

## PREFACE

In the last decade, the Andean Community countries -- Bolivia, Colombia, Ecuador, Perú and Venezuela-- have undertaken significant steps toward trade liberalization and regional integration. Despite differences in size, economic structure and political arrangements, all face similar decisions regarding their development prospects, economic policies and choices. Each country must determine the appropriate path towards economic advancement and choose the best strategy through which to conduct its trade relations in the Western Hemisphere. All are linked by two current economic integration projects: the regional Andean Community and the hemisphere-wide Free Trade Area of the Americas (FTAA).

A new approach to regional arrangements in the Americas is one of the driving forces behind this volume. The Andean countries are involved in an increasingly dynamic and modern regional arrangement that will play a major role in the process of hemispheric integration. At the same time, it is difficult to overstate the importance of the United States – as a trading partner for the Andean countries and as a key player in the FTAA process. For these reasons, the coordinators and sponsors of this book, the Organization of American States (OAS), the Andean Development Corporation (CAF) and the Inter American Dialogue(IAD), decided to focus their efforts on analyzing the trade and investment relations between the Andean Community and the United States and create a better understanding of the political and economic forces underpinning the U.S.-Andean trade and investment relationship. The studies commissioned for this volume assess current trends and perspectives of U.S.-Andean economic relations.

Complementing the studies, we organized a far-reaching discussion at a two-day seminar at the Brookings Institution in Washington, D.C., in September 1997. Trade analysts, economists, business leaders, trade ministers and high ranking officials based in the United States and throughout the Western Hemisphere were invited to discuss the evolution of and future prospects for trade and investment flows between the Andean countries and the United States, as well as to examine the opportunities and difficulties facing future U.S.-Andean economic relations.

This book is designed to generate interest in and expand knowledge of the Andean Community countries and their relation to the United States. As the countries of the Americas move toward economic integration, mutual information and understanding about the forces that drive our relationship become more and more important. This book explains the specific trade policy alternatives available to the Andean Community countries, and explores the different approaches to trade and integration in the Americas.

Enrique García  
*Executive President*  
CAF

César Gaviria  
*Secretary General*  
OAS

Peter Hakim  
*President*  
IAD

## ACKNOWLEDGMENTS

This volume is part of a joint project undertaken by the Organization of American States (OAS), the Inter-American Dialogue (IAD) and the Andean Development Corporation (CAF). The aim of the project is to promote a better understanding of the Andean Community and of its member countries --Bolivia, Colombia, Ecuador, Peru and Venezuela --- and to assess the policy issues and choices that the Andean countries face both individually and collectively as the Western Hemisphere moves towards greater trade and economic integration. The participating institutions seek to encourage the debate on these issues by providing detailed technical analysis on a broad range of topics of direct relevance to the Andean countries --and to other countries of the region-- and offering an open forum to discuss them on a regular basis.

The various chapters of this volume were initially discussed at a conference held in September 1997 at the Brookings Institution in Washington D.C. The chapters cover a variety of issues that range from domestic economic reforms implemented by the Andean countries in the last few years, to the recent evolution of the Andean Community, to developments in areas such as competition policy, intellectual property rights and dispute settlement. The focus of the book is the trade and investment relationship between the Andean countries and the United States. This relationship is examined from the perspective of the United States, and from that of the Andean countries.

The editors are particularly grateful to all the conference participants whose constructive comments on the various issues greatly enhanced the discussion and made the whole of this volume much greater than the sum of its parts. In addition to the authors of these chapters, conference participants included Sebastian Alegrett, Peter Allgeier, Bernard Aronson, Regis Arslanian, Miguel Angel Burelli, Gustavo Caillaux, Juan Cariaga, Isaac Cohen, Bowman Cutter, Roberto Dañino, Jeffrey Davidow, Robert Devlin, Juan José Echavarría, Pedro Luis Echeverría, Albert Fishlow, Ricardo Hausmann, Enrique Iglesias, Julius Katz, Nora Lustig, Kathryn McCallion, Guillermo Perry, Carlos Ronderos, David Rothkopf, José Manuel Salazar, Jeffrey Schott, Benino Sotomayor, Paula Stern, and Carlos Zannier. The discussions that took place during these two days are elegantly reflected in a summary prepared by Carol Wise, which concludes this volume.

This effort would have been impossible without the hard work and dedication of many people. First, the editors would like to recognize the key contribution made by the staff of the OAS Trade Unit, in particular Donald Mackay, César Parga, Jane L. Barber Thery and Antonio Gago who worked tirelessly to help ensure the quality and completion of this work. Our thanks also go to Ana Mercedes Botero and Carlos Zannier of the CAF for their presence throughout the design and implementation of the project, and to Ricardo Avila of the OAS who offered support and encouragement. We also recognize the immense efforts of Ivonne Zuñiga, Milagros Jiménez, and Matthew Davis, as well as Rebecca Kary of Alpha Omega productions, without whom this volume would not have been possible. Francisco Coves of the OAS and Sandra Forero of the Inter-American Dialogue managed the administrative and logistical elements of the overall project with great care and efficiency, and we are grateful for their continued hard work and good humor.

Finally, the editors would like to recognize the support they received from the institutions that made this project possible --OAS, CAF, IAD. This by no means implicates these institutions -- the views and opinions expressed in this volume are those of the contributors.

## INTRODUCTION AND OVERVIEW

*Miguel Rodríguez Mendoza, Patricia Correa  
and Barbara Kotschwar*

This book provides an up-to-date and comprehensive analysis of the economic relations between the United States and the countries of the Andean Community – Bolivia, Colombia, Ecuador, Peru and Venezuela. It evaluates the various scenarios through which these relations can be strengthened and widened, stressing the importance of hemispheric integration for the Andean countries and the constructive role they can play in the Free Trade Area of the Americas (FTAA) negotiations. By examining some specific issues, such as telecommunications and the experience of the Andean countries with their antidumping statutes, the book offers some insights on the topics that are part of the new economic agenda of these countries.

The Andean Community came into being in August 1997. It replaced and expanded on the Andean Group, which had been in force since 1969, by widening its institutional framework and strengthening the moves towards consolidation of the internal market. The Andean Community builds upon the significant trade liberalization achievements made by the Andean Group in the last decade, and reflects the new economic orientation of the economic integration movements throughout Latin America. Andean Community policies parallel the changes in the economic development models of the member countries, placing a greater emphasis on liberalizing trade and investment among the members as well as with the rest of the world.

## ENHANCING INTEGRATION AND ECONOMIC REFORMS

The first section of the book addresses economic reforms and economic integration in the Andean region. César Gaviria opens the discussion by addressing the challenges that the Andean countries face in consolidating their integration efforts within the Andean Community --formerly the Andean Group. He underlines the success of the Andean Community in liberalizing trade among its members, and the progress achieved in adopting common policies in some sectors, such as foreign investment, intellectual property rights and transportation. A measure of the recent dynamism of the Andean Community is found in the level of intra-subregional trade, which since 1990 has expanded by an average of 29 per cent per year.

Another encouraging fact is the network of bilateral and plurilateral trade agreements in which individual Andean countries participate. Colombia and Venezuela took the lead in the early 1990s by negotiating trade and investment arrangements with Chile, Mexico and the Caribbean countries. Bolivia has also been very active in this regard by concluding agreements with Mexico and, most notably, with the Mercosur countries. At present, negotiations are under way between the Andean Community and Mercosur. In Gaviria's view these negotiations will serve as an intermediary step towards the FTAA.

One of the currently most controversial issues, the relationship between regional arrangements and the multilateral trading system, is also addressed in the chapter. On this, Gaviria does not hesitate. By stressing the evolving nature and the new modalities of the Latin American integration efforts he tries to dispel any doubt as to their effects. "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 not longer inward-oriented integration, but outward looking, geared towards the rest of the world."

While the importance of the Andean countries' liberalization accomplishments is emphasized, Gaviria recognizes that they are not sufficient. Much remains to be done. An issue of particular concern is the uneven distribution of rights and obligations among the Andean Community countries. A case in point is the Andean common external tariff, which has been implemented by only three countries --

Colombia, Ecuador and Venezuela. Neither Bolivia nor Peru has given signals that they will ever implement it. This is regrettable. As Gaviria points out: "The Andean Community has little to gain being half customs union and half free trade area... (as it)... lessens its institutional credibility and dilutes its impact as a collective undertaking."

This point is taken up and expanded in the next chapter. Sebastian Edwards considers the economic reforms implemented by the Andean countries over the last few years. Important as they have been, these reforms are still incomplete, particularly the institutional, "second generation" reforms. According to Edwards, after a great deal of enthusiasm with market-oriented policies in the early 1990s, "the pace of reform in Andean Community countries has declined significantly... (and)... one would be hard pressed to single out a country where reforms continue to be pushed vigorously and where the modernization agenda is being pursued with dynamism and creativity"

There is a sense of reform "fatigue" in the Andean and other Latin American countries that the author attributes to two main factors. First, the perception by many policy makers and intellectuals that in their respective countries the modernization agenda has been basically completed, and that there is very little left to be done. And second, the belief that the new economic policies --the so-called neo-liberal policies-- are responsible for the poor economic performance of the last few years, as well as the deterioration in social conditions. These two arguments, according to Edwards, lack empirical support. Addressing the first point through a broad international comparative analysis, the author concludes that the reform agenda in the Andean countries remains incomplete ----- most economies continue to be subject to major controls and regulations, and fall far short of being modern market-oriented economies. As for the second assertion, Edwards cites recent analysis that concludes that such economic reforms have very important positive effects on the economy, especially on total factor productivity growth. He also suggests that they have no clear-cut effect --either negative or positive-- on social conditions and income distribution. The reforms may in fact have a positive impact in reducing poverty through their effect on economic growth. Thus, the deteriorating income distribution of the last few years cannot be easily attributed to the market reorientation of the Latin American economies.

Edwards deals at length with the political economy of reforms. While recognizing the distinction between "first" and "second" generation of reforms, he argues forcefully against implementing reforms in the sequence suggested by this classification. Rather, *institutional* or "second" generation reforms should not be attempted after the *policy* or "first" generation of reforms has taken root, but ideally should be carried on concurrently even if this could exacerbate the difficulties normally associated with change. Institutional transformation, in particular, "takes time, is difficult and often runs into serious political opposition."

No single, uniform path to reform can be found among the Andean countries. While in some countries, such as Peru and Bolivia, reforms were initiated in the midst of major economic crisis, Colombia did so under stable and even positive economic conditions. Ecuador and Venezuela "represent two cases of serious economic crisis with no significant reforms." Political support for reforms also varies. In many Andean countries political unrest has been associated in one way or another with the reforms. The attempted coups d'état in Venezuela are a case in point. Other factors, whose role has been equally complex, are multilateral institutions, political parties, bureaucracies, and ideas.

The first section of the book closes with an analysis of private capital flows to the Andean countries by Jorge L. Daly and Rebecca Lee Harris. The focus of their chapter is the changing attitude in the Andean countries regarding the importance of foreign investment, as well as the necessary policy framework to promote investment in the Andean region. They point out how previous decisions by the Andean countries --in particular Decision 24-- placed numerous restrictions on the operations of foreign investors. These decisions limited the sectors in which investments could take place, and the

activities foreign investors could carry on, including with respect to local finance and capital and profit remittances.

These days are gone. The Andean countries have all adopted a new approach to foreign investment. The emphasis has shifted to eliminating restrictions and other impediments to the activities of foreign investors, in recognition of the positive contribution of foreign capital to their as-yet insufficient rates of savings and investment. These changes are bearing fruits. The recent recovery of foreign direct investment (FDI) flows to the Andean countries has been remarkable. In the period 1990 to 1994, FDI to all countries increased significantly --- more than quadrupling for the Andean region as a whole. The negative investment outflows of the period 1985-1989 was thus drastically reversed.

The United States has been the main source of FDI flows to the Andean region. It also has the largest share of FDI stock in all the Andean countries, except Peru, where European investors have taken the lead through their participation in some major privatization efforts. Indeed, the authors consider privatization as one of the main determinants of the increase in FDI flows to the Andean region. Privatization has also induced a shift of foreign investment to sectors such as telecommunications, energy and transportation. Other investment determinants mentioned by Daly and Harris include macroeconomic stability and better growth prospects, economic reforms and the new regulatory framework regarding foreign investment.

#### PERSPECTIVES FROM THE UNITED STATES

Two chapters make up the second section of the book, which deals with the U.S. perspective on the U.S.-Andean economic relationship. The first chapters, by Gary Hufbauer and Barbara Kotschwar, offers a thorough analysis of trade and investment relations among these countries, as well as an evaluation of the various political economy aspects of their relationship.

The chapter begins by recognizing the existing imbalance of the bilateral relationship: while the United States is of great economic significance to the Andean Community, being the main export market for four of its member countries --Bolivia, Colombia, Ecuador and Venezuela-- the reverse is not true. "The Andean Community is less important economically to the United States than vice versa." However, the Andean countries are important suppliers of two "strategic" commodities to the United States, petroleum and narcotics, and this highly influences United States policies towards the region, even if "if would be incorrect to write of a US trade policy vis-à-vis the Andean Community."

As Hufbauer and Kotschwar note, trade between the United States and the Andean Community is a textbook illustration of comparative advantage. "The Andean countries mainly ship primary products to the United States, from which they buy high value added goods." In looking at the overall trade picture, a fact that they underline is that the Andean Community is losing ground as a trading partner for the United States in the Latin American region. In relative terms the Andean Community countries export less to, and import less from, the United States than was the case a few years ago. Other countries, particularly Mexico but also the Mercosur countries and Chile, have outperformed the Andean countries.

Trade and trade disputes are two faces of the same coin. In the view of the authors, two main trade irritants have recurred between the United States and the Andean countries, intellectual property issues and narcotics ---- although the latter can hardly be characterized as a "trade" issue, at least in the traditional sense. To deal with these issues, the United States has adopted what Hufbauer and Kotschwar define as an *ad-hoc* policy of one trade carrot and two sticks. The trade carrot is the Andean Trade Preferences Act (ATPA) through which the United States grants expanded duty free access to imports from Bolivia, Colombia, Ecuador and Peru, for a period of ten years, starting in 1991.

The two sticks referred to by the authors are, first, those "persuasive" measures employed by the United States to bring Andean countries rules on intellectual property rights into line with US interests,

including by recourse to trade retaliation as prescribed by the Special 301 section of US trade legislation. Second, the threat of “decertification” of countries that do not meet the standards set by the United States regarding the fight against drugs. All the Andean Community countries have been classified by the United States as “major drug producing and/or major drug transit countries”, and accordingly have been subject to review in the “certification” process. Colombia has twice been “decertified” by the United States.

Hufbauer and Kotschwar do not foresee major changes in U.S. policies toward the Andean countries in the next few years. These policies will “continue to be determined more by politics than economics.” However, they propose a more constructive approach by the United States with regard to the Andean countries. On economic issues where the Andean Community has jurisdiction --like market access, investment and intellectual property rights-- they should be addressed by the United States on a regional basis, much as was done with the European Community in its early stages. On drug issues, the authors see no alternative other than the current approach.

The next chapter, by Sidney Weintraub, focuses on the trade negotiating strategies that could best suit the Andean countries’ economic interests. By analyzing current trade patterns and identifying their most dynamic trading partners, the author concludes that Andean interests lie in the U.S. market. This is particularly the case for the two largest Andean countries, Colombia and Venezuela. As a result, the Andean Community countries should give priority to the FTAA negotiations, as they offer the best prospect to advance their trade objectives.

Participation in the FTAA will be a major challenge for the Andean countries. They could participate as a group in the negotiations, but this requires greater internal cohesion than has been achieved by the Andean Community so far. Also, the Andean countries should put themselves in a position to negotiate by realizing that the FTAA will entail a fully reciprocal trade agreement. In that sense, the unilateral preferences to which the Andean countries are now entitled would have to be matched by their own trade concessions. In any event, the Andean countries should oppose any attempt by countries less interested in the FTAA to unduly obstruct the negotiating process.

At the same time, the Andean countries should continue strengthening their own integration efforts. That greater cohesion among the Andean countries is desirable and a logical conclusion of the experience of the last few years. The revival of the Andean Community has led to an intensification of intra-Andean trade “without any evident serious offsetting trade diversion.” It has also prevented political tensions between some Andean countries from getting worse.

#### PERSPECTIVES FROM THE ANDEAN COUNTRIES

The third section of the book is devoted to trade and investment relations between the United States and each of the Andean countries. In general, the picture that emerges from this analysis is a mix of common trends and changing patterns in the various bilateral relationships. Although the United States has historically been --and still is-- a key trading partner for all Andean countries, the nature and importance of this trade relationship varies from country to country. A similar comment can be made regarding investment issues. This diversity is reflected in the various chapters included in this section.

The leading role that the United States has traditionally played in Andean trade is less prominent now. The United States continues to be the single most important trading entity for each of the Andean countries --with the exception of Peru-- but this importance has diminished over the last few years. Colombia is a case in point. As highlighted by Patricia Correa in her chapter, whereas more than eighty per cent of Colombian total exports went to the United States, this percentage was halved in the 1990s. Colombian imports from the United States have also diminished considerably, from a high 50 percent of the total in the 1950s to 36 percent at present. A similar trend can be found in Bolivia and Ecuador, but not in Venezuela, whose trade dependency on the U.S. market has, instead, increased.

Also important is the fact that Andean exports to the United States have diversified. True, exports continue to be dominated by primary products, but their commodity composition has changed. Oil replaced coffee in Colombia and agricultural products in Ecuador as these countries' most exported commodity. Other products have also gained importance. In Ecuador, according to Robin Newberger, in recent years "the fastest growing exports to the United States were non-traditional exports, increasing at an average annual rate of 23 per cent between 1992 and 1995." These products include cut flowers, wood products and gold. In Colombia's export portfolio, textiles and cut flowers figure prominently. Bolivia's traditional exports of tin and other mining products are now being complemented by some agricultural exports.

Still, trade between the Andean countries and the United States remains a carbon copy of the theory of comparative advantage. This point, already mentioned by Hufbauer and Kotschwar, figures in all of the chapters included in this section. While the Andean countries export mostly raw materials and primary products to the United States, they purchase mainly manufactured products. Nowhere is this so evident as in the case of Venezuela. As pointed out in the chapter by Miguel Rodríguez-Mendoza, a single commodity --- oil --- accounts for approximately 85 percent of Venezuelan exports to the United States. On the flip side, manufactures dominate Venezuelan imports from the United States, and they show great variety and diversification.

All Andean countries benefit from U.S. trade preferences. As indicated by Jorge Crespo-Velasco and Gonzalo D. Bernal-Brito, Bolivia seems to rely more than other countries on these preferences. The implementation of the ATPA, in particular, has had beneficial effects for Bolivia's trade with the United States, as it has encouraged a greater diversification of its exports. Although raw materials continue to dominate Bolivian exports to the United States, some non-traditional products such as cut flowers, textiles, jewelry and arts and crafts have recently shown considerable dynamism.

Other ATPA beneficiaries do not necessarily share this view. The ATPA expanded on the preferences already granted by the United States through the Generalized System of Preferences (GSP), and offers the participating countries an enlarged access to the U.S. market --equivalent to that of the Caribbean Basin Initiative (CBI). However, the exclusion of products of particular interest to the Andean countries, such as sugar, textiles and apparel, footwear, canned tuna, and petroleum, has diminished its potential trade impact. According to Patricia Correa, the program has had very little impact on Colombian exports to the United States, with the possible exception of cut flowers. Robin Newberger reports a similar situation for Ecuador, and Carlos Boloña and Javier Illescas attribute Peru's limited use of the ATPA to relatively undiversified industrial base. Venezuela is the Andean country which benefits least from U.S. trade preferences. It is not a beneficiary of the ATPA, and only a small fraction of its exports enter the United States through the GSP. This is due mainly to the exclusion of petroleum products from these preferences.

This, however, may be of little relevance. The era of trade preferences is coming to a close. Important as they seem now, countries are well aware that trade preferences are unreliable. They may be withdrawn by the preference-granting country at any time, and they may be subject to conditions --- at times they are *carrots* with hidden *sticks*. Thus it comes as no surprise that all the authors of the country papers see the FTAA as providing a better framework --one based on common goals and contractual obligations-- for conducting and strengthening trade and investment between the United States and the Andean countries.

The United States has no single strategy vis-a-vis the Andean countries, nor do the Andean countries have a unified policy towards the United States. Trade and trade-related issues are normally dealt with in the bilateral trade and investment councils established between the United States and each of the Andean countries. Given the existence of many "common" trade irritants, such as in the area of intellectual property rights, the Andean countries may be well advised to set up a joint consultative mechanism to deal with the United States, as the Mercosur and the Caribbean countries did many years ago, with some success.

Increasingly, the Andean countries are resorting to the WTO dispute settlement mechanism to undertake trade disputes involving the United States. A prominent example was the reformulated gasoline case brought to the WTO dispute settlement body by Venezuela. As argued by Rodríguez-Mendoza, the rules of the multilateral trading system take precedence in matters related to trade between Venezuela --and, it should be added, the other Andean countries—and the United States. “As Venezuela has successfully used the WTO dispute settlement mechanisms to deal with its trade disputes with the United States, it might prefer the multilateral channels rather than the bilateral ones to deal with trade disputes that may arise in the future.”

However, the WTO mechanisms are of little help in an area that has recently dominated the negotiating agenda of the United States and most Andean countries --narcotics trade. Although this is an issue of concern to all countries, recourse to unilateral punitive actions on the part of the United States has prevented a more concerted, and perhaps more effective, effort by all countries concerned. A worrisome trend, in the view of Patricia Correa, is the “narcotization” of the trade agenda, as the United States seeks to resort to trade sanctions in its anti-drug policy. This makes the ATPA a *stick* rather than a *carrot*, as was initially envisaged. This is unfortunate, says Correa, as drug issues should be dealt with through multilateral approaches, and be de-linked from trade issues.

As in the trade relationship, the United States is the major partner of the Andean countries. The exception, again, is Peru, which receives a considerable amount of European investment . In Colombia, U.S. investments account for almost half of FDI stock. Half of the FDI flows received by Ecuador have also come from the United States. Venezuela’s investment position is somewhat unique, as the stock of Venezuelan investments in the United States --mainly in the gasoline distribution sector--is larger than U.S. investment stock in Venezuela. In general, renewed economic growth and the enlarged Andean Community market are having a positive impact on FDI flows. After the changes implemented by the Andean countries in their investment policies, investors, including from the United States, have responded positively to new business opportunities in the Andean region.

## SECTORAL ISSUES

The fourth and final section of the book is devoted exploring some key sectoral issues. Some of these issues, such as privatized telecommunications sectors and dispute settlement mechanisms, are *new* on the political economy agenda of these countries, while others, such as antidumping regulations and intellectual property rights, may not be so novel, but also reflect the current configuration of these countries’ priorities.

The section opens with a chapter by Carlos A. Primo Braga, Volker Ziegler and Li-Gang Liu on the telecommunications sector in the Andean countries. They evaluate the impact of privatization, regulation and foreign investment on the provision of telecommunications services within the Andean region, and how the structure of the industry and the provision of services have changed in the 1990s. According to the authors, the telecommunications sectors of Bolivia, Colombia, Ecuador, Peru and Venezuela have all been “positively affected” by changes in the regulatory framework, privatization and increasingly competitive markets.

The Andean countries have made great advances in the privatization of their state-owned telecommunication companies. Bolivia, Peru and Venezuela have transferred public ownership of their entities to private, often partially foreign-owned, telecommunications firms. Venezuela was the first of the Andean Community countries to privatize its telecommunications sector in late 1991. Next came Peru, in 1994 and then Bolivia, which in 1995 auctioned off its telecommunications company through a creative capitalization schema whereby half of the company shares were sold to an Italian telecommunications firm, and the other half was transferred to all Bolivian citizens. Privatization lags

behind in Colombia and Ecuador, mainly due to political and/or labor opposition, although plans in this regard are still being developed in these two countries.

The challenge that the Andean countries now face is that of promoting greater competition in the provision of basic and other telecommunication services. In the three countries that have completed their privatization processes, the new private-owned operators were given “exclusivity” rights for a limited period of time. This, in essence, means that private monopolies enjoy the same privileges that were previously enjoyed by the old public companies. As the “exclusivity” rights are coming to an end, countries need to design a regulatory framework that encourages competition in the sector. Thus, “regulatory reform has become inevitable.” In this regard, a key issue seems to be the independence of the regulatory body, as it helps insulate it from political and other pressures.

Foreign investment has been significant in the Andean countries telecommunications industry. The proceeds from privatization alone have been estimated at more than \$3.5 billion. Other investments have taken place in the cellular and wireless sector, cable TV and satellite communications. This is an area where the “negotiating agenda” with the United States, in the multilateral as well as the hemispheric context, could be promising. The United States is an important supplier of telecommunications equipment to the Andean countries, but has lately been outdone by Japanese and European competitors. U.S. firms have a large presence in satellite communications, in cellular telephony and cable TV, but not in basic services, which increases interest of the United States in the opening of competition in this area.

In the next chapter, Ana Julia Jatar and Luis Tineo examine the experience of the Andean Community countries with competition law and practice. They see competition policy as playing a critical role in the modernization of the Andean economies through its role in enhancing market access for firms, limiting the scope for restrictive business practices, and fostering economic efficiency and consumer welfare. According to the authors, an effective competition policy would be instrumental in promoting investments and business activities in the region.

There is no uniformity in Andean countries’ competition rules and objectives. Three countries -- Colombia, Peru and Venezuela—have adopted competition laws that are enforced by independent agencies, whereas Bolivia and Ecuador rely on trade liberalization and deregulation measures. Other than this diversity in competition mechanisms, two issues are of particular concern to Jatar and Tineo. One is what they call the “advocacy” issue, i.e. the activities that competition policy agencies should carry on to ensure that public policies are consistent with the goals of competition policy. The other is the lack of a regional approach to competition policy among the Andean Community countries. According to Jatar and Tineo, “[p]romoting the conditions for wider market access and efficiency through competition has been a difficult challenge for the Andean countries.” Collusive and monopolistic practices by private firms are common within the Andean region. These practices were encouraged in the past by excessive tariff and non-tariff protection, subsidies and other government practices that limited competition. Competition advocacy is then needed to change the behavior of firms, and --perhaps more importantly—to change the perception of public opinion at large that these practices are “normal” or desirable.

Even at present, under a new set of economic policies, some public policies may facilitate anti-competitive practices. Here, again, competition advocacy is needed. The competition agencies in the Andean countries need to watch over public policies that may affect competition be they trade measures, sectoral regulation of natural monopolies or privatization. In this sense, a key goal of competition advocacy is to insert the concept and values of competition in the policy-making process of each country, as “competition policy is related to, yet is often in conflict with, core areas of industrial and trade policy.”

In looking at the regional dimension of competition policy, the authors conclude that the Andean countries have so far missed the opportunity to develop common rules on competition policy to

organize business transactions and trade among them. As in other areas, the Andean countries should look at the experience of the European Union, which “shows that the enforcement of competition laws at both the national and the supranational level is essential to achieving changes in business behavior and institutions.” Some competition rules were adopted by the Andean countries in Decision 285. However, these are very limited even compared with the existing national rules. This is unfortunate in the view of the authors. Jatar and Tineo advocate a supranational competition policy, to enforce the rules when anti-competitive practices involve firms from different countries, limit pressure from interest groups and, in the case of mergers, allow for a better assessment of the optimal size of firms according to the regional market.

Anti-dumping rules in the Andean Community and its member countries are examined by Gary Horlick and Eleanor C. Shea. They discuss the main features of Andean Community Decision 283 on anti-dumping regulations and procedures which was adopted in 1991, and evaluate their consistency with WTO anti-dumping rules. They also examine the anti-dumping legislation of the five Andean countries as well as the United States, and their actual use of anti-dumping measures.

Their conclusions are clear-cut. “So far, Andean Community countries have not been frequent users of anti-dumping law.” The authors cannot say the same of the United States, which has numerous antidumping actions in place including many against countries in the Western Hemisphere. Even so, antidumping actions have not been the subject of major controversies among the United States and the Andean countries, except in the case of the antidumping “assault” on the flowers industries of Colombia, Ecuador and Peru.

Regarding the consistency of the Andean countries anti-dumping laws with the WTO, Horlick and Shea identify a number of discrepancies with the “letter and spirit” of WTO rules. Also, they point out to the opportunity that the FTAA will provide to the countries of the region to deal with anti-dumping rules in a more effective way. One option they should seriously consider is the elimination of anti-dumping measures among themselves, following the example of Canada and Chile in their recently concluded free trade agreement.

The sensitive issue of intellectual property rights is examined by Roberto Salazar Manrique. He reviews the efforts of the Andean Community countries to modernize their common regime in this area, from the old and rather restrictive Decision 85 to the current Decision 344 which provides a high degree of intellectual property protection. The analysis of this chapter also sets out the challenges that the Andean countries will face in the coming years as they adjust their intellectual property rights regime to make it consistent with WTO rules. The Andean countries also face difficult choices as these issues are dealt with in the context of the FTAA negotiations.

The final chapter of the book addresses the issue of trade dispute settlement mechanisms. Craig VanGrasstek begins by recognizing the common nature of trade and trade disputes. As trade flows increase, so may trade disputes among trading partners. An effective dispute settlement mechanism will facilitate solving these disputes while allowing for trade to continue expanding. In searching for the appropriate model, VanGrasstek reviews the various systems in place to draw some conclusions as to which could best suit prospective trade relations between the United States and the Andean Community countries.

The author examines, in particular, the GATT/WTO and the NAFTA experience with dispute settlement, as well as the “reciprocity” statues contemplated by U.S. trade legislation, such as Section 301 and Special 301, although these could hardly be considered as dispute “settlement” devices. He evaluates these mechanisms in light of some criteria, such as objectivity and wide scope, and concludes by proposing a “first WTO” approach whereby disputes between the Andean countries and the United States should be adjudicated under the WTO dispute settlement mechanism whenever WTO rules apply. In general, Andean countries would be better off by implementing in their trade agreements dispute settlement mechanisms along the lines of the WTO and NAFTA.

As is evident from looking at these various chapters, the relationship of the Andean Community countries and the United States are complex and multifaceted. It is clear that the United States is a key partner for the Andean countries – which are also of strategic importance to the United States. Clearly there are real possibilities in different sectors and fora for strengthening and augmenting bilateral relations. The FTAA offers a window of opportunity to realize this potential. By covering such a large variety of issues, the editors fo this volume hope to have helped identify areas in which greater cooperation between the Andean countries and the United States can be expected.