreements also could provide a testing ground for new approaches to difficult trade problems, generating valuable information that could make multilateral agreements more palatable and durable.

I would not hesitate in qualifying the new Latin American integration arrangements as important economic actors at the end of this century. And I do not doubt that the countries of the region will be better prepared to face the enormous challenges of the next millenium if they manage to consolidate their current integration efforts. A rapid examination of the recent evolution of integration processes in Latin America and the Caribbean is sufficient to dispel any doubts as to the effects of these agreements. Let me just highlight a few of the characteristics of existing regional integration processes and their global implications.

First, *the "lock-in" effect*. Membership in such arrangements, especially those that aim at the formation of customs unions, has allowed participating countries to consolidate and "lock in" the economic liberalization reforms implemented during the last decade and to move forward into new areas where unilateral reform had proven difficult domestically. The new trade and integration agreements in the region contain disciplines in matters related to trade as well as investment and intellectual property, and other new disciplines. As such, they contribute to a rules-based framework that is more stable and predictable for the conduct of intra-regional trade relations and opening to the rest of the world. This is good for the region and also for the multilateral trading system.

Second, *the trade-creating effects*. The notable expansion of intra-regional trade in the 1990s, especially within sub-regional groupings, has not taken place at the expense of third countries. There is a boom in regional trade, but this does not restrict trade to the members of the different schemes. The trade interdependence among countries of geographic proximity that are committed to common integration efforts, e.g. Colombia and Venezuela, undeniable. However, such efforts have not resulted in a dampening of trade with the rest of the world. On the contrary, the world trades more with these countries now than before.

Third, *the global orientation* of the arrangements. The emphasis that the countries of the region have placed recently on the consolidation of their trade and integration agreements has not prevented these countries from being active, pro-liberalization members of the WTO. The countries of the region are active participants in the Uruguay Round negotiations. In fact, in these negotiations, the final stages of which coincided with the peak of regional integration, the Latin American and Caribbean countries assumed a higher level of trade commitments than ever before in the history of the GATT. Latin American and Caribbean countries were the only ones in the developing world to bind 100 percent of their tariffs during the negotiations. The region also made an important number of concessions in the negotiations on services. This Latin American activism has been maintained since the conclusion of the Uruguay Round negotiations -- as is demonstrated by the fact that eighteen countries of the region participated in the WTO agreement on basic telecommunication services that was concluded in 1997. It is evident then that the countries of the region have not lost interest in multilateralism. To the contrary, the new interest in regionalism takes place against a backdrop of increased outward orientation, exhibited in unilateral reforms as well as increased membership and substantive participation in the work of the GATT/WTO.

Hence, the critics of regionalism have little to fear from the new Latin American integration arrangements. Our regionalism does not run counter to trade liberalization efforts at the multilateral level. It

does not obstruct, but rather facilitates trade openness. It does not result in trade diversion, but trade creation. It does not close markets, but contributes to keeping them open. It does not hold back investment, but stimulates it. It is no longer inward-oriented integration, but outward looking, geared towards the rest of the world.

But care must be taken to ensure that the potentially positive contributions of regionalism to global opening are not undermined. Regional trade agreements must be consistent with the multilateral trading system to maximize global benefits. Indeed, compatibility is an objective as well as a necessity, given that nearly all countries in the region are members of the WTO.

Accordingly, it is important to take appropriate precautions to strengthen the WTO's ability to guide the process of regionalization. To this end, the WTO should intensify efforts to improve GATT Article XXIV to provide compliance criteria for regional trading arrangements, and work toward the gradual harmonization of trade rules employed by member countries of regional trade agreements to ensure their consistency with the objective of trade expansion. It also could seek to develop a model accession clause to be included in all regional trade agreements, which does not have the effect of preventing other countries from becoming members and would establish beforehand the disciplines to which they must submit prior to entering into accession negotiations.

Furthermore, a necessary complement to trade liberalization is the liberalization of private investment. Policy recommendations must address the growing interdependence of trade, investment, and technology in today's global economy. The existing multilateral rules on trade under the WTO umbrella, and on investment under various agreements and WTO codes, are either incomplete or overlapping. No single institution regulates these closely linked issues. These shortcomings weaken the WTO's ability to play a meaningful role in avoiding distortions in global trade in goods and capital. It is therefore equally important to advance the establishment of multilateral rules for investment. This discussion, and a good dose of political will at the highest level of government, will be crucial for the development of the Andean Community and the region as a whole.