

ANDEAN DEVELOPMENT CORPORATION ANNUAL CONFERENCE ON TRADE AND INVESTMENT IN THE AMERICAS

Andean Development Corporation



Organization of American States



Inter-American Dialogue

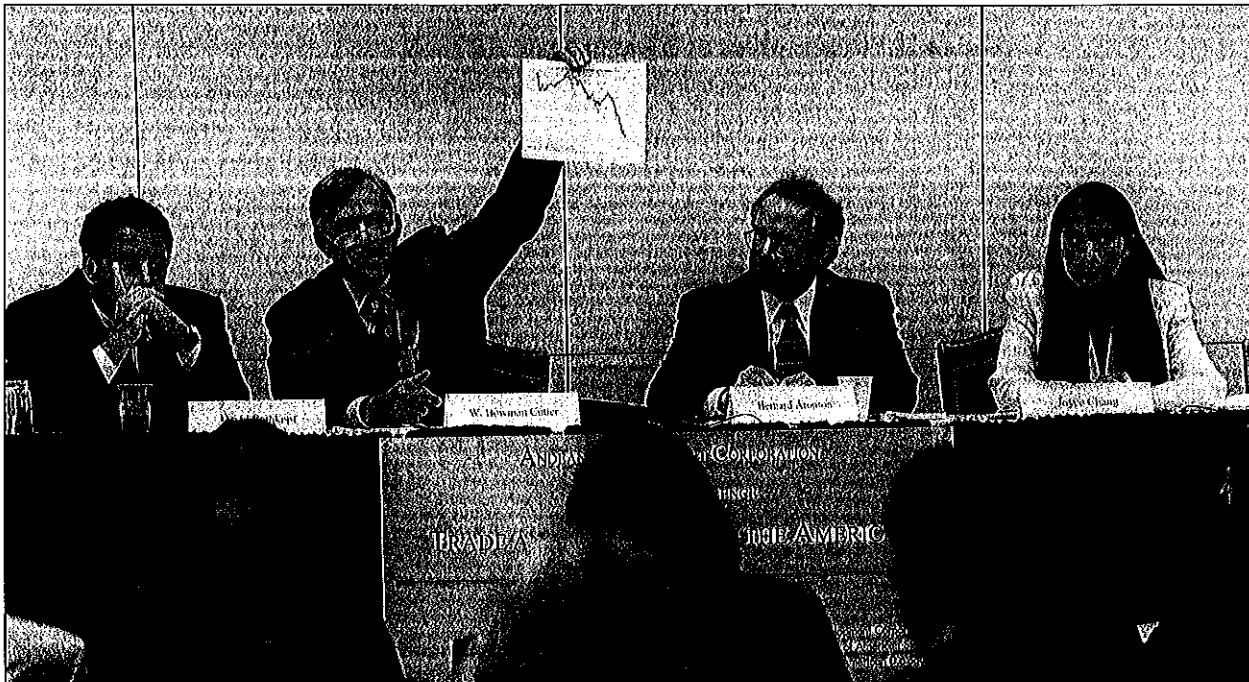


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Preface

Over the last decade, the members of the Andean Community have undertaken significant steps towards opening their economies and establishing stable democracies. Yet by the mid-1990s, this process of deep reform remained relatively unknown to the rest of the hemisphere, in part because the Andean countries did not have a strong collective presence in Washington, D.C. Two years ago, in conversations with Inter-American Dialogue President Peter Hakim, and Organization of American States Secretary General César Gaviria, we decided to begin to build such a presence through an initiative that would gather together government officials, academics, legislators and private-sector representatives from the United States, and from Bolivia, Colombia, Ecuador, Peru and Venezuela. And that is how the annual Andean-Development Corporation Conference on Trade and Investment in the Americas was born. The volume in your hands contains the results of our second annual conference, held on September 10-11, 1998, at the Brookings Institution.

The September 1998 conference came at a difficult time for the Andean countries. El Niño and the Asian crisis had already battered their commodity-driven economies, and Russia's devaluation of its currency two weeks before the event threatened to undo Brazil's Real Plan, which could have encouraged capital flight and devaluative pressures in the Andean region.

Despite these difficulties and subsequent ones caused by Brazil's eventual devaluation, the governments of the region have maintained policies that reflect their continued commitment to macroeconomic stability. This commitment has extended beyond the so-called first generation macro reforms to the "second-generation" reforms required to ensure sustainable development. In addition, the fact that much of the investment capital in the Andean region



Enrique García, María Lucía Ramírez, and César Gaviria

was foreign direct investment attracted by the Andean nations' ongoing privatization processes, rather than portfolio investment, helped the governments to withstand, in large measure, any contagion effects from the Asian, Russian and Brazilian crises.

The year preceding the conference had been marked by an increasing pace of Andean political and economic integration. Peru returned to the Andean Community after a short absence. Ecuador and Peru negotiated a peaceful resolution to their border dispute. Trade negotiations between the Community and the Southern Common Market (Mercosur) advanced. And the unified Andean presence was strongly projected at the Second Summit of the Americas held in Santiago, and subsequently in the Free Trade Area of the Americas negotiations that were launched at the leaders' meeting in the Chilean capital.

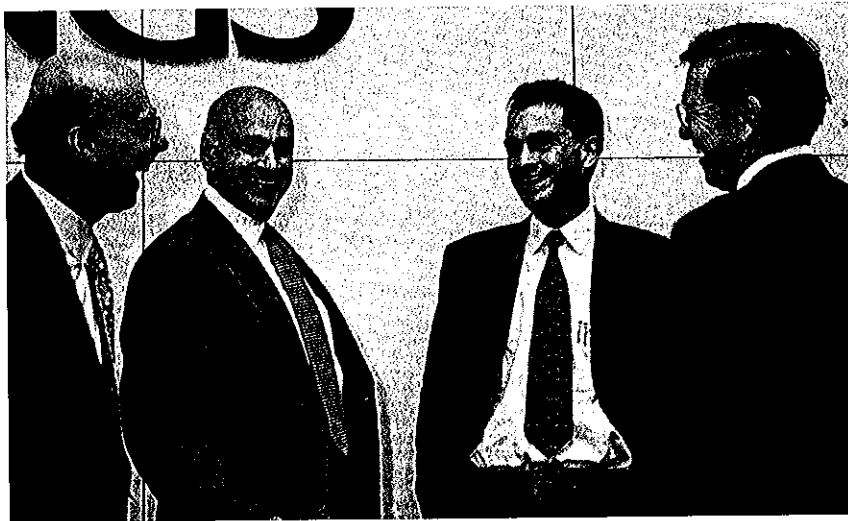
To improve regional living standards, Andean policymakers must maintain a long-term perspective that emphasizes sus-

taining economic fundamentals, advancing democracy and deepening integration. At CAF (Andean Development Corporation) we are committed to these challenges as well as to the questions they pose and their opportunities. Our corporate mission is to promote sustainable development and regional integration efforts, with a view of supporting stockholders to transform the Andean economies, making them more diverse, competitive and sensitive to social needs. We are convinced that better use and protection of

natural resources, greater social equity, and a sound financial equilibrium contribute to higher profits, efficiency and quality in projects supported by CAF.

It is my belief that the annual CAF conference in Washington is helping us all discover better ways to achieve all of these goals. ■

L. Enrique García
President & CEO
Andean Development
Corporation (CAF)



Jorge Ramírez Ocampo of the Colombian-American Business Council, Ron Scheman of Greenberg Traurig, José Manuel Salazar of the OAS, and Clyde Prestowitz of the Economic Strategy Institute

Acknowledgments

This volume would have been impossible without the hard work of many people. Credit is due, first, to the conference participants, whose constructive comments on the various issues made the discussion worthwhile. The richness of the exchange is reflected in the excellent rapporteur's report prepared by Scott Otteman. We are indebted also to Ana Mercedes Botero and Carlos Zannier of the Andean Development Cor-

poration (CAF) for their contributions to the design and implementation of the conference. Ricardo Avila, Miguel Rodríguez Mendoza, and Anna O'Brien of the Organization of American States (OAS), and Sandra Forero of the Inter-American Dialogue provided invaluable assistance as well. Joan Caivano and Jeana Flahive of the Dialogue provided critical support in the production of this publication. ■



Roberto Jaguaribe of the Brazilian Ministry of Foreign Affairs and Ana Mercedes Botero of the CAF

Rapporteur's Report on the 1998 Andean Trade and Investment Conference

Introduction

On September 10th and 11th, the Second Annual Andean Development Corporation Conference on Trade & Investment in the Americas was held at the Brookings Institution in Washington, D.C. Sponsored by the Andean Development Corporation (CAF), the Organization of American States (OAS) and the Inter-American Dialogue, the conference took place in a climate of growing anxiety over international financial developments which appeared to put at risk years of economic reform and progress in the region.

The conference opened with a dinner and keynote address by Deputy U.S. Trade Representative **Richard Fisher**. It continued the next day with a series of panels on Andean Community political and economic relations, the prospects and obstacles to hemispheric free-trade talks, the challenges to the region of the global financial crisis, and the relationship between infrastructure development and greater hemispheric integration. A concluding reception and buffet at the OAS featured remarks by Inter-American Development Bank President **Enrique Iglesias**, Acting U.S. Assistant Secretary of State for Inter-American Affairs **Peter Romero** and Venezuelan Minister of Foreign Affairs **Miguel Angel Burelli**.

Ambassador Fisher inaugurated the conference with a positive assessment of the prospects for negotiating the Free Trade Area of the Americas. He particularly noted the deep hemispheric consensus in favor of the fundamental principles of democratic politics, free-market economics with social safeguards, and an essential role for civil society. He acknowledged, however, that

the path to the FTAA is threatened by financial volatility, and that it remained uncertain whether the Clinton Administration would obtain the fast-track negotiating authority widely viewed to be critical to the start of serious FTAA bargaining.

The main session on September 11 was initiated by CAF President **Enrique García**, OAS Secretary-General **César Gaviria** and Inter-American Dialogue President **Peter Hakim**.

García stressed the need to continue to focus on long-term development objectives in the region despite difficult short-term conditions. He also noted strong steps forward by the Andean countries in recent years in bolstering the levels of foreign direct investment, privatizing state enterprises and deepening the integration of their economies.

Gaviria highlighted the positive effects that the Andean countries' policy of "open



IDB President Enrique Iglesias

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the faltering
international economic
panorama.”

regionalism” has had for their economies and for their continued support of multilateral trade liberalization. He called on the United States to approve fast track and on Latin American nations to initiate second generation institutional reforms essential to achieving macroeconomic stability.

Hakim spoke of the growing reputation of the Andean Development Corporation as a world-class development institution, and noted that the conference was taking place in the context of growing anxiety about international financial developments.

General Themes

Three general themes predominated throughout the six panel discussions. Nearly every participant felt compelled to comment in some fashion on the ongoing impact of the Asian/Russian financial crisis on Latin America. Many conferees then went on to offer recommendations as to how the Latin American countries and the international community should respond to the crisis. Finally, a number of panelists offered their views on the Andean Community countries' economic prospects in light of their past policies, current political situations, and the faltering international economic panorama.

Impact of the Financial Crisis

Estimates of the severity of the crisis for Latin America varied depending on the focus of the speaker, whether he or she was most concerned with the securities markets or with reforms, price stability or infrastructure development. While all speakers agreed that Brazilian success in staving off a forced devaluation was critical to limiting damage to the rest of the region, Latin American officials took issue with some of the more pessimistic scenarios painted by financial experts, both as regards Brazil and the region as a whole.

Brazilians stressed that a high level of capital reserves combined with the Cardoso government's renewed focus on slashing its

federal budget deficit gave it the capacity, with proper international help, to stem massive capital flight and resist pressures for devaluation in the short run. Wall Street analysts were less sanguine about whether the government's proposed measures to reduce its budget deficit could be implemented quickly enough to satisfy the markets, and they questioned whether the international community had the wherewithal and resolve to mount a coordinated, meaningful rescue plan at this time.

Both sides blamed recent Latin American stock market declines on a forced liquidation of assets to cover losses generated elsewhere, particularly in Russia. That financial blow came amidst a tremendous downturn in commodity prices for Latin American exports fostered by the weakness of Asian demand. But analysts from the region nonetheless expressed the view that reforms conducted since the 1980s should enable Latin American nations, including the Andean countries, to weather the financial storm better than most other emerging markets.

Responses to the Crisis

Participants favored replenishment of IMF funding to help alleviate the current liquidity crisis and help restore confidence in the short term. But at some point, several conferees noted, the IMF's role should be reviewed to identify whether some of its policy conditionalities and its role as lender of last resort may have contributed to creating the crisis. A number of panelists suggested that multilateral development banks may need to expedite the normal processing of loans to meet the immediate need for new infusions of credit caused by the drying up of private capital markets. And stimulative policies by industrialized countries to “prime the pump”—by reducing interest rates, for instance—were also seen as part of the solution to the financial turmoil.

Panelists differed over whether Mexico's quick recovery from the 1994-1995 peso collapse could serve as an appropriate mod-

el for how Latin America could address today's situation. While Mexico's strict adherence to open-market economics was generally applauded, questions were raised as to whether its use of exports to generate foreign exchange earnings and its smart management of dollar-denominated debt could be easily replicated in today's global economic environment.

It was largely agreed that Latin America in general, and the Andean nations in particular, should forge ahead with so-called second generation institutional reforms that will further open up their economies in spite of the crisis. But a number of participants predicted that serious consideration is probably being given to unorthodox measures such as the placement of controls on short-term capital flows because of the severity of the crisis.

Outlook for the Andean Nations

Intra-Andean trade has jumped significantly in the 1990s without interfering with either expanded Andean trade with the rest of the world or with the Andeans' support for multilateral trade liberalization. Foreign direct investment has also been rising in most Andean nations throughout the 1990s, but the decline in commodity prices caused by weak demand in Asia and the impact on production from El Niño has led to expanded current account deficits for all of the nations except Venezuela.

Beyond these common trends, participants identified some critical differences between the current economic and political circumstances facing individual Andean nations.

There was broad agreement that Venezuela faces the most challenging short-term scenario, if plagued by a severe drop in the international price of oil, as it approaches crucial presidential elections later this year. The presidential front-runner's uncertain political and economic positions have helped produce a crisis of confidence among domestic and foreign investors. The financial experts at the conference believed

that this view virtually guaranteed a devaluation of the bolívar in the short term.

By contrast, panelists agreed that Bolivia has done the best job in the Andean nations of institutionalizing democratic and pro-market reforms in the 1990s.

For its part, Colombia has seen its political party system increasingly threatened by the hard-to-win fight against drug trafficking and a string of victories this year by anti-government guerrillas against the Colombian army. Yet there is hope that the new Colombian president may make progress in pursuing more disciplined macroeconomic policies, opening up a dialogue with the guerrillas, and improving relations with the United States.

Ecuador has faced chronic political instability that has left it unable to implement necessary economic reforms, but changes to the constitution at the beginning of 1998 have given the newly elected government more power to pursue those reforms.

Peru has enjoyed sound macroeconomic management and has had successes in recent years in fighting guerrillas and drug-running, but was among the hardest hit by El Niño. Yet President Fujimori's autocratic leadership style and push for successive terms has hindered the development of democratic institutions.

The Panels

Panel I: The Andean Community Countries: Progress and Setbacks in the Past Year, Looking Forward to 1999 and Beyond.

The discussion began with **Oswaldo Hurtado's*** description of the political outlook in the five Andean nations of Bolivia, Colombia, Ecuador, Peru and Venezuela. He stressed that their democratic constitutional orders and their tilt in favor of market economics are not currently being called into question, but warned that this could change if growing social inequity, deteriorating

*The titles and brief biographies of panel participants can be found in Annex II at the end of this volume.

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of financial
turbulence. ”

public security (in Colombia and Peru), and ineffective enforcement of the rule of law are not addressed.

Claudio Loser urged Andean policymakers not to allow this year's worldwide series of financial crises to keep them from maintaining and deepening economic reforms which have fostered macroeconomic stability in the 1990s. He noted three shocks that have undercut the Andean economies in the past year: El Niño, which reduced fish catches and agricultural output throughout the region and hit Peru and Ecuador particularly hard; the Asian economic crisis, which has brought a sharp decline in prices for many Andean commodity exports, especially Venezuelan oil sales; and the successive waves of financial turbulence, which have caused significant falls in asset prices in the Andean nations and the rest of Latin America. Loser said lower commodity prices mean Andean countries and the rest of Latin America will suffer slower growth and larger trade and current account deficits in 1998 as compared to 1997. The average Andean inflation rate should remain at about 23 percent this year, he predicted, before continuing to decline in 1999.

Sebastian Alegrett underscored that under the Community's newly revamped institutional framework, the Andean nations have begun to pursue a series of sub-regional liberalization initiatives, including with respect to services, telecommunications and the financial sector. He also noted that intra-Andean discussions to harmonize agricultural, transportation, labor and temporary entry rules have begun, and that ongoing Community talks with the Southern Common Market (Mercosur) are expected to result in a new free-trade area by the beginning of the 21st century.

Panels II & III: Free Trade in the Americas: The Prospects and the Obstacles

The participants agreed broadly that the current global financial crisis posed a new challenge to the Free Trade Area of the Americas negotiations. **Roberto Gianetti da Fonseca** painted the bleakest picture,

warning that a combination of lowered commodity prices, competitive devaluations and exhausted current account deficits could paralyze the talks.

Two senior trade negotiators—**Peter Allgeier** of the U.S. and Canada's **Kathryn McCallion**—indicated that the lack of fast track does not yet threaten the regional talks, which are scheduled to conclude by 2005, but that its absence could do so in the future. They agreed that another challenge negotiators face is to figure out how to best integrate ideas from business, labor, environmental and other non-governmental groups so as to generate public support for the FTAA.

McCallion cited two additional constraints that ultimately must be overcome: the tremendous disparity in development levels in the hemisphere and the danger that national electoral cycles could periodically interrupt progress in the negotiations. For Allgeier, the other main challenge is to see how much further the FTAA will go than the Uruguay Round multilateral agreements in establishing broader market access and stricter disciplines.

McCallion said countries have agreed that they will strike no interim FTAA agreements involving concessions until the U.S. obtains fast track. In the meantime, she said negotiators are trying to identify non-concessional "business facilitation" measures to help smooth trade and investment procedures by the year 2000.

The comments by **Miguel Rodríguez Mendoza** focused on the relationship between FTAA talks and the multilateral trading system. He argued that the FTAA will not only be consistent with multilateral trading rules, but also may generate a model for future WTO disciplines in areas such as investment, competition policy and electronic commerce while helping to design better rules of coexistence between regional trading arrangements and the WTO.

Clyde Prestowitz emphasized that the FTAA nations must avoid the pitfalls that have befallen Asia by ensuring that such

topics as the rule of law, transparency, and the institutional mechanisms necessary to attain free trade in goods, services and capital flows are on the negotiating agenda and are defined in the same way by all parties.

The critical role infrastructure investment plays in both developing trade and in setting the foundation for sustainable poverty alleviation was highlighted by **Ronald Scheman**. He urged a search for new forms of financing with higher multipliers, such as multilateral development bank investment guarantee programs and the syndication of B loans.

Jorge Ramírez Ocampo called for the region to respond to the current financial crisis by tackling second generation institutional reforms to ensure the rule of law, provide transparency and combat corruption rather than by returning to protectionism. At the same time, he made an impassioned plea for the U.S. to do its part by passing fast track and replenishing its allocation to the IMF, arguing that without some evidence of burden-sharing by the U.S. it will be harder in Latin America to make the case in favor of continued openness.

Panel IV: A Wall Street Perspective on Latin America

These veteran Latin America financial and economic analysts painted a grim picture of Latin America's chances for a speedy recovery from the current crisis of confidence and liquidity crunch.

Bernard Aronson noted that those governments which had failed to take tough measures urged by investors in recent years—Brazil, Venezuela and Ecuador—were the ones suffering the brunt of the fallout. He pointed out that one factor which differentiates the current situation from past crises is the vacuum in political leadership in the United States. Ultimately, he insisted, only sound macroeconomic policies that permit the creation of domestic capital and savings bases can insulate the region from these types of crises, and the second generation of reforms is essential in this regard.

Given that the prospects for export-led growth and managing debt are not as robust today as they were in 1995, **Joyce Chang** questioned whether Mexico's relatively quick recovery from the peso crisis could serve as a model for other Latin American economies' emergence from this year's difficulties. But she also predicted there would be no default on sovereign debt in the region similar to what occurred in 1982 because the costs of doing so are perceived to be too high. Peru has done well on economic reforms and fiscal management, and this may be reflected in Peru being the only Andean country whose bonds are not ultimately downgraded as a result of the current crisis, Chang predicted.

Chang and **David Rothkopf** agreed that the severity of the crisis for the rest of Latin America would depend in large part on whether Brazil managed to stave off devaluation with help from the international community. Rothkopf foresaw increased experimentation with capital controls in light of the apparent impotence of IMF policies and the failure of the "Washington consensus" in addressing the volatility of short-term capital flows.

Among the Andean countries, the panelists agreed that Bolivia had done the best economically and politically, whereas Venezuela seemed to face the most difficult circumstances. The panel concurred that it appeared to be more a question of when rather than whether Venezuela will devalue its currency in light of the severe drop in world oil prices and the uncertainty brought on by the expected election of former coup leader Hugo Chávez.

Panel V: Infrastructure Development and Hemispheric Integration

Panelists emphasized that private investment for infrastructure projects in Latin America tends to be based on the potential long-term returns intrinsic to particular projects more than on the volatile financial factors associated with the current situation. They also agreed that World Bank and IDB lending practices for infrastructure projects

“**Jorge Ramírez Ocampo...made an impassioned plea for the U.S. to do its part by passing fast track and replenishing its allocation to the IMF...**”

need to be adjusted to allow more lending to private-sector initiatives, which are on the rise in this field due to privatization trends.

Roberto Dañino signaled that the \$43.5 billion in foreign direct investment to Latin America in 1997 was six times the level of FDI in 1990. The Andean region received \$11 billion of that total, he said. He argued that the paucity of basic infrastructure in Latin America actually represents a substantial market opportunity for future investors.

Roberto Jaguaribe outlined a series of infrastructure financing initiatives ongoing in Brazil. He also led the panel's criticism of "unreasonable" conditions that are placed on multilateral development bank lending for infrastructure projects, and urged institutions such as the World Bank and the IDB to consider a more project-oriented approach (like that used by CAF) so that projects which really need their funding can obtain it.

The privatization of some Latin American ports has significantly lowered transport costs, **Juan José Echavarría** stressed, but as of 1994 freight costs in the region remained a much higher proportion of import costs than they were in the developed world.

Richard Frank noted that endemic violence which endangers a foreign company's personnel, such as one finds in parts of Colombia today, can frighten off even long-term, stable capital.

Panel VI: Financial Markets and Hemispheric Integration

Enrique García stressed that the positive changes throughout the Andean Community and Latin America as a whole over the past decade and a half—brought on by

privatization, the strengthening of banking regulations, and the manner in which countries' current account deficits are now financed, among other things—should make it easier for countries to emerge from the current crisis with limited damage.

Everett "Sam" Santos suggested that recent privatizations offer a truer long-term valuation of assets in Latin America than those provided by the region's volatile public stock exchanges. Regional infrastructure projects are key to sustaining economic growth in South America, he noted.

Latin American countries such as Brazil and Argentina have different policy instruments and capacities for absorbing the financial shocks now hitting the region, **David Rolley** noted. Even if Brazil avoids a forced devaluation, he said, the price of stifling interest rates will be a significant recession resulting in lowered construction and fewer imports, which will hurt Argentina.

Augusto de la Torre summarized the financial-integration policy lessons learned from the Mexican, Asian and Russian crises. Those recent experiences have shown that the path to global financial integration is more difficult, and the rewards from it less automatic, than economists originally believed, de la Torre added. He said the Russian crisis is forcing a reexamination of whether there is a need for international institutions and mechanisms to curb the degree of overreaction by private markets to domestic policy mistakes so that those countries which stay the course on free-market macroeconomic reforms are not unduly hurt by contagion and fallout. ■

The Andean Community: Strategies Towards an FTAA

César Gaviria
Secretary General, Organization of American States

This paper is being written at a time when global markets are in deep turmoil, and when economies that were once seen as exemplary are in serious crisis. Over the past year, the economies of this region have been affected to varying degrees by adverse shocks, in particular, the downturn in demand from Asian countries, the volatility of capital flows, the sharp decline in commodity prices, particularly oil—deriving in large measure from the Asian crisis. The external environment has deteriorated even further in recent weeks, especially reflecting market reactions to the crisis in Russia. El Niño also has taken its toll.

The countries of the region have made efforts to adjust to the changed external environment, with policy responses varying in speed and content, reflecting individual economic, political, and social circumstances. These efforts are critical to preserve the progress that the region has made in macroeconomic and structural reform. Indeed, the Latin American economies, after a decade of structural reforms, show clear signs of strength. Latin American economies are far healthier than they were in 1990 and in a much better position to withstand this, and future crises.

The Andean Community's Trade Strategies

During the late 1980s and the early 1990s, trade regimes in the Andean region were opened, financial distortions were eased, currency controls were abolished, some general deregulation was put into place, and a large number of state-owned enterprises

were privatized. Intra-Andean trade grew by 29 percent annually, and the Andean Community now has some of the lowest tariffs in Latin America. At the same time, the change in attitude regarding the importance of foreign investment, as well as the necessary framework to promote it in the Andean region, resulted in a remarkable recovery of foreign direct investment (FDI) flows to Andean Community countries. Between 1990-1994, FDI in the Andean region as a whole more than quadrupled, drastically reversing the negative investment outflows of the period 1985-1989.

This unilateral liberalization of trade and investment in the Andean countries translated rapidly into a more dynamic process of integration, and measurable progress has been made in deepening and consolidating the Andean integration scheme. The result of this collective action has been even greater trade and investment liberalization.



OAS Secretary General César Gaviria

““ Andean
enthusiasm for the
FTAA process is not
surprising, as the
Western Hemisphere is
by far the Community's
most important
market.””

As they proceed with their individual reform efforts, the Andean Community members are developing a common approach towards Latin American and hemispheric integration. The process of creating an Andean political identity, now backed by all countries, is essential to this task. The internal cohesion that is expected to emerge from a consolidated and manifest Andean identity, sustained by solid democracies with dynamic civil societies, will strengthen the legitimacy of the Andean integration system and help to guarantee the sustainability of the integration process over the long term.

But sub-regional groups are not ends in themselves. Instead, they are paths towards larger integration efforts at the Latin American, hemispheric, and global levels. Demonstrating their commitment to trade openness beyond the sub-regional level, Andean Community countries are participating actively in the negotiations leading up to the Free Trade Area of the Americas (FTAA).

Andean countries are playing a major role in the FTAA process. Colombia and Bolivia are the chair and vice-chair of the Market Access Negotiating Group, and Venezuela is the chair of the Negotiating Group on Intellectual Property Rights.

Andean enthusiasm for the FTAA process is not surprising, as the Western Hemisphere is by far the Community's most important market. The United States is the main export market for four of the five Andean countries—Bolivia, Colombia, Ecuador, and Venezuela—and is the second largest market for Peru. Trade with the United States comprises a very significant 40 percent of the Andean Community's trade activity.

On the other hand, the Andean Community, a market of 104 million people, is also an important market for the United States, exceeding two continents—Australia and Africa—as a U.S. trading partner. Moreover, the Andean Community countries are important suppliers of a strategic commodity, oil, giving the area salience to

the United States well beyond the magnitude of bilateral trade flows.

Another 20 percent of Andean Community exports go to the rest of the hemisphere, four percent to Mercosur, two percent to Mexico, and 14 percent to the rest of Latin America. In turn, an equivalent 20 percent of total imports into the Andean Community come from Latin America.

It is clear then that the FTAA offers the most expansive arrangement for widening the Andean Community's free trade access in the hemisphere and, in particular, to its most important trading partner, the United States. It permits the Andean countries to pursue strengthened trade and investment relations with the United States, while simultaneously improving trade relationships with other countries in the hemisphere. Also very important, the FTAA allows the Andean Community countries to do this as a cohesive group.

Andean countries, therefore, should use the FTAA negotiations as a means to enhance their liberalization efforts, to consolidate the Andean Community regime in relevant areas, and to engage in constructive dialogue with their larger partner in a forum where trade issues are the focus. The Andean countries are in a unique position within the Western Hemisphere, lying between the two main sub-regional poles of NAFTA and Mercosur, to play a positive role in pushing forward the negotiations and to help find areas of common ground between the larger players.

The United States, for its part, also should approach the FTAA negotiations with conviction. This means enacting fast track legislation. With the current instability in global markets, approving fast track will send a clear signal that the United States is not relinquishing its leadership role and will reinforce its agenda for market opening. Additionally, enactment of fast track will reassure global markets that the United States expects continued growth of trade in goods and services.

Multilateral and Regional Trade Arrangements: Complement or Conflict?

In further recognition of the complementarity between the processes of regionalism and multilateralism and the potentially positive effects on trade and investment liberalization, the Andean Community recently commenced negotiations with Mercosur to set up a free trade area between the two integration schemes in the year 2000. Individual countries also have sought to enhance their competitiveness through a widening network of bilateral and plurilateral agreements. For example, Colombia, Mexico, and Venezuela entered into the G-3 Agreement, which provides for free trade among the three countries by 2005. Colombia and Venezuela also concluded separate preferential trade agreements with the Caricom countries, which envisage some degree of reciprocity offered by the Caricom countries within five years of implementation of the agreements. They also have proposed to negotiate jointly a free trade area with the Central American countries.

Some may decry this "open regionalism" approach of the Andean countries, arguing that regional agreements run the risk of becoming inward-looking and discriminatory, causing important diversion of trade and investment flows, and weakening the multilateral trading system. These opponents of regionalism also worry 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 multilateral initiatives, slowing the pace of progress at the multilateral level.

However, there is a brighter side to this phenomenon. Regional agreements provide an opportunity to promote faster trade liberalization at the regional and multilateral level. They also could provide a valuable testing ground for new approaches to difficult trade problems, generating useful information that could make multilateral agreements more palatable and durable.

These regional integration processes have some other important characteristics that make their continued nurturing relevant to the global community. First, membership in such arrangements, especially those that aim at the formation of customs unions, like the Andean Community and Mercosur, has allowed participating countries to consolidate and lock in the economic liberalization reforms made during the last decade and to move forward into new areas where unilateral reform had proved difficult domestically. This is critical to foster global economic growth.

Second, the notable expansion in intra-regional trade in the 1990s, especially within sub-regional groupings, has not taken place at the expense of third countries. In fact, the world trades more with these countries now than at any other time during their economic relations, signaling the positive effects on trade and investment liberalization.

Third, 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 proponents of multilateralism. The region was a very active participant in the Uruguay Round negotiations. This Latin American activism has been maintained since the conclusion of the Uruguay Round negotiations, as is demonstrated by the region's full participation in ongoing World Trade Organization processes.

Hence, there is little to fear from the new Latin American integration: regionalism in the Americas does not run counter to the trade liberalization efforts at the multilateral level. It does not obstruct, but 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, towards the rest of the world.

It is important to ensure that the potentially positive contributions of regionalism to global opening are not undermined.

“...there is little to fear from the new Latin American integration: regionalism in the Americas does not run counter to the trade liberalization efforts at the multilateral level.”

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 all countries in the region are members of the WTO. The countries of the region will be better prepared to face the enormous challenges of the next millennium if they manage to consolidate their current efforts at integration. The FTAA countries apparently share this conviction as they have agreed to continue to strengthen existing sub-regional arrangements even as they work towards a comprehensive FTAA.

The complexity of the current global context, while challenging, also provides the countries of the Andean Community with an opportunity to rise above the reform fatigue and reform skepticism that has plagued them recently. Acceleration, perfection, and deepening of current economic reforms are not sufficient. Andean Com-

munity countries, as well as other countries in Latin America and the Caribbean need to jump-start the institutional or "second generation" reforms that are essential to achieve macroeconomic stability. One lesson that the current crisis in East Asia and Russia has taught us is that the stronger our fundamentals, the better equipped we are to stave off these attacks, which are sure to resurface in the future.

Countries in this region will act quickly to make the necessary adjustments as the external environment changes. But other actors in this global community also must do their part. The countries at the epicenter of the crisis have to take decisive action to correct the disequilibrium, and industrialized countries and the Bretton Woods Institutions must do what is necessary to restore confidence in the market, and do so immediately. This is no time for panic; it is time for strong, collective action. ■



CAF President Enrique García, Michael Curtin and Bill Friend of Bechtel

The FTAA in Perspective

Richard W. Fisher
Deputy United States Trade Representative

As the nine negotiating groups of the Free Trade Area of the Americas (FTAA)—or in Spanish, El Area de Libre Comercio de las Américas (ALCA)—begin their work in Miami, there will be much said and written about the details—about agricultural quotas, about negotiating deadlines, about fast track authority and all the rest. The purpose of this short paper is to put the process in broader perspective: its history; its rationale, its meaning.

The conceptual case for free trade in the hemisphere rests on the most elementary points of geography and national interest. We are neighbors; we will always be neighbors; and it is plainly in our interest to have the best possible trade relationship with our neighbors. The practical case rests on the fact that the countries of the Americas are good trading partners. They are democracies, respectful of the rule of law, with increasingly liberalized markets, and honest and transparent governance.

The Revolutionary Transformation

The effort to create the FTAA reflects a profound, perhaps revolutionary transformation: the convergence of the entire hemisphere on a common set of ideals. These include the ideal of peace. In the tiny space of a decade, the guns have fallen silent in Central America. The soldiers have returned to quarters in the Southern Cone, and the blunt tool of the *golpe* has mostly faded into the history books. As the modern concepts of freedom for the entrepreneur and education for the child replaced the sterile, traditional battle between statist right and statist left, the ideals of freedom and opportunity have become shared elements of hemispheric vision. A third shared

set of ideals are those of democracy and civil society: the right of the citizen to take part in elections and in the decisions of nations on policy have become the paramount political paradigm. This set of shared ideals is the result of the work of an exceptional generation of leaders—Arias, Zedillo, Gaviria, Cardoso, Alfonsín and many more. Still more, it is the work of ordinary citizens: the courage and sacrifice of the Brazilian environmentalist Chico Mendes, the Argentine grandmothers of the Plaza de Mayo, the Colombian journalist Diana Turbay, the elected mayors of small Peruvian towns plagued by violence; or in daily life, the perseverance and hard work of the millions of informal workers and entrepreneurs of whom Hernando de Soto wrote in his book, *The Other Path*.

It has taken extraordinary vision and it has taken courage. And fittingly for a movement dedicated to the most romantic of visions—the vision of the rights and freedoms of the citizen—here in the United States its most evident results are seen in daily life. This is evident in the medium of business: Latin America is the fastest-grow-



Colombian Minister of Trade Marta Lucía Ramírez and Deputy U.S. Trade Representative Richard Fisher

“...it would have been much easier to negotiate a free trade area in 1889, when tariffs on goods were the only issue, than it is in 1998, when an agreement must cover financial services, copyrights and patents, agricultural inspections, electronic commerce, and the like.”

ing export market for the United States and vice versa. It is felt through a cultural exchange which deepens by the year: Americans buy the novels of García Márquez, the poems of Neruda and the essays of Octavio Paz on bookstore shelves; they take dance lessons in salsa and samba and eat at the Latin American restaurants that have proliferated in all of our major cities. Even in pursuit of the American “national pastime,” Americans sit mesmerized by *dominicanos*, watching Sammy Sosa break the major league home run record while Pedro Martínez strives for his second consecutive Cy Young Award.

Considering this all together, one can look to the future and see the possibility of a new, enduring and equal partnership of interlaced culture and commerce. As the president of the United States said in his opening statement to the recent Summit of the Americas in Santiago, we can create a “new partnership for a new century. . . to grow in freedom and opportunity and cooperation. . . [so that] the Americas can be a model for all the world in the 21st century.”

The Labyrinth

It is important, however, not to underestimate the difficulty of converting this vision into reality. Again, geography and national interest rarely change. The countries of the Americas will always be neighbors; and it is plainly advantageous to have the best possible trade relationship among neighbors. Thus, it should be no surprise to find that some of our predecessors have had ideas similar to the FTAA.

The first American leader to propose a hemispheric trade conference was none other than Simon Bolívar. Benito Juárez proposed a free trade agreement between the United States and Mexico in the 1850s. In 1889, U. S. Secretary of State James Blaine actually convened a hemispheric conference in Washington, whose goal was hemispheric free trade. But their hopes were never realized.

One is reminded, reading about these proposals, of the motif of the labyrinth in the writings of Jorge Luis Borges—a palace whose gates are always closed, a library with an indecipherable catalog, or a prison with vast winding corridors, which ultimately reach no destination. A representative case is the searcher after truth in this passage from the story “Death and the Compass.” “He traveled through antechambers and galleries to emerge upon duplicate patios; he was infinitely reflected in opposing mirrors; he grew weary of opening or half-opening windows which revealed the same desolate garden outside, from various heights and angles.”

Despite the inspirational leadership of Bolívar, the integrity and determination of Juárez, and the diplomatic skills of Blaine, none of these visions of integration came to fruition. More recent efforts—Franklin Roosevelt’s Good Neighbor Policy, John Kennedy’s Alliance for Progress, even the Rio Treaty—left far less of an imprint than their authors had hoped. Most of these efforts led, somehow, first to disillusion and then to mutual recrimination: to the duplicate patio, the endless corridor, the desolate garden.

How could it then be possible to now find the exit of the labyrinth, when our predecessors with all their immense talents, could not? The answer must begin with the reason they failed. It was not for want of imagination, nor for any technical reason. In fact it would have been much easier to negotiate a free trade area in 1889, when tariffs on goods were the only issue, than it is in 1998, when an agreement must cover financial services, copyrights and patents, agricultural inspections, electronic commerce, and the like. Rather, the explanation lies in the world of ideas, psychology and mutual perceptions.

On one side was the perception many Latin Americans held of the United States. The prevalent view was exemplified by Porfirio Díaz’s lament regarding Mexico’s distance from God and proximity to the

United States. Many regarded the United States as an inevitable, paternalistic source of monopolization, intervention, interference and all the rest.

On the other side was the U.S. view of Latin America as *caudillos* and tinhorn dictators, or of communist guerrillas and opportunistic nationalist politicians denouncing the *norteamericanos* to mask inefficiency and corruption at home. Latin America was viewed as, essentially, a source of trouble, or worse, as a *chiste* from the standpoint of being taken seriously as competitors and partners in a common destiny.

Together, these destructive perceptions made success impossible. The FTAA can succeed today because, to a great extent, the malicious perceptions have faded. Mind you, they are not gone—witness the emotional opposition of both right and left to the North American Free Trade Agreement. And they are clearly reflected in the public debate over the FTAA generally, and over fast track negotiating authority in particular. But day by day, the understanding grows stronger, as U. S. entrepreneurs invest and sell into or import from Latin America, as U. S. students meet their Latin counterparts, as popular culture grows closer and commerce more interlinked.

Still, obstacles remain. Financial volatility is one of noteworthy dimension: traditional fears about trade liberalization may well be strengthened in the face of the world's current financial crisis. This could tempt policymakers to retreat—but that would be the worst mistake imaginable.

Beginning in Asia and in Russia—then striking the United States, Mexico, Canada and South America in a financial equivalent of spontaneous combustion—turbulent financial markets provoked investor anxiety. (In one day in 1998, for example, Brazil's stock market sold off by almost 16%, Mexico almost 10%, Argentina over 13%, Chile 4%, and the Dow almost 3%). It is entirely possible that some will attribute the crisis to the more open trading world of today, just

as NAFTA came under intense pressure during Mexico's financial crisis in 1995.

But the fact is, the roots of the Asian crisis do not lie in open markets. They arise from the opposite: insider deals, weak rule of law, debilitated financial institutions and lack of transparency. Latin Americans understand this truth, since these were some of the problems at the heart of the Latin American debt crisis of the early 1980s. Today as then, the solution to the crisis will come from greater competition, more openness and transparency, and a more effective rule of law. The adoption of these ideas and values in Latin America during the past decade—in sharp contrast to Asia—has helped the hemisphere weather the crisis better than many other parts of the world.

A true story about an event that took place in London in the late 1920s provides a handy parable for the predicament of continued trade liberalization in 1998. It relates what happened at a dinner given by the then-queen of London society, Mrs. Ronnie Greville, for the then-popular foreign minister, Austin Chamberlain. He had risen to power dramatically and was intensely sought after as a dinner guest. It represented a great social coup for Mrs. Greville to have Chamberlain seated at her table with about a dozen members of the London establishment. The hostess was at one end of the table; Chamberlain at the other. When the party was seated, it became immediately apparent to the hostess that the butler, who had commenced serving the meal, had partaken of a substantial amount of liquor. Very discreetly, Mrs. Greville turned over her place card, penned a note, and beckoned her man. The note said, "You are drunk and disgusting. Leave the room at once." Unflinching, the butler placed the note on his tray, tottered around the table and handed it to Austin Chamberlain, the guest of honor.

Free trade is the Austin Chamberlain of this parable—it is not the cause of the current financial volatility; it must not become

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its victim. To retreat from the historic reforms made this past decade in our hemisphere would be to make future crises more likely. *Al contrario*, deepening them through the FTAA process and elsewhere will serve to reduce risk of recidivism into the labyrinth.

The Deep Consensus

The FTAA negotiations face obstacles that are not trivial. It will take leadership to overcome them. But it seems that the points of confidence and consensus that have been built up over the past few years are stronger and will prevail. Throughout the hemisphere, for the first time, we have a deep consensus on the most important fundamental principles of the FTAA.

Thirty-four countries in the hemisphere now believe that democracy, backed by freedom of the press, fair and regular elections, and the rule of law, is the most moral form of government; and also the form of government most likely to remove violence from politics and promote economic development. The same thirty-four nations believe the free market, under the rule of law with universal education and an effective safety net for the less fortunate, is the most effective means of developing economies and reducing poverty. They also believe in the essential role of civil society—citizen associations, business organizations, labor organizations, academics, environmental groups, local governments, and non-governmental organizations—in forming the policies of modern democracies.

This is the basis of the Andean Community, of Mercosur in South America and NAFTA in North America. These arrangements stand for democracy and the rule of law, as well as mutual economic benefit. Mercosur has established the Economic and Social Consultative Forum to ensure public participation in its decisions; and it has acted on principle when democracy is threatened, with the Presidents of Argentina, Brazil and Uruguay strongly supporting Paraguay's commitment to democracy when

it came under fire. It is the basis of the advance of Chile to democracy and prosperity, and of its six free trade agreements with its neighbors. These reforms have allowed Chile to grow by over 6% a year, reduce the number of people living in poverty by more than a million since 1993, and more than double per capita GDP.

It is the basis of the recent North American trade agreements. As NAFTA approaches its fifth anniversary, U.S. exports to Mexico have more than doubled, rising from \$41 billion in 1993 to likely \$85 billion this year. This has created opportunities leading to tens of thousands of jobs here in the United States, and has already made Mexico a larger export market for U.S. goods than Japan (which is expected to buy \$58 billion from the United States in 1998). In 1998 Mexico overtook Japan—a country 12 times its size—as the second largest two-way trading partner for the United States, and Canada continues to be the largest trading partner of the United States. Combined U.S. two-way trade with NAFTA partners has grown from \$293 billion in 1993 to \$477 billion in 1997, and is projected to reach \$518 billion in 1998.

This dramatic growth in trade is especially important during a period of financial crisis. U.S. goods exports to Asia have declined by \$14 billion over the first six months of this year; but exports to Mexico and Canada are up \$11 billion. That protects jobs and farm incomes all over the United States, and does the same in Mexico and Canada. It is a case study of the role trade agreements can play in times of economic duress and financial instability. Mercosur, the Chilean agreements, and the Andean Community should fulfill the same roles today in South America.

The Vision

This is why the current effort should succeed where earlier ones could not; and countries have already come part of the way to the goal. Four months ago in Santiago, the leaders laid out their vision:

- ▶ A hemispheric free trade area;
- ▶ A commitment to work with one another on education, environmental protection, scientific and technological advance and worker rights;
- ▶ Respect for and action upon the concerns of civil society; and
- ▶ A permanent association of democracies.

FTAA negotiations opened in 1998 under the chairmanship of Canada. The nine negotiating groups address all the areas of trade that the heads of state and government identified in Miami as constituting a comprehensive free trade agreement. They cover everything from market access—for both industrial and agricultural goods to services, intellectual property, and product standards—to competition policy, government procurement and investment.

The countries of the FTAA are on course to negotiate a state-of-the-art, comprehensive agreement that will create the world's largest free trade area, with concrete progress expected by late 1999 on the negotiations and measures to make it easier to do business across the hemisphere. The entire region shares responsibilities for these negotiations. Andean nations were instrumental in deciding the structure and timetable of the negotiations, and each Andean country has a leadership position in one of the negotiating groups. Colombia chairs the market access group, with Bolivia as vice chair. Peru will chair competition policy, and Venezuela intellectual property with Ecuador as vice chair. Ecuador of course will also chair the entire process between 2001 and 2002. Other regions have also accepted responsibilities: Nicaragua will chair services, with Barbados as the vice chair. The United States will chair government procurement, while Argentina chairs agriculture. Each of these groups is to produce an annotated outline for their chapter of the FTAA by 1999.

The leaders made clear in their summit declaration that they expect the negotiations to make "concrete progress by the end of the century," and to "agree on specific

business facilitation to be adopted before the end of the century." These could include agreements on a code of conduct for customs integrity, customs procedures for express shipments, transparency and due process in government procurement, or mutual recognition agreements in the licensed professions. Special attention will be paid to ensuring that the FTAA promotes the use of beneficial new technologies that can help diversify economies and enhance competitiveness, in particular electronic commerce and Internet readiness.

The result of the negotiations will be a single set of trade rules throughout the hemisphere. Some countries may pursue integration with their neighbors in areas that go beyond the FTAA, but the FTAA disciplines will become the single set of rules in the areas covered by the final agreement. The FTAA will thus not simply add an extra set of rules and procedures for business to cope with—rather it will make business in our hemisphere simpler and more predictable.

The leaders also made clear that the negotiations must recognize the fundamental importance of public contribution to trade policy in the hemisphere and throughout the world. Thus, the trade ministers at San José established a committee of government officials from all FTAA countries to listen to civil society—business, labor, consumers, environmental advocates, academics and others—and present their advice to the trade ministers. This "civil society" committee is unprecedented in an international trade negotiation.

Concluding the FTAA will be no easy task. Even in the most narrowly technical terms, these negotiations will be demanding. And the fears in all countries, while waning, are not yet gone. But when one reflects upon the astonishing transformation of the last decade, it is possible that this modern effort may result in a permanent transformation to hemispheric prosperity. ■

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Key Points in U.S. Policy Towards Latin America and the Caribbean

Peter F. Romero
Acting Assistant Secretary of State for Inter-American Affairs

This short paper will address some of the key points of U.S. policy toward Latin America and the Caribbean at this time. As a long-time observer of the U.S.-Latin American relationship, I am struck that we have already entered a "new age" in this relationship—well before we actually enter the new century and the new millennium.

A New Era in Hemispheric Relations

First, the United States is now looking at Latin America in a broader context—that of the Western Hemisphere. For the first time ever, there is wide-ranging consensus in the whole hemisphere—Latin America, the Caribbean, the United States, and Canada—on basic political and economic values, on democracy and free markets. The Summit of the Americas reflects that. So does the launching of the negotiations for a Free Trade Area of the Americas (FTAA). Canada, more than ever, is not only active but a leader in hemispheric affairs—serving not only as the current chair of the FTAA negotiations, but also as chair for the next Summit. To reflect this new reality a new Bureau of Western Hemisphere Affairs was established in the U.S. State Department to cover all the countries of this half of the world.

Second, the Western Hemisphere is no longer dominated by ideological battles. For the past two hundred years, history could be described as a battle between different systems—monarchy vs. republicanism, capital-

ism vs. socialism, democracy vs. authoritarianism. Today, the challenges are far more complicated, with outcomes far less certain. They put the essential needs and expectations of the individual citizen at the center of government legitimacy. The issues confronting governments are no longer how to defeat the enemy but how to build institutions which are efficient and responsive to the needs of the citizenry.

All this, of course, has resulted in a new U.S. partnership with Latin America. More and more problems are shared across borders. Combating drug trafficking, maintaining a safe environment, fighting terrorism—these issues and others require the countries of the hemisphere to work as partners to develop solutions. The Summit process and the FTAA provide an opportunity to do this. As in any partnership, the participants share in both the benefits and the obligations. Integration is another word



Venezuelan Minister of Foreign Affairs Miguel Angel Burelli and Acting Assistant U.S. Secretary of State for Inter-American Affairs Peter Romero

that has been widely used in the past, but it is only now that there is real momentum toward economic integration in the hemisphere. The potential benefits of the Summit process and of the FTAA are enormous. The principal challenge for the next decade is to make sure that this potential is realized, and that the benefits of integration will flow to all the people of the Americas, not just a chosen few.

Strategies to Meet the Current Challenges

There is currently an unprecedented unity of purpose in this hemisphere, and an extraordinary degree of commitment to a common plan of action. Countries are indeed moving toward consolidating democracy and building broad-based prosperity. Nevertheless, there are formidable obstacles to achieving these goals. Obviously, the turmoil in Latin American financial markets has been a major concern—not only for how it will affect U.S. foreign policy, but also for how it will affect the people of this hemisphere. Could this obstacle present the end of the vision of a democratic and prosperous community of the Americas? This is unlikely. Although several Latin American economies have been harmed by the fraying of investor confidence in emerging markets and by recent drops in commodity prices such as oil, after a decade of market-based economic reforms, the economies of Latin America are fundamentally sound. Some countries are more advanced in their reforms than others, but overall the region remains committed to macro-economic stability, open trading systems and aggressive privatization. As Secretary Rubin said when he met with Latin America's finance ministers and central bankers in fall 1998, this region is the world's "most forward-looking" in carrying out reform. It is unfortunate that many investors look at emerging markets as if they were all alike. The savviest investors, of course, differentiate the strong reformers

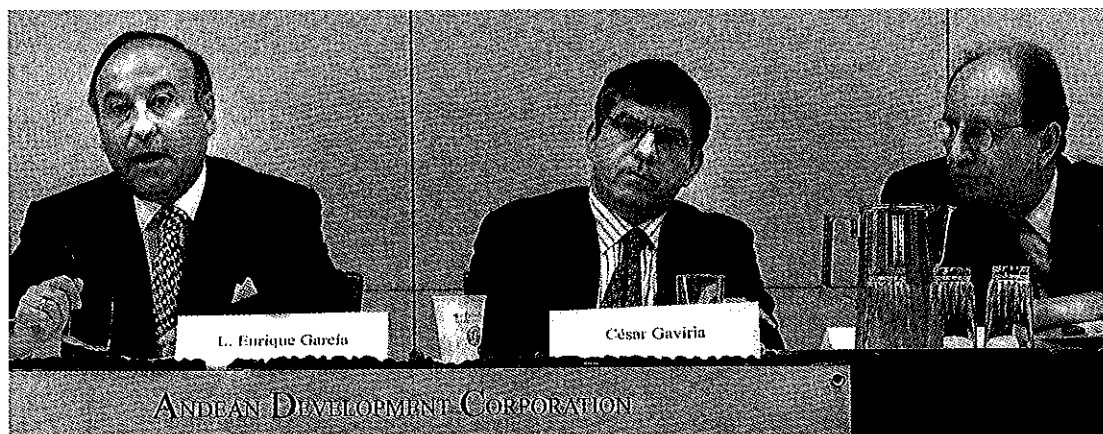
from the others, and evaluate each country on merits.

Another major concern is to explain more clearly and persuasively the enormous stake the United States has in its relations with hemispheric neighbors. Canada and Mexico are the first and second trading partners of the United States, with Mexico surpassing Japan last year. U.S. merchandise exports to the hemisphere in 1997 amounted to \$285 billion, substantially more than to Western Europe (\$155 billion), or the Pacific Rim (\$194 billion). The projections are that by the year 2010, this hemisphere will be a larger market than Western Europe and the Pacific Rim combined. Facts such as these should be disseminated past the small number of U.S. citizens who are aware of this, or who know that trade in the broadest sense (goods and services of both imports and exports) now accounts for close to one-third of U.S. GNP.

All hemispheric leaders confront the challenge of continual reform and never-ending renewal. Building democracy and free markets, and addressing the basic needs of people will always remain a work in progress. American prosperity and democracy are built on the assumption of equal opportunities. But with galloping globalization and the dizzying pace of technological progress, those individuals who are ill prepared will not get the benefits of the modern economy. The challenge is to make people not only literate, but also politically literate and computer literate. People need to be knowledgeable and involved voters, and also ready to continually update their skills in response to new technology and new consumer demands. Over the long run, universal, quality education is essential to achieve our vision of a democratic and prosperous community of the Americas. Today's financial crisis shows more forcefully than ever that appropriate macro-economic policies are indispensable. And also that they are not enough. Resilient societies are those whose institutions are efficient, transparent and responsive to present and future human needs.

With technology shrinking the globe at an ever-faster rate, issues that were not so long ago considered to be purely domestic—like the environment, drugs or financial crime—are now clearly transnational. And areas that were considered too sensitive even for international dialogue; like human rights, corruption, or judicial reform—have now become the subjects of multilateral cooperation.

The countries of the Americas face an extraordinarily ambitious agenda. Meeting these goals will require extraordinary effort and leadership. If the expectations that the ideas of democracy and free markets have aroused in the peoples of the Americas are to be fulfilled, there is no choice but to meet this challenge. The hemisphere has produced some of the greatest leadership of human history. It will certainly do so again. ■



CAF President L. Enrique García, OAS Secretary General César Gaviria, and Peter Hakim

A Note on Prospects And Obstacles for the FTAA

José Manuel Salazar-Xirinachs
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Progress to Date in the Creation of the FTAA: Three Notable Moments

It is often said that we live in an era of change; however, one could argue that the changes the world is experiencing are epochal. This epochal change is marked by deep technological and ideological changes, but also by an enormous effort of political will, vision and leadership. In this respect future historians might well associate this epochal change in the Western Hemisphere with three notable moments: (1) The Miami Summit of the Americas, December 1994; (2) the San José Ministerial in March 1998 followed by the Second Summit of the Americas in Chile in April 1998 and (3) the initiation of the Free Trade Area of the Americas (FTAA) trade negotiations in Miami in September 1998.

The Miami Summit gave us a vision, one with all the characteristics a vision should have to be useful: inspiration, comprehensiveness and innovation. This vision recognizes the interdependence and mutually reinforcing nature of strengthening democracy, promoting open markets and free trade, investing in people through social policy and taking care of natural resources via sustainable development. This is an extraordinary vision that has already demonstrated its power to mobilize governments' efforts for collaboration as well as popular support and the enthusiasm of many sectors in civil society. A major component of that vision is the Free Trade Area of the Americas initiative.

Three years after the Miami Summit, the San José Ministerial established a blueprint and plan of action for the FTAA process. The Santiago Summit emphasized the general vision, launched the FTAA negotiations and consolidated mandates in other key areas of hemispheric cooperation.

The third notable moment occurred in September 1998 in Miami when the first round of negotiations of the FTAA negotiating groups took place and more than 750 trade negotiators from 34 countries met to discuss the nine subject areas of a modern, comprehensive, state-of-the-art trade agreement.

Without a doubt, this first round and the succeeding rounds of FTAA negotiations constitute an extraordinary effort of political will, technical talent and strategic positioning of the participating countries. However, analysts and observers frequently express doubts and concerns as to the feasibility of this project, the most ambitious ever launched in the hemisphere. This short paper will address some of the main factors that will influence the progress of the FTAA and will consider some possible results of these negotiations.

Key Factors Influencing the Outcome

The multiple factors that will influence the course and final outcome of the FTAA process can be divided in three groups: trade policy-related factors, global trends of the world economy, and national conditions and perceptions of the participating countries.

““ The emergence of civil society as a player in the trade dialogue is creating a new paradigm regarding the political context for and conduct of trade negotiations...””

Trade Policy-Related Factors

Trade policy related factors incorporate the political will of countries to see the process through—for example, if and when the U.S. Congress will approve fast track legislation. Fast track has both a symbolic and a real impact on trade negotiations. Symbolically, passage of fast track demonstrates public support for trade liberalizing negotiations. This gives U.S. trade negotiators additional clout. The real impact, as is well known, is that trade agreements, once negotiated, can be considered by Congress as a package, which cannot be amended and which must be approved or disapproved under a tight legislative schedule. For both symbolic and real reasons passage of fast track legislation in the United States is necessary, albeit not sufficient, for the progress of the FTAA negotiations at a satisfactory pace.

A second factor that will influence the FTAA talks is the advancement of negotiations in the World Trade Organization (WTO). Negotiations on agriculture are set for 1999 and on services for the year 2000. In addition, an influential group of countries wishes to broaden the WTO agenda to hold what has been called a Millennium Round of negotiations. In fall 1999 trade ministers representing all WTO countries will gather in Seattle to take this decision. The WTO agenda could be either a boon or a bust vis-à-vis the FTAA. If the next WTO round develops at a slow tempo, then this could give an impetus to the FTAA. If the round is fully engaged, then progress in the WTO may subtract from the incentive for liberalization at the regional level.

Third, the FTAA process will be determined by developments in subregional and bilateral negotiations between countries or groups of countries in the hemisphere. Mercosur, the Andean Community, Central America, Chile, the Caribbean, Mexico and Canada, among others, have been and continue to be extremely active in deepening their subregional agreements or widening their bilateral commitments. One example

is the Andean Community's moves to improve its reciprocal commitments, increase intra-regional trade and investment, and develop a common trade policy vis-à-vis third parties. By creating a web of trade liberalizing agreements under codes consistent with the principles and rules of the WTO and of the FTAA, subregional deepening and widening is, in and of itself, one way of advancing hemispheric integration and of facilitating the convergence toward a hemispheric free trade area. This route could be risky, if bilateral and subregional treaties are negotiated with rules and standards that are not mutually consistent.

Another potential for attention diversion is the trade strategy of the European Union. The EU has been actively seeking negotiations with several countries and subregions of the hemisphere. For regions such as Mercosur, with a high proportion of their trade with the EU, these negotiations are high priority. As a practical matter, if those negotiations are real and intense then the pressure and capacity to fully engage on the hemispheric side will not be present. Engagement with the European Union could be stimulated by a protracted absence of fast track authority in the United States. While additional trade liberalization with other regions is certainly desirable, such negotiations could take some of FTAA's momentum.

In marked contrast to the past, a new actor has emerged in trade negotiations: civil society. The negotiation of the Multilateral Agreement on Investment (MAI) by OECD countries lost steam, partly due to civil society opposition. This is a clear demonstration that some groups within this abstract aggregate play an important role that governments can only ignore at the risk of creating powerful opposition movements to certain trade initiatives. The emergence of civil society as a player in the trade dialogue is creating a new paradigm regarding the political context for and conduct of trade negotiations, which is still largely undefined and manifests itself in many different ways in different countries. The chal-

lenge is not only for governments but also for the business communities, and indeed for all those individuals and organizations in all countries in the hemisphere that have a responsibility and are convinced of the benefits of free trade.

Global Trends of the World Economy

A second significant factor affecting the FTAA is the state of the global economy. Policymakers currently face the prospect that the world economy might be entering a period of slow growth and increased financial uncertainty and instability, of a greater duration and of more serious consequences than was initially expected.

The economic deterioration in Asia and Russia could affect the trade priorities of FTAA countries. In this respect, as has been often repeated by observers of economic trends and policies in Latin America, the region has developed a large experience in economic management and an excellent capacity to respond to external shocks. However, the economic fundamentals are most important. Latin America has implemented economic reform policies, including financial reforms, privatization, trade liberalization and attractive investment policies, that make the region economically stronger than ever before. However, as Paul Krugman has recently pointed out referring to Asia: "Never in the course of economic events has so large a part of the world economy experienced so devastating a fall from grace. Latin America, once the world champion when it came to economic instability, has lost the title. Compared with Asia's debacle, the tequila crisis of 1995 now looks like a minor wobble; and the once terrifying debt crisis of the 1980s, as a positively placid affair."

National Conditions and Perceptions of the Participating Countries

The third set of factors that will influence the FTAA talks are local or national condi-

tions, and perceptions about the capacity of countries to benefit from free trade, a concept that Gary Hufbauer and Jeff Schott have called "readiness." In this respect it is fundamental that the countries of the hemisphere continue deepening their economic reform policies, that these policies be sustainable and successful in improving country readiness and competitiveness. This requires, on the one hand, that the so-called second generation structural reforms continue promoting more efficient state institutions and regulatory frameworks, reducing distortions and transaction costs, and improving national competitive conditions, and on the other, that social investment be stepped up so that economic growth is not only sustained but also more equitable.

To conclude, the factors listed are some of the most important influences that will shape the course and the possible outcomes of the FTAA negotiations. The combination of these elements and circumstances that occur in practice, and the vision and leadership that governments show in confronting them, will define the limits of the possible among the unlimited possibilities offered by the Summits' economic vision of a prosperous hemisphere integrated by the free mobility of goods, services, information, and technology.

Collateral Uses of the FTAA

While the creation of a Free Trade Area of the Americas is in itself an important objective, there are a number of positive externalities associated with the process that may be just as significant.

Of primary importance, the FTAA talks help to give both a sense of direction, and a sense of urgency for economic policy reform. The shared objectives in each negotiating area provide a strategic orientation for all countries and have a positive feedback effect on national policy priorities. A second factor is that a hemispheric network is being built. More than 750 trade officials

“...it is fundamental that the countries of the hemisphere continue deepening their economic reform policies, that these policies be sustainable and successful in improving country readiness and competitiveness.”

from the 34 countries will be involved in a continuing process of dialogue throughout the year. For many countries this increased communication and trust among trade officials, plus the explicit technical assistance that is being established in support of the process, amount to a major program for trade and regulatory regimes reform under common principles and standards.

Also, the FTAA talks are reinforcing the political will and motivation of countries to deepen and widen their regional agreements. The four ministerial meetings held during the preparatory stage produced a harvest of collateral negotiations among countries and regions, which will likely continue in the new negotiating stage. The FTAA process is producing greater transparency and mutual self-awareness about barriers to trade and investment among the participating countries, including pressure to ensure timely implementation of WTO liberalization commitments.

The enthusiastic engagement of important segments of the business communities

of all countries through the Business Fora of the Americas and innumerable other activities generated by the FTAA, is improving business networking and helping to identify and exploit new investment and trade opportunities.

Finally, the FTAA process has been increasingly capturing the interest of many sectors of civil society and developing an ever-widening base of support for the FTAA and for the hemispheric vision and objectives. In fact the trade issue is one initiative, in what is becoming an increasingly solidified process of summitry. In this way, top-down leadership seems to be increasingly reinforced by bottom-up demands for results and continuity. Since real integration is, after all, a process of gradual movement toward proximity and trust among people, and of joint exploration of opportunities, this could leave us with optimism for the long term despite the perceived short-term obstacles on the horizon. ■



Sylvia Saborio of the IDB and Scott Otteman of the Dialogue

The FTAA: Its Dilemma Today and its Prospects in the Future

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Introduction

All the nations of the Western Hemisphere save Cuba met in Miami in late 1998 to kick off formal negotiations aimed at creating a region-wide free trade zone, as mandated by the hemisphere's presidents and prime ministers earlier that year in Santiago, Chile. The onset of the negotiating stage of the Free Trade Area of the Americas (FTAA) came at the conclusion of nearly four years of preparatory work conducted by the region's trade ministries to identify areas of convergence and divergence among their nations' commercial laws and practices in all the disciplines associated with a modern free trade agreement. The tremendous volume of comparative matrices and studies compiled since 1995 has allowed trade negotiators to better understand each other's trade policies and the political constraints to changing them. A casual observer might infer that the table has been set for the onset of serious, substantive negotiations.

But alas, such is not the case. For political and economic realities appear to suggest that the most likely outcome for the FTAA at present is the onset of prolonged delay and the possibility of being overtaken by events. This paper begins by identifying those inconvenient political and economic facts that currently complicate the task of negotiating an FTAA, examining each in turn and discussing the direction each might take in the not-too-distant future.

The paper next highlights some actual and potential accomplishments of the

FTAA process which have endowed, or hold the potential for endowing, the regional trade talks with a certain degree of momentum. It concludes with a brief description of how the formal FTAA negotiations are organized and a sketch of some of the immediately pressing issues facing negotiations in 1999.²

Inconvenient Facts for the FTAA

Despite all the groundwork that has been laid, it is a safe bet that FTAA negotiators will not make many substantive breakthroughs toward the creation of a comprehensive regional free trade agreement during the remaining months of this century. In part, that reality is generated by the 2005 deadline for concluding the talks established by hemispheric leaders at the outset of the process in 1994. The distance of the 2005 date in and of itself makes it difficult to create credible pressure to negotiate seriously at this time.

But also influencing the governments' willingness to exchange meaningful concessions are a series of global, regional and national economic and political factors which will play out over the next few years. The FTAA participants' enthusiasm for the waiting game allowed by the 2005 deadline is mainly inspired by four such factors: the lack of fast track negotiating authority in the United States; Latin American policy

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² As with all efforts to peer into the future, some speculation is required. But I have tried hard to ensure that my guesswork is informed by the up-close observation of the preparatory talks as well as by interviews with some key FTAA participants.

“ In the Western Hemisphere, fast track became a measure of the credibility of the stated U.S. intention of negotiating the region-wide free trade zone by 2005. ”

responses to avoid fallout from the Asian/Russian financial crises; the unclear scope of multilateral trade talks scheduled to begin in 2000 at the World Trade Organization (WTO); and the similarly unclear seriousness of bilateral trade talks planned between the European Union and several Latin American trading partners. As they stand today, all four of these inconvenient facts are restraining governments in the Americas from vigorously pursuing regional trade liberalization and negotiating trade concessions under the auspices of the FTAA. How they evolve over the next few years will strongly influence whether the FTAA becomes a historic reality or its failure a historical footnote. Let us briefly examine each one in turn.

Fast Track Blues

The continued inability of the Clinton Administration to obtain from the U.S. Congress fast track trade negotiating authority has plagued the FTAA process from the outset, sapping much of its original potential for early results. Fast track ensures that the U.S. Congress will hold an up-or-down vote with no amendments on the final agreement within a fixed time frame, thereby ensuring foreign governments that they will not have to renegotiate with the Congress the deal they reached with the executive branch. As a legal matter, therefore, a U.S. administration technically does not need to obtain fast track until trade talks are nearly concluded and the legislative fight to gain approval of the accord by the Congress is imminent.

With NAFTA's passage in 1993, however, free trade agreements became a political hot potato in the United States, and the struggle to obtain fast track took on a larger symbolic meaning that has had a more immediate impact on the pace of the FTAA talks. After the closeness of the NAFTA vote and the apparent breakdown of the bipartisan consensus in favor of trade liberalization in the U.S. Congress and in public opinion, the difficulty in obtaining

fast track became a proxy for the uncertainty that exists over whether the United States retains the political will to negotiate trade-liberalizing agreements with developing countries in the post-Cold-War globalized economy.

In the Western Hemisphere, fast track became a measure of the credibility of the stated U.S. intention of negotiating the region-wide free trade zone by 2005. With fast track, the Office of the U.S. Trade Representative could have aggressively taken the initiative and pushed for more rapid progress in areas of common interest. In private conversations, officials from a number of like-minded Latin American and Caribbean countries (Chile, Argentina, Colombia, Costa Rica, El Salvador, Jamaica) say the credibility fast track would have brought to the U.S. negotiating stance would have allowed them to follow the U.S. lead on key points, creating a momentum and level of consensus that would have been difficult for Brazil and other heel-draggers to oppose.

Instead, its continued absence gradually has forced the United States to yield the initiative to the nations and forces within nations who favor delayed and less-far-reaching substantive negotiations. A pattern of retrenchment in the objectives of the exercise has emerged, as the original U.S. conception of the scope and timing of the FTAA has been grudgingly amended over the past four years to accommodate the reality that U.S. negotiators operate without the ability to advance positions that their negotiating partners can credibly believe enjoy the bipartisan backing needed for ultimate approval.

When the Clinton Administration proposed the FTAA in 1994, for instance, it originally envisioned that it would be implemented by other countries lining up to join NAFTA via its accession clause. This was seen as desirable because NAFTA was considered the most comprehensive trade pact ever negotiated, and one which contained the strictest disciplines and highest standards, especially in those areas of

priority U.S. interest, such as intellectual property rights, investment, services and government procurement.

But repeated false starts from 1995 to 1997 in trying to facilitate Chilean accession to NAFTA made it clear that lack of fast track meant that even that South American economic Wunderkind would have difficulty getting past the political hurdles surrounding the fast track debate in the United States. After several embarrassing rebuffs, the Frei government lost patience and negotiated bilateral free trade agreements with Canada and Mercosur. Then, as they took the lead in organizing the April 1998 Second Summit of the Americas in Santiago, Chilean officials made it clear that they now viewed the FTAA process, not NAFTA accession, as the preferred route to improved Chilean access to the U.S. market.

At the same time, Brazil doggedly insisted throughout the preparatory talks that Mercosur should not be subsumed by the FTAA. The South American customs union would remain a separate entity with expanded links to its neighbors and with policy priority over the FTAA, Brazilian trade officials said. As fast track flagged, Argentina gradually abandoned its ambition to be the next country in line to join NAFTA after Chile, in favor of supporting Brazil's vision of a strengthened Mercosur. Bolivia also negotiated a free trade accord with Mercosur, and the other Andean nations and Mercosur are engaged in serious trade talks.

By the Second Summit of the Americas (and actually much earlier), all parties had agreed that the FTAA would not replace previous agreements or require accession to a single accord such as NAFTA. Instead, the March 1998 San José Declaration by the region's trade ministers said the FTAA would be a stand-alone agreement that can coexist with existing bilateral and sub-regional accords, such as NAFTA and Mercosur, "to the extent that the rights and obligations under these agreements are not

covered or go beyond the rights and obligations of the FTAA."

Similar backtracking (at least from the point of view of the U.S. private sector) took place with respect to the pace of the talks. Positions originally advocated by the United States and Canada in 1997 in favor of reaching interim agreements and implementing them on a temporary basis well ahead of the 2005 target date were dropped from the San José Declaration. With Clinton unable to obtain fast track from Congress despite a strenuous push in November 1997, most countries in San José reluctantly rallied behind Mercosur's argument that no parts of the FTAA that require negotiated concessions should be implemented until the entire package is concluded in 2005.

Few serious analysts expected much to come from congressional Republicans' efforts to hold a vote on fast track prior to the U.S. elections in the Fall of 1998. Potentially successful action on fast track has a somewhat better chance once the new Congress comes into session in early 1999. In any event, most analysts see the prospects for any congressional action on fast track rapidly dwindling as 1999 progresses and the 2000 presidential campaign draws near.

Asian/Russian Fallout: Renewed Focus on Macroeconomic Stability

Since late 1997, concern over potential fallout from the Asian financial crisis has further dampened countries' enthusiasm for accelerated trade liberalization. Since mid-August, the collapse of the Russian financial system and the global stock market drops have resulted in renewed pressures on Latin American currencies, turning what had been a potential contagion effect into a stark reality for the region. In the space of a few weeks, Colombia effectively devalued its currency, and Brazil, Venezuela and Mexico all fought pressures to devalue.

The renewed currency pressures have forced the governments of Latin America's

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biggest economies to focus on the preservation of hard-won macroeconomic stability over other economic policy goals such as trade liberalization. So as not to attract further speculative attacks on their currencies in the current dicey international context, these nations have made it a top priority to limit their current account deficits, including the portion contributed by the trade balance, to reasonable levels with respect to GDP. By potentially expanding the trade deficit, removal of tariffs, on its face, runs contrary to that overriding goal, and thus appears, for the moment, to have taken a back seat in Latin American policy discussions.

Moreover, the prospect of increased flows of cheap imports from Asia, as nations in that region seek to export themselves out of depression by taking advantage of their newly devalued currencies, has made it politically harder to argue in favor of removing tariffs in either the developed or developing countries of the Americas. As exporters begin to experience a drop-off in their sales abroad—to Asia itself and to other markets because of the newly cheapened competition from Asia—domestic producers in the region are stepping up the pressure in favor of maintaining or augmenting existing tariffs and non-tariff barriers to keep competing Asian goods from flooding their home markets.

Brazilian economic policy after this year's presidential elections will be particularly critical to watch, for its direction could be decisive to the long-term prospects for the FTAA. If current polling numbers hold up and President Cardoso handily wins reelection, tax reform is expected to be at the top of his second-term economic agenda. By streamlining the 56 different taxes and charges assessed on Brazilian producers and consumers, policymakers in Brasilia hope to increase government revenues while severely slicing red tape and other costs of doing business in the country. The immediate goal: balancing the federal budget for the first time in many years.

Achieving a balanced budget may take several years to accomplish, but doing so will relieve much of the pressure on Brazil's current account balance. This could prove to be a critical accomplishment for the FTAA, because most analysts believe any Brazilian interest whatsoever in regional trade liberalization will evaporate completely the first time it suffers a balance of payments crisis.³ If successfully implemented, such a reform will essentially change the underpinnings of Brazilian macroeconomic stability from an "exchange rate anchor," which has been in effect under the Real Plan, to a "fiscal anchor." This has been a long-standing goal of Finance Minister Pedro Malan, for such a shift will allow domestic Brazilian interest rates to be brought down from the very high, growth-depressing levels which have had to be maintained under the Real Plan in order to keep foreign investment in the country in light of the increased risk of devaluation brought on by the Asian crisis and the perception that Brazil's current accounts were becoming vulnerable to similar speculative pressures.

Success for Brazil in maintaining its hard-earned price and currency stability is also critical to the eventual pursuit of serious negotiations under the FTAA for at least two other reasons. Because of the size of its economy, a forced Brazilian devaluation and subsequent recession would plunge many of its neighbors into crisis as well, especially increasingly integrated Argentina. The FTAA would be put on the shelf in many South American capitals if they faced currency pressures and recession provoked by hard times in Brazil.⁴

³The forced January 1999 devaluation of the real did further undermine Brazil's interest in regional trade talks, though the success in limiting the crisis thanks to the Cardoso government's response and the IMF rescue package has allowed sufficient stabilization for one to conceive of deepened Brazilian interest in the FTAA in a year or two.

⁴By mid-1999, Brazil seemed to be handling its recovery well while the hardest-hit economies in South America appeared to be Argentina, Ecuador, Colombia, and Venezuela.

On the other hand, a successful tax reform that puts Brazil on a sounder financial footing may be the necessary precursor to a decision by Cardoso to seek to extend his pro-market economic legacy beyond his presidency. He could accomplish this by converting many of his market-opening policy changes of the past six years into international commitments that subsequent administrations would have to honor. Obviously, the FTAA might be an ideal venue for pursuing such an "internationalization" of liberal Brazilian trade and investment policies, but only in the context of a fiscally sound and stable domestic economy.

New WTO Talks: Friend or Foe to the FTAA?

The series of multilateral trade negotiations scheduled to begin in the year 2000 as part of the "built-in" agenda of the World Trade Organization casts further uncertainty on the ultimate prospects for the FTAA. All of the areas for which WTO talks are already scheduled—agriculture, services, intellectual property, and government procurement among them—overlap with portions of the FTAA negotiating agenda. Active consideration is now being given by the so-called Quad (United States, European Union, Japan and Canada), which played a critical role in establishing the Uruguay Round negotiating agenda, to proposing the addition of further areas to be negotiated alongside the "built-in" agenda. Ideas floated so far range from a comprehensive new round of all-inclusive talks, backed by the European Union and Japan, to the addition of only certain sectoral and topical issues such as market access, improved transparency (anti-bribery and corruption), and electronic commerce, as advocated by the United States.

Whatever their scope, is it fair to surmise that the promise of new multilateral talks on balance makes it harder, not easier, to sustain governmental and business interest in the FTAA? Opinion is divided on

this question. It is true that Latin American and Caribbean nations have very limited human and financial negotiating resources. Indeed, in some highly specialized areas, even the United States and Canada have no more than a few adequately trained governmental experts. Given this reality, most observers believe that a reinvigorated multilateral process during the early years of the next century could force governments to confront difficult choices in allocating their resources and negotiating support. In essence, they argue, governments are likely to dedicate attention and resources primarily to the process that promises the broadest potential benefits, at the expense of the other. In other words, if the WTO talks take off, the FTAA would suffer.

But trade analyst Jeffrey Schott of the Institute for International Economics argues that any potential shortages of negotiating resources can be overcome by efficiently organizing the talks. He notes that the members of the Caribbean Community (Caricom), the Central American Common Market (CACM) and, to some extent, the Andean Community could pool their negotiating talent so that individual members of each group would not have to attend every negotiating session. This was done successfully by the Nordic countries during past multilateral talks, he said. Caricom, the Central Americans and the Andeans—following Mercosur's lead—have each already taken steps in this direction by increasingly coordinating their positions and relying on a single spokesperson over the course of the FTAA preparatory talks.

Moreover, Schott also argues that the WTO secretariat, UNCTAD and the various multilateral development institutions will help the smaller nations of the region analyze the effects that various packages of negotiated WTO tariff cuts and non-tariff-barrier removals would have on their economies. They will get similar help in looking at the FTAA's effects from the institutions of the Tripartite Committee—the Inter-American Development Bank

“...is it fair to surmise that the promise of new multilateral talks on balance makes it harder, not easier, to sustain governmental and business interest in the FTAA?”

“...even if negotiating resources ultimately do not pose a major constraint, does it make sense for the hemisphere to pursue regional negotiations if multilateral talks are ongoing on many of the same issues?”

(IDB), the OAS Trade Unit and the Economic Commission for Latin America and the Caribbean (ECLAC). For most products and services, Schott says, the smaller FTAA nations are not large enough suppliers to influence the degree of liberalization that is ultimately agreed upon in the negotiations. In most instances, therefore, rather than actively building negotiating leverage it will be more important for each small nation to figure out its own development strategy for adapting to the increasingly open global economy and what type of transition period it will need to deal with a *fait accompli* that emerges from the talks.

But even if negotiating resources ultimately do not pose a major constraint, does it make sense for the hemisphere to pursue regional negotiations if multilateral talks are ongoing on many of the same issues? Some observers accept the premise that active WTO talks which continue to make progress in a particular area could well steal the thunder from the FTAA talks in that same area. In that case, the FTAA could serve primarily as a forum for consultation and coordination, where possible, of hemispheric positions for the multilateral talks. On the other hand, in order to be worthwhile and not merely redundant, a free trade area such as the FTAA should contain disciplines that go beyond those agreed in the WTO, i.e., that are WTO-plus. And there certainly are products and disciplines where hemispheric interests are more aligned with each other than with those of extra-regional actors, which might permit a deeper hemispheric integration under the FTAA. Investment rules and specific agricultural exports produced primarily in the hemisphere, such as sugar and orange juice, come to mind.

Indeed, at its broadest level the FTAA negotiation can be seen as a battle over which areas will be the ones in which the FTAA will establish stronger disciplines and deeper access than what is contained in the current WTO accords or their pre-2005 successors, and which areas will go no fur-

ther than multilateral ones. The United States will likely want to handle sensitive areas in which it would be on the defensive in the hemisphere at the multilateral level, be it restricting agricultural export subsidies or placing limitations on antidumping or countervailing duty measures. Similarly, Mercosur might see more potential for dealing with those issues in the FTAA, while preferring to address its sensitive areas such as services, government procurement and intellectual property at the WTO, where it can count on support from other developing countries. Yet if all sides insist on addressing the issues for which they have domestic sensitivities at the WTO, there is a danger that the issues left over for the FTAA would make for a pretty thin agreement in the end.

But the potential overlap with the WTO does not necessarily mean the rug will be entirely yanked out from under the FTAA. If the multilateral process becomes bogged down or its negotiating agenda is limited due to differences with trading partners outside the hemisphere, the FTAA could actually get a boost, moving forward similar to the way NAFTA did during the three-year U.S.-EU standoff over agriculture in the Uruguay Round. New WTO talks could ultimately be limited to its “built-in” agenda—agriculture, services, IPR and government procurement, etc.—plus ongoing WTO work on environmental and labor issues, though further multilateral negotiations on investment rules, industrial tariffs and electronic commerce are also under consideration. Just how long it will take to find out whether and where multilateral progress is possible remains unclear for now, at least in this author’s mind.

IIE’s Schott expresses an even more optimistic view when he argues that there are potentially trade-liberalizing “synergies” that could develop from having the two sets of talks proceed in parallel. For instance, the U.S. might be willing to go deeper on farm reform vis-à-vis trade with countries of the Americas under the FTAA if it knew that

European and East Asian countries were making similar, though perhaps not as deep, commitments at the multilateral level. And if most-favored nation tariffs in the Americas are reduced further toward zero via discussions at the WTO, it becomes easier for the FTAA, which as a WTO-consistent FTA under GATT Article XXIV must completely eliminate tariffs on substantially all trade, to keep product exceptions to a minimum and to negotiate more liberal rules of origin that minimize potential trade diversion. Similar compatibilities might be found, Schott predicts, if parallel talks occur on investment rules and competition policy.

At this moment, however, it is the uncertainty over the extent of the initial overlap with the WTO, in tandem with the absence of fast track and the other factors mentioned above, which is preventing governments from making bold concessions in the FTAA. As the medium-term WTO agenda is determined next year—most likely in time for the proposed November 1999 WTO ministerial hosted by the U.S.—that uncertainty will fade, and the relationship between the FTAA and WTO talks in specific negotiating areas will begin to define itself.

The EU and Latin America: Priority or Passing Fancy?

Stung by the preferential access and investment guarantees U.S. and Canadian firms achieved in Mexico under NAFTA, the European Union has been struggling for the past few years to achieve an internal consensus for pursuing its own talks with Latin American trading partners. These efforts have yielded agreements with Mexico and the Mercosur to enter into far-ranging bilateral free trade talks that are getting underway just as the FTAA talks are being launched. The EU talks with Mexico began in earnest in summer 1998, and those with Mercosur were scheduled to start in early 1999, if EU member states can agree on a negotiating mandate.

Just how serious a threat to the FTAA are these initiatives? Prior to last November's failed effort to obtain fast track, few analysts thought they posed much of a problem, despite regular rhetorical allusions to the threat they posed by U.S. Trade Representative Charlene Barshefsky and other administration officials as they sought to scare up congressional support during the fast track campaign. At that point, the EU Commission had yet to receive final approval from the EU member states for pursuing a comprehensive set of talks in Latin America. And most observers doubted the EU would be willing to liberalize its Common Agricultural Policy to the extent demanded by the Latins, especially the grain and meat producers in South America, in return for increased access in areas of interest to EU traders and investors.

Now the actual onset of the talks, combined with the renewed doubts about the U.S. government's ability to obtain fast track, is making more people pay attention. In July 1998, Mexican Trade Minister Herminio Blanco called the talks with the EU his nation's current top trade-negotiating priority. At the same time, he underscored that the far-off deadline of 2005 for concluding the FTAA talks meant substantive concessions might not be offered there for years.⁵ The EU Commission now has a negotiating mandate and specific terms of reference for the talks with Mexico, and is actively pursuing similar approval from the member states for the Mercosur talks. Internal EU studies have shown the Mexican and European economies to be more compatible than directly competitive with one another, especially in agriculture, where Mexico is a net importer of grains and other commodities.

Should a prolonged inability to obtain fast track further delay exchanges of substantive concessions in the FTAA, the major Latin American trading partners

⁵ "Blanco Says 2005 Deadline Delays Substantive FTAA Talks for Years," *AmericasTrade*, Aug. 6, 1998, p. 8.

“ The EU

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“Close ties among FTAA negotiators... promise to pay off even more once serious bargaining begins in the FTAA itself.”

could be tempted to forsake the hemispheric process in favor of concrete gains in access and investment offered by the EU. Such a scenario, of course, would require that the EU actually be willing to credibly offer and implement such concrete concessions, in the case of Mercosur particularly with respect to its sensitive agricultural sector. So far, Mexican and South American negotiators say they believe the EU is committed to a serious negotiation despite serious reservations expressed by France, Spain and other farm-exporting nations, and is not just dabbling in the region to throw a monkey wrench into U.S.-led trade initiatives like the FTAA. Again, time will tell.⁶

Sustaining the FTAA: Trust and Other Intangibles

Given the array of factors currently stacked against the initiation of substantive FTAA negotiations, what does the FTAA process have to show for itself? What ultimately may drive the process forward, no doubt, is the incentive of expanded economic benefits for virtually all the parties involved. After all, the FTAA would include the removal of trade barriers blocking access to markets involving major trading partners of all those engaged in the negotiations. But a fuller accounting of the FTAA's actual and potential accomplishments is also possible. Just how much credit one gives the FTAA depends on one's evaluation of the intangibles of the trade talks, how broadly one defines the FTAA process, and how much credit one is willing to give the process for the pattern of deepened sub-regional trade liberalization which has evolved since 1994.

⁶ By mid-1999, it looked as though Mexico and the EU could sign their trade pact by the end of the year. But it became clear at the EU-Latin American Summit in Rio in June 1999 that Mercosur-EU trade talks were on a much slower track. The two sides agreed they are to begin formal talks in November 1999, but they also agreed to put off discussing market-access issues until 2001. In addition, the EU refused to set a 2005 deadline for concluding the talks.

For instance, one of the intangibles that FTAA participants have highlighted is the tremendous amount of trust, communication and goodwill that has been built up between hemispheric trade officials at all levels during the preparatory talks. This phenomenon has been perhaps most striking among the region's deputy trade ministers, who run the negotiations as the Trade Negotiations Committee (TNC) and who constitute the first political level of engagement in the process. Indeed, from 1995 to 1998 the improvement in the ambiance surrounding major FTAA negotiating sessions is palpable. As trade officials have become more familiar with their counterparts' personalities, with the nuances separating their official and unofficial positions, and with the political constraints each faces at home, tension and mistrust has given way to a relaxed, collegial atmosphere. In many respects, the hard-line stances and rhetoric of the early days of the FTAA preparatory talks have been dropped to make way for a spirit of common endeavor whose aim is to progress as far as allowed by current political and economic constraints.

The close relationships forged from repeated get-togethers have paid off in other ways, too. As current TNC chair Kathryn McCallion, Canada's deputy trade minister, has noted repeatedly over the past few years, bilateral trade irritants that once took months to resolve can often now be dealt with expeditiously by simply picking up the phone and explaining the problem to a colleague in the other country. Because of the familiarity and mutual confidence built up through the FTAA process, that colleague, who has always possessed the means to address such situations, often now also has the inclination to do so.

Those close ties promise to pay off even more once serious bargaining begins in the FTAA itself. The sense of trust that develops over time—confidence that one's counterpart will do his/her very best to hold up his/her end of whatever understanding that is reached—is vital to any successful negoti-

ation, for many of the most important deals in a trade negotiation are the informal ones struck in the hallways and rooms adjacent to the formal negotiating forum. In those instances, the only guarantee one often receives is not written on paper, but depends solely on one's confidence in the word of the other individuals involved.

Perhaps a more tangible benefit is the role the FTAA process has begun to play in fostering implementation in the Western Hemisphere of the far-reaching Uruguay Round agreements signed in 1994. Training seminars explaining in detail the newly acquired legal and institutional obligations under the Trade-Related Aspects of Intellectual Property (TRIPs) agreement and other WTO pacts have helped many small economies gain a grasp on the challenges of proper implementation. Technical aid to help establish institutions and train personnel on these matters either has been made available through the Tripartite Committee institutions (IDB, OAS and ECLAC) or is expected to come on line in the future. Proper understanding and implementation of Uruguay Round commitments not only are valuable results in and of themselves, but are necessary precursors to the smaller economies subsequently making further, credibly implementable, commitments in the FTAA.

In addition, it has now become commonplace for each negotiating session held between the FTAA deputy trade ministers (2-3 per year) or trade ministers (once every year to year and a half) to feature a wide range of bilateral or sub-region to sub-region consultations. These sidebar meetings are used to air outstanding bilateral trade disputes, advance ongoing bilateral or sub-regional negotiations, exchange points of view on FTAA issues, and discuss common interests at the WTO.

One spin-off from all this discussion may be increased activity and solidarity by Latin American nations in Geneva. Another may be the recognition by Latin American nations over time of the inadequacy of

the old-style integration agreements they belonged to under the Latin American Integration Association (ALADI) and, in the Central American case, of the Central American Common Market (CACM). The trade accord completed between the Central Americans and the Dominican Republic this year includes disciplines in all the new areas that were lacking in the CACM pact itself—services, government procurement, intellectual property, etc. The same goes with all the pacts Mexico has signed after NAFTA with six other hemispheric trading partners, and with the eight others it is now negotiating with in the region.

Likewise, Mercosur's rush to negotiate free trade accords with Chile and Bolivia, and its continued efforts with the other Andean nations, it could be argued, is a direct response to the geopolitical challenge Brazil perceived inherent in the FTAA. Furthermore, Mercosur trade officials admit privately that the need to have joint negotiating positions in the FTAA negotiating groups in areas such as services, IPR and government procurement have accelerated intra-Mercosur efforts to forge unified Mercosur, WTO-consistent regimes in those areas.

Finally, some credit is due the FTAA for spurring increased deal making and policy debate among the private sectors of the hemisphere and between the private sectors and their respective governments. Accompanying each of the four FTAA ministerials that have been held thus far has been an Americas Business Forum aimed at bringing together business people from the region to get to know each others' stances on the issues of integration and to try to hammer out consensus recommendations for presentation to the FTAA trade ministers. These events have been less than total successes, with attendance sometimes lower than hoped for by organizers, yet there can be no doubt that through them interested business persons have established a dialogue with the governments and among themselves whose role can only become more

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“ The periodic FTAA ministerials are designed to provide concrete deadlines by which lower-level negotiators know they must make progress in order to fulfill the ministers' mandates. ”

critical once the time for bottom-line deal making arrives.

Time to Talk: The FTAA's Structure

At the April 1998 Second Summit of the Americas in Santiago, Chile, the leaders of the 34 participating countries signed off on the creation of a basic structure for conducting the formal FTAA negotiations. Further operational details were hammered out at a June meeting of the TNC in Buenos Aires. The talks will be based in Miami through the year 2001, will move to Panama City during 2002 and 2003, and will end up in Mexico City from 2004 through their scheduled conclusion in 2005. A small, temporary secretariat is now established in Miami to administer the negotiations, including the coordination of logistics for meetings, the control and circulation of negotiating texts and related documents, and the publication of material that the countries agree to make public.

For the moment, the negotiations are organized into three levels: the ministerial, deputy ministerial and working levels. At the working level, nine negotiating groups have been established. The groups handle the issues of market access; agriculture; investment; services; government procurement; intellectual property rights; subsidies, antidumping & countervailing duties; competition policy; and dispute settlement. Issues pertaining to tariff elimination, non-tariff barriers, safeguards, rules of origin, customs procedures, and product standards will be negotiated within the market-access group. All nine groups, each of which is chaired by a particular country, were instructed to hold their initial bargaining sessions no later than September 30, 1998. Each negotiating group is working under guidelines, or terms of reference, agreed for it by the TNC in June.

The negotiating groups report to the TNC, which is comprised by the deputy trade ministers, and which constitutes the

main body for managing the talks, resolving disputes that arise at the lower level, identifying crosscutting issues, and giving political direction to the process. The TNC has already met twice since the Santiago summit, and will meet at least two more times to take stock of progress by the negotiating groups prior to the next FTAA ministerial, which is scheduled for November 1999 in Canada.

Also reporting to the TNC are two special committees and a "consultative group" on smaller economies. The Committee of Government Representatives on the Participation of Civil Society handles one of the most politically charged portfolios of the entire exercise—receiving input from labor and environmental groups and other non-governmental actors for possible incorporation into the FTAA talks. The Joint Government-Private Sector Committee of Experts on Electronic Commerce is to forge recommendations on "how to increase and broaden the benefits of electronic commerce" and how e-commerce specifically should be dealt with in the FTAA talks. The Consultative Group on Smaller Economies will look out for the interests of the small economies in all the negotiating groups, while also commissioning studies on issues of particular concern to the small nations, examining the possibility of technical assistance and workshops, and making recommendations to the TNC. Those three groups have been instructed to hold their initial sessions no later than the end of October.

The Tripartite Committee institutions of the IDB, OAS and ECLAC have been tasked with providing the negotiating groups with technical advice and assistance similar to that which they provided to the FTAA working groups during the preliminary talks. The periodic FTAA ministerials are designed to provide concrete deadlines by which lower-level negotiators know they must make progress in order to fulfill the ministers' mandates. The trade ministers negotiate politically sensitive issues that could not be resolved at lower levels and usually issue a declaration and work plan

laying out what has been agreed thus far and the next steps to be taken.

Issues on the Immediate Agenda

When the deputy trade ministers met as the TNC in Suriname in mid-December 1998, they heard progress reports from the first round of negotiating-group and special-committee sessions and may seek to provide additional political direction aimed at resolving particular disputes which have arisen in those groups.

Several outstanding issues remain to be tackled at the TNC level. Those issues are: what steps to take to meet the 1994 Summit of the Americas mandate that "concrete progress" toward completion of the FTAA be accomplished by the end of the century; how to integrate input from "civil society," i.e., labor and environmental groups, into the FTAA process; and continued refinements on the structure and organization of the just-begun talks.

Business Facilitation

To meet the "concrete progress" mandate, the TNC is seeking to compile a list of "business facilitation measures" aimed at making it easier for the private sectors of the hemisphere to conduct business with one another. The yet-to-be-identified steps would smooth bureaucratic obstacles to trading and investing while requiring neither legislative approval nor large budgetary expenditures. By implementing at least some of the measures during the course of next year, negotiators hope to keep the private sectors of the hemisphere interested in the process despite its likely tedious negotiating pace in the absence of fast track.

Of course, whether the adopted measures will keep private groups sufficiently enthusiastic about the FTAA's potential depends in large part on their content and scope.

The area most often mentioned as an ideal area for business facilitation is

increased harmonization of customs procedures.⁷ Other possible areas include increased transparency with respect to product standards, sanitary & phytosanitary measures, and temporary entry visas for businesspersons. In the context of this debate, there is also likely to be a push from countries like the United States and Canada to gain agreement on other, more substantive liberalizing steps that could be taken before the end of the century, or at the very least to get some commitments on record by 2000 to take certain steps in advance of the 2005 target date for concluding the talks. One U.S. proposal that has been repeatedly rejected, for example, is for Latin American nations to make tariff-elimination offers that would allow them to join the Information Technology Agreement (ITA) signed by a number of countries at the WTO in 1997.

Civil Society: Incorporating Labor & Environmental Views

From the outset, whether and how to link the issues of worker rights and environmental protection to the creation of the free trade area has been the hottest area of contention in the FTAA process. The Latin American and Caribbean nations have stood united against all initiatives that they believe might eventually lead toward linking the withdrawal of trade concessions to the enforcement of FTAA nations' labor and environmental laws. As most strongly articulated by Mexico and Peru, the com-

⁷ By mid-1999, the core of the business facilitation package under consideration consisted of nine proposed customs reforms. They were: Temporary Importation/Temporary Admission of Certain Goods Related to Business Travelers; Express Shipments; Simplified Procedures for Low Value Shipments; Compatible Electronic Data Interchange (EDI) Systems and Common Data Elements; Harmonized Commodity Description and Coding System; Customs Information Dissemination/Hemispheric Guide on Customs; Codes of Conduct Applicable to Customs Officials; Risk Analysis/Targeting Methodology; Control and Release Systems.

“ The area most often mentioned as an ideal area for business facilitation is increased harmonization of customs procedures. ”

mon view has been that the creation of any such link would constitute a form of protectionism aimed at undermining developing countries' most significant competitive advantages—cheap labor and less-burdensome regulatory regimes.

Nonetheless, the United States, with unenthusiastic support from Canada, has repeatedly sought avenues for introducing the discussion of labor and environmental issues into the agenda, sparking some of the strongest confrontations of the FTAA ministerial and deputy-ministerial meetings. U.S. labor and environmental groups have continued to press the Democratic Clinton Administration for progress in this area, which is also the major point of contention between the administration and congressional Republicans in the debate of fast track trade negotiating authority.

Beginning with the May 1997 Belo Horizonte FTAA ministerial, an area of potential compromise began to emerge on the more limited issue of how to incorporate input from societies' non-governmental groups into the process. In its role as host of that meeting, Brazil supported the U.S. idea that there be some mechanism for incorporating non-governmental views other than business views. At the following March 1998 ministe-

rial in San José, Costa Rica, it was agreed to create the Committee of Government Representatives on the Participation of Civil Society, but no details were spelled out as to how the panel would operate or how civic groups would interact with it.

In their Buenos Aires meeting in June 1998, the TNC engaged in a heated debate over the mandate and operational details of the committee, but ran out of time and left significant portions for discussion at both an interim meeting specifically on civil society scheduled for this October as well as at the next TNC meeting in December. What was agreed in Buenos Aires, according to a copy of the work program leaked to *AmericasTrade*, was that the panel "will receive inputs which have been presented in a constructive manner on trade matters in relation to the FTAA process," and that it "will analyze the inputs and prepare a report of the range of views for consideration by Ministers."⁸ That report is to be delivered to the trade ministers one month ahead of their October 1999 FTAA ministerial. Among the outstanding issues are who will chair the panel and how it will gather and evaluate inputs from non-governmental groups. ■

⁸ *AmericasTrade*, July 1, 1998 Special Report.



Former Ecuadorean President Osvaldo Hurtado and CAF Integration Advisor Carlos Zannier

The Andean Community: A Political Report

Oswaldo Hurtado
Corporación de Estudios para el Desarrollo (CORDES)

This paper will address some of the key political issues currently facing Bolivia, Colombia, Ecuador, Peru and Venezuela—the countries of the Andean Community. The first section looks at the Andean region as a whole. The second part examines specific issues in the individual countries.

An Overview of the Andean Region

The Andean countries are experiencing various types of political conflict, and some are simultaneously enduring disappointing economic and social results under democracy. Several factors suggest, however, that in most instances these conditions are not sufficiently grave to put at risk the constitutional order. One such indicator is that the main power groups, including the armed forces, have not yet contemplated an alternative political path to that of electoral democracy. Another is that forces that previously opposed democratic institutions are now endorsing them. In addition, the guerrilla groups do not seem capable of overthrowing democratically elected governments, and the international context remains adverse to dictatorships.

At the same time, pro-market economic policies continue to be advocated by all political parties currently capable of taking power. The convergence of major parties and organizations toward similar pro-market stances assures greater stability and continuity of economic policy-making during democratic transitions. Moreover, most Andean countries have undertaken important constitutional, legal and public-sector

reforms that have improved the environment for private enterprise.

These positive developments can be threatened, however, by the growing social inequities in the region. Although the Andean countries have made some progress in reducing poverty rates, income disparities between the rich and the poor have continued to increase. Political regimes that produce these kinds of social results tend to lose legitimacy—especially in the case of democracies whose aim is to build more equitable societies.

Also contributing to the erosion of legitimacy is the severe deterioration in public security in many parts of the Andean Community. The police and the military in Colombia and Peru seem unable to contain the drug trade, guerrilla activity or common crime. The governments no longer hold a monopoly on the use of force in certain parts of their territories. As a result, leaders of illegal organizations ignore the law and substitute their own authority and infrastructure in the areas they control. With governmental authority and laws discredited in this manner, there is a risk that the public could be tempted to back authoritarianism.

This problem is compounded by the inability of the democratically elected authorities to enforce the law, to defend the general interest, or to protect the common good. The institutions indispensable to managing the economy and social welfare—such as the ministries of finance, education and health—do not possess the organizational and technical skills required to function effectively. Auditing institutions, which

““ Bolivia...is the most outstanding case of institutionalization in Latin America and a good example of the viability of democracy, even under adverse economic and social conditions. ””

are increasingly important because of the expanded role of markets, usually cannot match the knowledge and competence of the organizations they must oversee.

The Countries of the Andean Community: Political Issues

Bolivia

The succession of four democratically elected governments for the first time in the history of Bolivia has ended the political anarchy that characterized this country since its independence. It is the most outstanding case of institutionalization in Latin America and a good example of the viability of democracy, even under adverse economic and social conditions.

The character of Bolivian politics has also changed. Personal conflicts that limited the effectiveness of governmental action have diminished. At the same time, political parties that were antagonistic in the past are now proposing similar social and economic policies. A more positive dialogue between political parties has enabled them to form durable alliances, to strengthen their capacity to manage the political system, and to succeed each other in power.

In and of itself, political stability offers the nation the possibility of overcoming its underdevelopment and starting down the path of progress. In the case of Bolivia, political stability has already produced benefits: it has enabled the country to modernize its institutions, to reform the public sector, to put its economy in order, and to implement long-term policies and programs that have led to economic growth and a reduction in poverty.

To an important extent, these positive results are linked to the constitutional requirement that the second round of voting in presidential elections must take place in the Congress rather than by direct ballot. Faced with the need to obtain legislators' votes, presidential candidates have been

forced to negotiate their way to a parliamentary majority. As this majority found expression in the government, it became easier for the president to obtain the legislative support required to approve his program.

Colombia

Colombia is the Andean country with the most solid political institutions (parties, Congress, Ministry of Finance, and Central Bank, among others). This has enabled it to achieve the most consistent economic growth in the region during the last forty years. Paradoxically, however, the Colombian authorities have been much less successful in preserving public order. Among the Andean nations, Colombia suffers from the highest levels of violence and crime.

The basis of Colombia's political institutions continues to be the *conservador-liberal* bipartisan division of power. As the Conservative and Liberal parties took root in the Colombian electorate, they were able to beat back their adversaries and ward off the erosion of support that often accompanies the exercise of power in a country plagued by dangerously escalating political, military, and social conflicts. And until recently, they had been able to do so in spite of the conflicts' drag on the economy and threat to democratic institutions.

The imprisonment and/or death of the leaders of the drug cartels in the early 1990s constituted an important democratic victory. It appeared that the government finally had dealt a mortal blow to an activity that had wreaked havoc on Colombia because of the violence, corruption and conflicts with the United States it had generated. Even though the activity suffered an important setback, it is still continuing under the direction of anonymous *jefes* who rely on the traditional networks of operatives and intermediaries. The reasons for its survival are well known: narcotics demand in the industrialized countries, particularly the United States, which generates the corresponding supply; and the powerful network

of economic, social and political interests created by drug trafficking.

The guerrilla activities carried out by the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) pose a problem of vast dimensions. The power of these guerrilla groups has increased in recent years. Several pieces of evidence point in this direction: the increase in the number of rebels under arms; the expansion of the territories under their control; the repeated defeats inflicted by the guerrillas on the Colombian Army; and the bolstered financing of the guerrilla movements made possible by their new links to the drug trade. The formation of paramilitary groups to counter the guerrillas has introduced an additional, difficult dimension into an already-complex conflict.

The new government began peace talks with the guerrillas in late 1998. At the same time, the ELN and representatives of civil society signed an agreement to "humanize the war." Unfortunately, as has happened on previous occasions, the accord was violated shortly thereafter.

Ecuador

As early as 1977, Ecuador became the first country in Latin America to initiate a process of democratic restoration. Then, during 1982-83, it brought its economy into balance. In spite of these positive steps, however, Ecuador's democratic institutions have not yet taken root. Instead, Ecuador has been marked by chronic political instability and a constitutional order that has been on the brink of breakdown. The instability worsened to crisis levels in the last two years. As a result, the country has fallen into the vicious circle of crisis-and-adjustment, and has been unable to implement the reforms required to modernize its economy.

Ecuador's Constitutional Assembly, initiated at the beginning of 1998, was able to correct the most serious governability problems of Ecuadorian democracy. The resulting constitutional reforms set in place institutions and norms that reduce the excessive

power of the Congress (which previously had been empowered to dismiss ministers) and facilitate executive-branch action. They also limit potential conflicts between the legislative and executive branches, expand the role of the private sector, and increase legal guarantees for investors. It is hoped that these reforms, and others, will improve the ability of government to deliver positive socioeconomic results under democracy. It is encouraging that the agenda of the newly elected government of President Jamil Mahuad highlights the problems of democracy and the economy.

Still, the problems that stem from the fragmentation and volatility of the party system remain unresolved. Political groups' partisan interests prevented the Constitutional Assembly from reforming the electoral system so that governments could form a parliamentary majority to back their legislative programs.

Peru

At the beginning of the 1990s, Peru's political and economic problems seemed insoluble. The country had been nearly reduced to chaos by faulty and unsteadily applied economic policies, a traumatic experience with populism, hyperinflation, the violence of Sendero Luminoso, the corruptive power of drug trafficking, and a dramatic decline in living standards.

Today, the situation is radically different. The guerrilla movement has been defeated and is now an isolated group that no longer threatens the security of the nation. Drug trafficking and the cultivation of coca leaves have declined. A stable economy has brought both economic growth and a reduction in poverty rates.

These positive results, however, cannot hide the serious deterioration of democratic institutions in Peru. As many independent legal experts have noted, the constitutional order was violated and replaced by an ad-hoc order designed by President Alberto Fujimori. The constitution has been interpreted in an arbitrary manner so as to per-

“...partisan

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mit successive presidential terms of office. Violations of human rights and curbs on press freedoms are on the rise.

The challenge for Peru is to institutionalize its democratic institutions, since only they can provide the certainty, stability and security critical to a country's long-term development. When the future of a society depends on the political fortunes of one person, nothing remains etched in stone.

Venezuela

Venezuela is suffering the consequences of the collapse of its two-party system dominated by the Social and Christian Democrats. Public disenchantment with an economic adjustment program, along with the internal conflicts and episodes of corruption within the social-democratic Acción Democrática and the christian-democratic COPEI, has discredited the political system of one of the most solid democracies on the continent. Amid the resulting turmoil, the political system was hastily blamed for all these failures and condemned in its entirety; no time was taken to assign individual

political responsibility for the mess nor to prudently reflect on the seriousness of the economic crisis and the need to take measures to overcome it. The contribution of the political party system to ending a long history of dictatorships and to building the democracy that brought freedom and progress to Venezuela was ignored.

Paradoxically, the collapse of the Venezuelan party system was saluted by many democrats, who failed to realize that depriving Venezuelan democracy of its main source of support would place the country's political stability at risk. Two parties that had received 80 percent of the votes for several decades could not exit the political scene without creating tremendous uncertainty and leaving a power vacuum.

Venezuelans' economic difficulties will not be overcome unless they are also able to resolve the crisis affecting their political institutions. Unfortunately, Venezuela's political problems are likely to worsen as a result of the fragmentation of its political parties and its election of an unpredictable populist as president.



CAF President Enrique García and UPI columnist Georgie Anne Geyer

Recent Developments and Prospects in the Andean Economies

Claudio Loser

Director, Western Hemisphere Department, International Monetary Fund

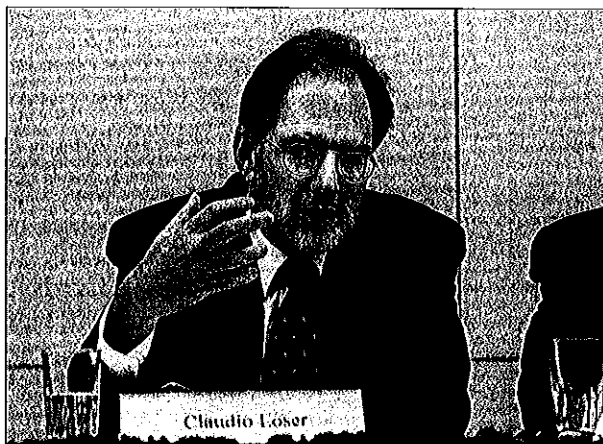
The Andean region has been much battered over the past year by a number of adverse external shocks that have sharply worsened its near-term prospects and have brought to light both old and new policy challenges for policymakers. In this paper, these shocks will be briefly described, and their impact on the Andean economies estimated. Next, the key economic policy tasks necessary to address them will be set forth. The message is relatively simple: these adverse shocks should not derail policymakers from further advances towards stabilization and structural reforms; rather, the relentless pursuit of these reforms should be their main instrument to reduce their country's vulnerability to external shocks and resume a path of high, sustainable growth.

Three Severe External Shocks

Over the past year the Andean region has suffered a number of negative shocks that have strongly affected its economic performance. First, there has been the impact of the weather phenomenon known as El Niño, that has brought sudden changes in ocean temperatures and in weather patterns. The Andean region has been severely impacted, with excessive rainfalls in some areas and drought in some others contributing to lower agricultural output and often severe damage to infrastructure. Fish catch also has declined because of warmer water temperatures. As a result, output growth in

the Andean Community is estimated to have been reduced by about one percentage point this year, with some countries such as Peru and Ecuador suffering particularly large output losses (total economic damage is estimated at a record of 13 percent of GDP in the case of Ecuador). Lower food and fish harvests also have contributed to temporary increases in inflation and imports because of supply shortages. Exports have fallen because of lower fish catch and disruptions of transportation systems, while emergency relief schemes and reconstruction schemes have strained the region's fiscal resources.

Second came the sharp decline in commodity prices observed since late 1997, at the onset of the crisis in East Asia. Commodity prices have fallen by an average of



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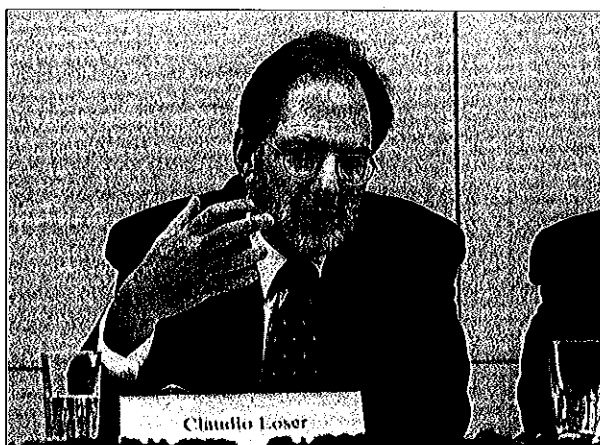
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30 percent since September 1997. Most noticeable has been the decline in the price of oil (a fall of 37 percent, to its lowest level in real terms since 1973); but other commodities that account for a sizeable share of the region's exports (such as coffee, copper, and most other metals) also have registered price declines in the range of 20-30 percent. Since commodities account for about two thirds of the region's exports, or about 12 percent of its GDP, this has meant a negative trade shock equivalent to over 4 percent of the region's GDP. Some countries, particularly oil producers, have been even more severely affected: for instance, the trade shock is estimated to represent over 7 percent of Venezuela's GDP and 4 percent of Ecuador's. And since commodities also account for a sizeable share of the region's fiscal revenues, the slump in commodity prices has led to a sharp decline in tax receipts. Here again, the blow is particularly hard for oil-exporting economies.

At the same time, the Andean economies have been hit by successive waves of financial turbulence that have led to significant falls in asset prices, increases in external borrowing costs, and in some cases intense currency pressures—with the only exception being Bolivia, that has remained largely sheltered from this financial turmoil. Venezuela's financial markets have been most battered, with stock prices falling by a cumulative 77 percent since October 1997, and spreads on Brady bonds surging from less than 300 basis points to over 2600 basis points. Over the same period, spreads on Ecuador's Brady bonds have quadrupled, and those on Peru's have tripled. Colombia's stock market also has been hard hit, with a cumulative decline of over 53 percent since October 1997, and the spreads on its bond issues have increased markedly. The access of private local companies to international capital markets was also affected: there are indications that international equity placements by local companies have virtually dried up,

while their access to international syndicated loans has been sharply reduced.

These trends in goods and financial markets have put heavy pressures on the region's currencies—again, with the only exception of Bolivia. All other governments in the Andean Community have faced exchange pressures that they have addressed through sharp increases in interest rates, intervention on foreign exchange markets, and small modifications to existing exchange regimes—including, in the case of Colombia, a small devaluation. Exchange pressures have shown a different intensity across countries, but they have sharply increased in the past weeks, since the Russian devaluation.

Grim Short-Term Economic Prospects

Negative economic shocks have hit the Andean region just as it was beginning to enjoy the fruits of the stabilization and reform efforts undertaken over the 1990s. In fact, in 1997 the Andean Community recorded one of its best economic performances in many years. Inflation slowed to 23 percent—the lowest in close to 15 years—and in two countries—Bolivia and Peru—it was well into single figures. Output growth increased in all countries and averaged nearly 4½ percent, compared to an average of about 2½ percent over 1992-96. The external current account registered a moderate deficit—1½ percent of GDP—largely financed by strong foreign direct investment flows, and as of end-1997 the international reserves of the region averaged well over six months of imports. At the same time, external indebtedness was reduced, with the ratio of external public debt to GDP declining to less than 30 percent, about half of the level registered at the end of the 1980s.

Mainly as a result of the adverse shocks mentioned earlier, the outlook for 1998 is quite less favorable. The external position in particular is expected to deteriorate markedly. With low commodity prices, the

region's trade balance is projected to shift from a surplus of 2½ percent of GDP to a deficit of close to 1 percent of GDP, while its external current account deficit should widen to close to 5 percent of GDP—mainly because of the impact of lower oil revenue on Ecuador's and Venezuela's external positions. At the same time, prospects for foreign financing have worsened significantly—some forecast that private capital flows will fall to only one half of their current levels. Given these conditions, and the fallout from El Niño, we project average output growth in the Andean Community to slow to about 1 percent in 1998 (GDP growth in the whole Latin American and Caribbean region is also expected to slow down to 2½ percent, from 5 percent in 1997). Among Andean countries, the only exception to this trend is Bolivia, where growth is expected to remain about 4-5 percent, because of strong investment in the mining and utilities sectors largely financed through foreign direct investment. Output growth is expected to pick up somewhat in 1999, to about 2.8 percent, with the external current account deficit declining only slightly to 4.2 percent of GDP because of continuing low oil prices (output growth for the whole Latin American and Caribbean region is also projected at about 3 percent for 1999, with the external current account deficit at 3½ percent of GDP). Inflation in the region is projected to remain broadly unchanged at about 23 percent in 1998, declining to about 18 percent in 1999.

The Policy Challenges Ahead

These are certainly grim prospects, which are likely to put further strains on the already weak political and social systems of the Andean countries. Even more, they are likely to contribute to an increase in the region's already high levels of poverty and destitution, and may worsen prospects for a peaceful resolution of domestic or border conflicts.

What can policymakers do in such an adverse environment? Their main objective should be to restore investor confidence—a key requisite to restore output and income growth—which in turn depends on three main lines of action. First: a clear, unmitigated commitment to macroeconomic stability. As I mentioned earlier, in late August and early September of 1998 most of the region's governments have quickly moved to protect macroeconomic stability, including through strong monetary tightening when needed, and they should be commended for it. And although there may be cases where exchange rate action is called for, lest we see major pressures and the eventual collapse of foreign exchange markets, it is important for Andean governments to resist pressures for competitive devaluations that would further worsen financial prospects. In a meeting of Latin American policymakers in fall 1998 at the IMF, the authorities of the Andean countries clearly reaffirmed their commitment to the maintenance of a sound macroeconomic stance.

Beyond this basic message, some specific policy issues must be addressed. In particular, it is important for policymakers to take a closer look at the mix between fiscal and monetary policies they are using. Some of the Andean economies still suffer from large fiscal deficits that only increase their vulnerabilities in times of external turbulence. In fact, the Andean countries that have better resisted the adverse external shocks—Bolivia and Peru—are the ones that had most improved their underlying fiscal and monetary policies in earlier years. The present circumstances should be seen as a golden opportunity for the countries that have lagged behind at fiscal consolidation to strengthen their fiscal position. To that end, they could consider both an extensive reform of both their tax system (with the objective in several cases of reducing their dependency on a single commodity), and of their spending programs (the preservation or even extension of poverty-alleviating programs would certainly be

“ In particular, it is important for policymakers to take a closer look at the mix between fiscal and monetary policies they are using. ”

recommended). In this respect, we have seen encouraging advances in the past weeks, with the new Colombian and Ecuadorian governments announcing their intention to implement significant fiscal packages soon.

A second key objective of the region's policymakers should be the maintenance of an orderly payments system, with open trade and capital markets and the timely servicing of external and domestic debt. It is crucial to resist those who call for easy protectionist or isolationist measures, because we know that they bring—as the painful experience of these same economies over the 1980s, and the more recent experience of Russia show—very heavy long-term costs in terms of foregone output and income growth.

And last but not least, it is important to press for further advances in the area of structural reforms. These are urgently needed to help the Andean economies further reduce their vulnerability to external shocks through the diversification of their export base, through higher productivity, and through increased welfare. There again, the countries that have lagged behind—in areas such as privatization, trade liberalization, banking reform or market deregulation—have been most hard hit. Progress in these fields may look difficult to achieve in view of the delicate political agendas of many countries of the region, or they may be overlooked in the present difficult financial context. But they are crucial for the future of the region, and no effort should be spared to that end. ■



Associate USTR Peter Allgeier, Deputy USTR Richard Fisher, former U.S. Executive Director of the IDB L. Ronald Scheman, and Jamaican Ambassador Richard Bernal

The Andean Community: Review of the Past Year and Looking Forward to the Next

Sebastian Alegrrett
Secretary General, Andean Community

The institutional framework of the Andean integration process changed significantly with the reforms that created the Andean Community, ratified in June 1997. Today, the Andean integration process has a wider scope. It encompasses economic topics other than trade, as well as social, cultural and political matters, thereby seeking an ever-closer union between Andean countries. This paper explains the new institutional structure of the Andean Community.

The New Structure of the Andean Community

The reforms implemented in 1997 created an Andean Integration System that allowed better coordination among the bodies, institutions and agreements that make up the Andean Community. The Andean Presidential Council and the Andean Council of Ministers of Foreign Affairs were formally instituted and given the responsibility for political guidance and policy-making. The Commission of Andean Ministers of Foreign Trade has responsibilities over matters pertaining to economic integration. Both the Andean Council of Ministers of Foreign Affairs and the Andean Commission are legislative bodies and their decisions automatically become law in the member countries. The General Secretariat was established as the executive body of the Andean Community. The Andean Community also has a sophisticated and effective dispute settlement system that includes

a Court of Justice, while the Andean Parliament is its deliberative body, whose members will soon be chosen through direct elections. Now, the Andean Community has the necessary political and institutional tools to undertake its new tasks.

The guidelines adopted this year by the Andean Presidential Council provide a new orientation to the Andean Community requiring the consolidation of the common market by the year 2005. Steady progress is being made toward this goal. In June 1998, the Andean Commission approved the establishment of a general framework of principles and rules for the liberalization of trade in services within the subregion. According to this decision, all services must be completely liberalized by the year 2005. The discussion of the decisions required to liberalize the telecommunications and financial sectors has begun.

Discussions are also advancing in the areas of investment, double-taxation, and coordination of economic and macroeconomic policies. The first meeting of the Advisory Council of Ministers of Finance, Central Banks and officials responsible for economic planning took place in March, marking the start of harmonization of economic and macroeconomic policies. The growth in intra-Andean trade has increased interest in such activities. When intra-Andean trade was low, none of the countries worried about sudden changes in their neighboring economies. Today it is evident that the relationship between some coun-

tries is so important that change in one country's basic economic indicators can result in a percentage change in the gross domestic product (GDP) of other Andean countries. Intra-Andean trade currently represents approximately 12% of the total trade of Andean countries. This share, which was only about 4% at the beginning of the decade, is even higher for certain countries. For instance, Colombia and Bolivia export to the Andean Community an equivalent of 20% of their total exports. The harmonization of economic policies will promote an even greater integration of our financial and capital markets.

In addition, the process of eliminating non-tariff barriers to intra-Andean trade has been pressing forward. Progress also has been achieved in facilitating cross-border transportation within the Andean subregion, and discussions have begun with respect to labor issues and the free movement of persons. At the same time, the Community is developing strategies to promote the consolidation of the common external tariff and its implementation by all member countries.

In terms of foreign economic relations, efforts have concentrated on opening new markets and on making the Andean region more attractive for trade and investment. The Andean Community has been negotiating intensively with Mercosur. Both economic blocs signed a framework agreement that sets fixed deadlines for two-stage negotiations. The first stage seeks to extend the tariff preferences granted bilaterally by each country to the other members of each bloc, a process that must conclude at the end of September 1998. The next stage would involve the negotiation of a free trade agreement, which should conclude at the end of 1999 and enter into force by January 1, 2000. Furthermore, all five Andean countries have now signed free trade agreements with Chile. Similarly, progress has

been made in the process of linking Panama to the Andean Community, in developing stronger ties with Canada, Central America, and the Caribbean, as well as in strengthening dialogue with the United States, through the establishment of an Andean Community-United States Council on Trade and Investment.

The Andean Community has a cooperative relationship with the European Community, which grants preferential treatment to Andean exports. In May 1998, the Euro-Andean Economic Forum in London created a Euro-Andean Business Council to support the coming meetings between both regions to promote trade.

With respect to broader foreign policy, the Andean Council of Ministers of Foreign Affairs has begun to discuss adopting a common foreign policy that goes beyond adoption of similar positions by each member country. The General Secretariat has developed a proposal in this regard and has organized several seminars on international relations, with the aim of developing a common agenda in these matters.

Participation of civil society in the integration process is yet another area that has attained a growing political importance. With this purpose in mind, the Advisory Business and Labor Councils were recently reactivated.

Another important milestone was reached in August 1997, when the Andean Presidential Council issued a joint declaration reaffirming its commitment to democracy and instructed the Andean Council of Ministers of Foreign Affairs to prepare a draft of an additional protocol to the Agreement of Cartagena that established measures to be adopted in the event of an unfortunate disruption of the democratic process in a member country. This is but one sign of the vast political dimensions of the Andean nations' ongoing process of economic integration. ■

The Andean Community in Motion: A Progress Report

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Introduction

"The Andean Community without Peru is like *ceviche* without *rocoto*,"¹ said the newly elected secretary general of the Andean Community, Sebastian Alegrrett, in mid-1997 as he was preparing to take office. He was referring to the latest crisis in the group. Peru's withdrawal from the Andean Community had been announced after negotiations with its Andean partners had led nowhere. At issue was Peru's full participation in the trade liberalization efforts undertaken by the Andean countries since the early 1990s. Alegrrett's comments proved very timely. Shortly thereafter negotiations resumed and an agreement was forged whereby Peru would gradually join the Andean free trade area. A number of additional measures also would be implemented to strengthen the Andean internal market.

This was just the latest of the Andean Community's crises. In 1992, following the closing of the Peruvian Congress by President Fujimori, Venezuela reacted by freezing diplomatic relations. As a result, the biannual meetings of Andean presidents were suspended, leaving the Andean Community—then the Andean Group—without their much-needed political support. Worse still, in 1995 an old border dispute between Ecuador and Peru in the Amazonia region resurfaced, leading to hostilities which so far have not completely ceased.

¹ *Rocoto* is a chili that gives Peruvian *ceviche* a unique flavor.

President Pérez of Venezuela was forced to resign in 1993, following impeachment procedures, and a political crisis in Ecuador forced President Bucaram out of office in 1997. These are only the most dramatic of the many crises that have confronted the Andean countries throughout the history of their regional arrangement. Still, as serious as these events have been, the Andean Community has endured.

Trouble has not led to paralysis. Significant progress has taken place in Andean economic integration in the 1990s. The Andean Community operates, albeit yet imperfectly, as a customs union. Trade among its members has been significantly liberalized, and has expanded considerably, as has trade with third countries. A common external tariff (CET) has been implemented for most tariff lines, and there is a scheduled timeline for further implementation and for the phasing in of current exemptions. Investment policies have also been liberalized, and investment flows have resumed. The Andean institutions have been streamlined, and a number of common sector policies have been adopted, such as, for example, in intellectual property rights. Although some additional measures may need to be taken to consolidate these achievements, the Andean Community can certainly present itself as a modern, updated integration arrangement.

These developments are reviewed in this report. The following section deals with the institutional changes that converted the Andean Group into the Andean Commu-

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nity. The analysis then turns to the Andean Community's internal market, in particular the efforts made by the Andean countries to liberalize their reciprocal trade and implement a common external tariff. The third section examines the evolution of trade within the Andean Community and vis-à-vis third countries. Next, some sectors where common approaches and policies have been defined by the Andean countries are discussed, followed by a section that focuses on the Andean Community's external relations, in particular the efforts now under way to negotiate a trade agreement with Mercosur. The final section of the report presents the main conclusions of the preceding analysis.

From the Andean Group to the Andean Community

The Andean Group metamorphosed into the Andean Community in June 1997 when the Cartagena Agreement, signed in 1969, was modified by the Trujillo Protocol.² The new protocol introduced some important changes in the institutional framework of the Andean Group. It created a Presidential Council and a Council of Foreign Ministers and gave them a critical role in the decision-making process. It also replaced the tripartite body that had been in charge of the technical secretariat—the Junta or Board—with a General Secretariat. Finally, the Trujillo Protocol strengthened the internal cohesion of the Andean integration process by placing all its institutions and mechanisms under a new umbrella, the Andean Integration System.

The Trujillo Protocol built upon the already strong institutional framework of the Andean Group. Modeled on the European Community, the Andean institutions have traditionally been highly developed. Many of these institutions have supranational powers,

² The Cartagena Agreement went through another major change in the late 1980s when its member countries adopted the Quito Protocol.

which sets the Andean Community apart from other Latin American trade and integration agreements. The supranational character of the Andean Community is most prominently manifested in its policy-making institutions. These are the Commission and, as mentioned, the Andean Presidential Council and the Council of Foreign Ministers. Other institutions have the responsibility of ensuring that the common integration goals of the Andean countries are carried out in accordance with their agreed decisions and commitments. These are the General Secretariat and the Andean Court of Justice. Some other institutions or bodies, such as the Andean Development Corporation and the Andean Parliament, are also part of the Andean Integration System, and play a supporting role in the whole integration process.

The creation of the Andean Presidential Council was long overdue. The presidents of the Andean countries have taken an active role in the Andean integration process since the late 1980s. In 1989, they began meeting every six months to keep the process under review and to provide the political guidance to move it forward. Although these meetings were interrupted in 1992—following the tensions that developed after President Fujimori closed the Peruvian Congress—they were instrumental in effecting a radical transformation of the Andean approach to economic integration. To a great extent the reactivation of the Andean Group in the early 1990s was a result of the decisions taken during these first presidential gatherings. The meetings resumed in 1995 and have continued to provide critical political support to the Andean Community. The Andean Presidential Council meets once a year and its decisions—in the form of policy guidelines—are to be implemented by the corresponding Andean institutions.

The Trujillo Protocol gave the Council of Foreign Ministers direct responsibility for conducting the Andean Community's external relations. The Council meets twice a year. It was mandated, inter alia, to coor-

dinate the participation of the Andean Community in international fora and negotiations, and to enter into international agreements with third countries or groups of countries. To a large extent, the role of this Council supplements that of the Commission, which was the single policy-making institution of the Andean Group. This role is now shared between these two bodies, which in some cases need to meet jointly to address specific issues. The Commission is made up of plenipotentiary representatives from each member country, normally their trade ministers. It has competence on trade and investment matters, and its decisions are directly enforceable in all member countries. In recent years, the Commission has exercised its legislative powers to set common rules in areas such as intellectual property rights and investment policies. The Commission meets at least three times a year, and when dealing with sectoral issues, i.e., agriculture or telecommunications issues, it is mandated to include government representatives from those sectors.

The Trujillo Protocol replaced the Board with a General Secretariat. The General Secretariat is the technical body of the Andean Community. It has authority to develop and formulate policy proposals to the Commission, and the responsibility to identify actions—or lack of action—by the Andean countries that may be inconsistent with their obligations under the agreement. The functions of the General Secretariat, as well as its role in the implementation of the Andean decisions, makes it unique among its peers in other Latin American integration agreements. The Commission is at present considering some proposals to reinforce the General Secretariat operations by making its annual budget independent of the direct contributions of each Andean country. One such proposal is to link the budget to the value of intra-regional trade, and to collect it through some form of customs arrangement. The General Secretariat is headed by a secretary general, replacing

the previous tripartite structure of the Board, and is located in Lima, Peru.

Another key institution of the Andean Community is the Andean Court of Justice. It is also unique in the Latin American experience. The treaty establishing the Andean Court of Justice entered into force in May of 1983. It gave the Court the responsibility to interpret all Andean decisions—in particular those taken by the Council, the Commission and the General Secretariat—and, eventually, to nullify them if it finds that they do not conform to the Andean legal framework. The Court also acts as a dispute settlement mechanism to deal with differences in the implementation of these decisions by member countries. Thus, contrary to other trade and integration agreements, where disputes are settled through inter-governmental consultation or by recourse to arbitration, the Andean Community chose a juridical approach. The Andean countries and their citizens, as well as the Andean institutions, have access to the Court. The members of the Court—five in total—should act independently of their countries of origin. The Court has gained prominence in recent years by exercising its authority in a number of critical cases where differences existed among various Andean countries. As the countries concerned have implemented the Court's decisions in a timely manner, this has reinforced its authority. Some changes were introduced in the functioning of the Andean Court of Justice by the Cochabamba Protocol, which is still awaiting legislative approval by some member countries.

Forming part of the Andean Integration System—as the whole network of Andean institutions is called since the Trujillo Protocol—there is a development fund, the Andean Development Corporation (CAF), which is the financial arm of the Andean Community. It was established in the early 1970s and its primary goal is to identify, promote and finance projects to strengthen the integration process. The CAF's operations have expanded considerably in recent years.

“...contrary to other trade and integration agreements, where disputes are settled through inter-governmental consultation or by recourse to arbitration, the Andean Community chose a juridical approach.”

“ Efforts are currently under way to ensure greater involvement by civil society in the Andean integration process. ”

There is also an Andean Parliament, whose members are in the process of being directly elected in some of the Andean countries, and a myriad of other institutions, which deal with intra-Andean cooperation in fields such as education and health.

Efforts are currently under way to ensure greater involvement by civil society in the Andean integration process. Some mechanisms for the participation of the labor and business communities in Andean affairs have existed since the inception of the Andean Group in the late 1960s, but they lacked effectiveness. These were the Business Consultative Council and the Labor Consultative Council. They are now in the process of being reactivated, and the Trujillo Protocol gives them a larger role in the Andean decision-making process. Both councils can participate in the meetings of the Commission, and may express their views on matters under its consideration. As the Andean Community expands and moves forward in its integration efforts, however, broader participation by other segments of civil society may be required.

The Trujillo Protocol was not the first, nor the last, to reform the Cartagena Agreement. Shortly after it entered into force, the Andean Community approved another substantive amendment to the agreement—the Sucre Protocol. This expanded the scope of the Andean Community by adding three new chapters dealing with the Andean Community's external relations, the liberalization of trade in services and a new category of membership—the “associated” member countries. As discussed later in this report, the Andean Community now places a high priority on the development of closer links with other countries or groups of countries, most notably Mercosur, and this is reflected in the new protocol. Although the Sucre Protocol has not yet entered into force, the Andean Community has recently agreed to a common framework to promote trade liberalization in services.

Consolidating the Internal Market

Although the original Cartagena Agreement envisaged the establishment of a customs union—that is, the liberalization of internal trade and the setting up of a common external tariff (CET)—by 1980, the Andean countries had to wait another decade and a half to achieve this objective. This was made possible by the market-oriented reforms that swept the region in the early 1990s, particularly the unilateral trade liberalization measures that most countries implemented, which set the groundwork for a reactivation of Andean integration efforts. Over the past few years, a CET has been enforced, and duties and other barriers to internal trade have been eliminated. However, the Andean Community is an “incomplete” customs union, as both the CET and the free trade area are still subject to a number of exceptions—of countries, sectors and/or products. Many of these exceptions are in the process of being phased out, and this will enhance the ability of the Andean Community to operate as a fully functioning customs union.

The decisions regarding the customs union were adopted by the Andean countries at a presidential meeting in Cartagena, Colombia, in December 1991. These decisions provided for the establishment of the free trade area and the adoption of a common external tariff by January 1, 1992. This deadline was not met. Instead, the Andean countries implemented these decisions in sequential order. With respect to the free trade area, Colombia and Venezuela moved ahead independently, eliminating tariffs and other restrictions to their reciprocal trade in February 1992. Bolivia joined them in September 1992 and Ecuador did so in January 1993. Thus, a free trade area—with no goods exempted—went into effect in 1993 between Bolivia, Colombia, Ecuador and Venezuela. Peru did not, at this time, join the free trade area. Instead, it negotiated bilateral trade arrangements with each of its

Andean counterparts that helped to partially liberalize their reciprocal trade flows.³ These bilateral agreements were in force until mid-1997, when a compromise was reached whereby Peru would gradually join the Andean free trade area by completing its trade liberalization process vis-à-vis the other countries by the year 2000 for most tariff lines, and by 2005 for a few remaining sensitive products.⁴

Implementing the CET proved even more difficult. The Andean CET is determined by the level of processing, with a 5 percent tariff rate applied to raw materials and industrial inputs; 10 and 15 percent to intermediate inputs and capital goods; and 20 percent to final goods. There are exceptions to the CET, which will be eliminated by 1999. Higher rates apply to trade in automobiles, and variable duties apply to a number of agricultural products. At the time the decisions regarding the establishment of the CET were made, Bolivia was excused from implementing it and allowed to maintain its flat, national tariff schedule. Peru, which had already adopted a two-level tariff rate of 15 and 25 percent for most of its tariff schedule, was not prepared to immediately implement the four-level CET. Thus, it was again Colombia and Venezuela that first adopted the Andean CET (also in February 1992, as the two countries liberalized their reciprocal trade), and then Ecuador (in 1995).⁵ This situation will remain unchanged for the foreseeable future. At the time Peru agreed to join the Andean free trade area, an understanding

³ These bilateral trade agreements were part of an understanding reached in August 1992 which, in fact, "suspended" Peru from its obligations regarding the Andean customs union in the process of being established.

⁴ Decision 414 of the Andean Commission set out the terms for the participation of Peru in the Andean free trade area. According to this decision, approximately 85 percent of items would be liberalized by the year 2000. The phasing out of tariffs on the remaining items would be completed by the year 2005.

⁵ The CET formally went into effect on February 1, 1995.

was reached to allow Peru not to adopt the CET.⁶ Thus, the Andean customs union is made up of three countries, whereas in the Andean free trade area all the Andean Community countries participate—with Peru joining in gradually.

The levels of the CET reflect the policy changes that had previously taken place in the Andean countries' trade regimes. These countries began to unilaterally liberalize their trade in the late 1980s, bringing tariffs to new, lower levels. In 1985, tariffs ranged from Bolivia's relatively low average level of 20 percent to Peru's higher average rate of 63 percent. Bolivia began its trade liberalization process early in 1985, adopting a simplified, flat rate tariff and eliminating non-tariff barriers. Starting in the late 1980s, Colombia, Venezuela and Ecuador also reduced and simplified their tariffs. Peru followed later, adopting a two-tiered tariff. As a result, by 1990-1991, tariffs in all the Andean Community countries were lowered significantly. By 1997, Bolivia's average tariff was 9.7 percent. The average levels in Colombia, Ecuador and Venezuela were 11.53, 11.25 and 12.01 percent, respectively, and Peru's average tariff stood at 16.3 percent.

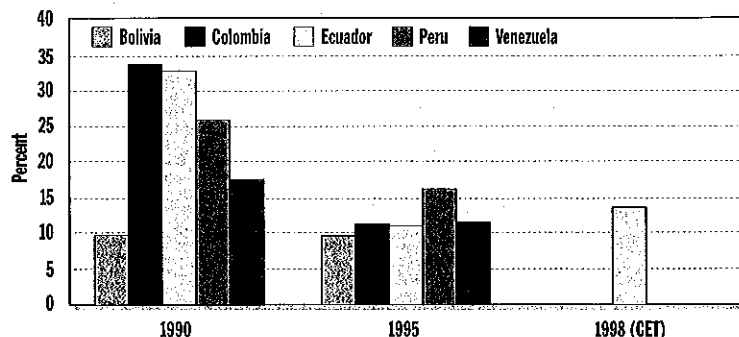
Another way of looking at the relationship between unilateral and regional trade liberalization, is by comparing the average level of the CET and the average level of the tariff schedules of each Andean country in 1990, before the decisions on the common external tariff were taken. This comparison is illustrated in Figure 1, which shows that the CET was set at a much lower level than that of most Andean countries—the exception being Bolivia, which does not participate in the CET. Actually, Figure 1 gives a measure of the extent to which the lower level of protection by the Andean Community vis-à-vis the rest of world has helped to reinforce the trade opening of the Andean countries.

Although the elimination of trade barriers and the setting up of a CET have been key elements in redesigning the landscape

⁶ See Andean Commission Decision 414.

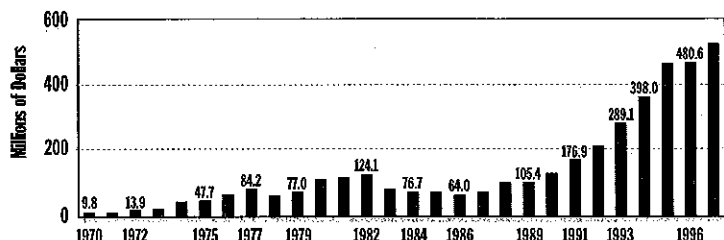
“ In 1985, tariffs ranged from Bolivia's relatively low average level of 20 percent to Peru's higher average rate of 63 percent. ”

Figure 1. Andean Community: National Tariffs and CET



Source: ALADI

Figure 2. Intra-Andean Exports, 1970-1997



Source: IMF Direction of Trade Statistics and author's estimates

of Andean integration, further efforts need to be made to strengthen the Andean Community's internal market. Tariffs have been eliminated, but have often been replaced by less transparent, non-tariff barriers. This is the case, in particular, in agricultural trade, where sanitary and phytosanitary measures are frequently applied to restrict trade. In the manufacturing sector there is a need for further harmonization of different standards and regulations. Also, the trade infrastructure—telecommunications, roads, airports, customs services—requires extensive adjustments to better respond to the greater trade and economic interchange generated by the new Andean Community.

Strengthening Trade and Investment

The liberalization of the Andean Community's internal market has had an important effect on trade among its member countries. After a decade of flat or declining

growth in the 1980s, intra-Andean trade picked up in 1989 and began to grow steadily after 1990, as can be seen in Figure 2. Intra-Andean exports grew at a rate of 21 percent between 1990 and 1997, when they reached their highest level in the history of this regional arrangement. At the end of 1997, intra-Andean exports amounted to US\$5.3 billion, more than quadrupling the levels of 1990.

The Andean Community has grown in importance as a market for all its members. This is reflected in Figure 3, which shows the Andean Community's intra-regional trade ratio, i.e., the percentage of total trade that is intra-regional. The Andean Community represents an increasing portion of each member country's trade. Colombia is the most reliant on the Andean market, trading 16 percent of its goods to other Andean countries in 1997. This is a much greater share than in 1990, when Colombia's trade with the Andean market was only 7 percent. Bolivia, Ecuador and Peru showed relative trade increases also, with the Andean Community rising from 6 or 7 percent of their trade in 1990 to 12 or 13 percent in 1997. For Venezuela, the Andean Community represents 8 to 9 percent of its trade.

The increase in the intra-regional trade ratios of the Andean countries could be taken as an indication of the effectiveness of the Andean Community, as this normally means that the agreement is having a positive impact on the reciprocal trade of the member countries. Another way of looking at it is by using the simple concentration index, proposed by Jeffrey Frankel⁷ to evaluate the extent to which regional agreements—or geography—play a role in trade behavior. The results of applying this index to the Andean Community are presented in Figure 4.

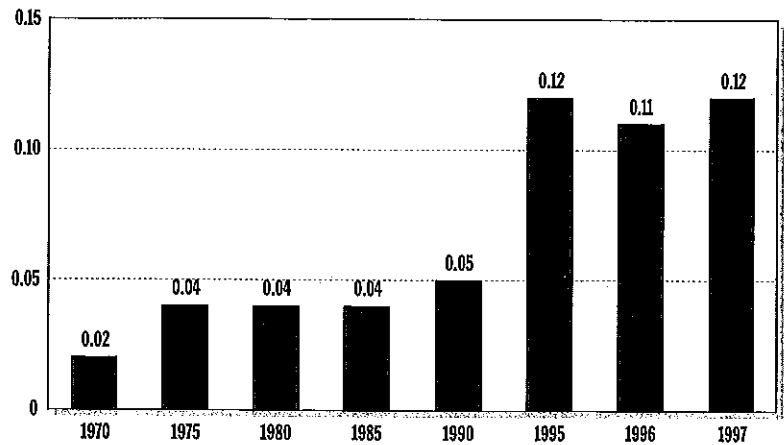
⁷ Frankel proposes a measure of regional trade concentration, the *simple concentration index*, which gives a better indication of the impact of the agreements—and of geography—on their member countries' trade. Frankel is basically concerned with the role of geography, or rather geographical proximity, in trade patterns and regional arrangements (Frankel, 1997).

The data shows that for the Andean Community the simple concentration index is well above one. This means that the Andean countries trade more among themselves than could be expected from a similar group of countries not linked by a trade agreement or geographical proximity. The fact that the index has risen significantly in the 1990s indicates that policies, i.e., the reactivation of the Andean Community's integration efforts, are significant above and beyond geographical proximity in explaining the trade expansion of the last few years. This is not to say that geographical proximity has not played any role. As the figure shows, the concentration index is positive in all the years considered, including those in which the agreement was economically irrelevant, thus supporting the views of Krugman (1991), Summers (1991) and, of course, Frankel, which see geography as a "natural" determinant of trade. The rise of the Andean index figure during the 1990s certainly could lead one to conclude that liberalizing integration initiatives increases the neighboring countries' ability to benefit from the natural advantages provided by geography.

In reviewing the evolution of the Andean Community's trade, account should be taken of the impact of the enlarged market on third countries. One method of measuring this is proposed by McMillan (1993). He proposes a straightforward criterion to determine whether regional agreements should be deemed acceptable from the standpoint of the non-members and the multilateral trading system—the admissibility test. If the pre-existing external trade volumes of the member countries are not lowered as a result of a regional arrangement, McMillan says, this would "make countries better off without making any of the non-member countries worse off" (p. 293).

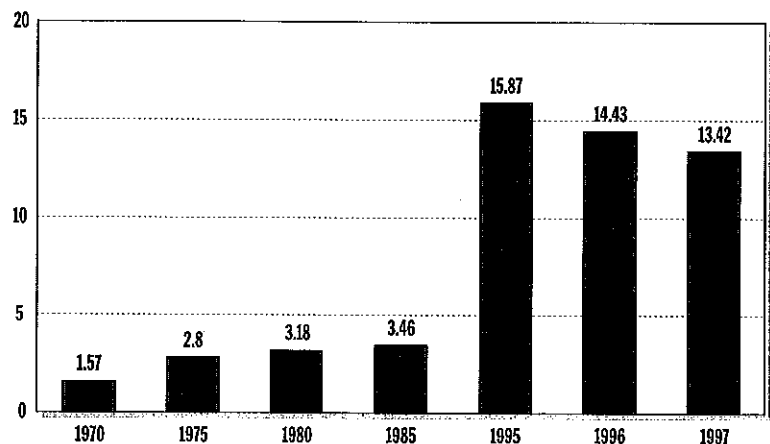
In applying the admissibility test to the Andean Community, the rate of growth of imports from the rest of the world was estimated for the period 1986-1990, and then extrapolated for the years 1990 to 1997. This is reflected in Figure 5, which shows

Figure 3. Andean Community: Intra-Regional Trade Ratio, 1970-1997



Source: IMF and World Bank

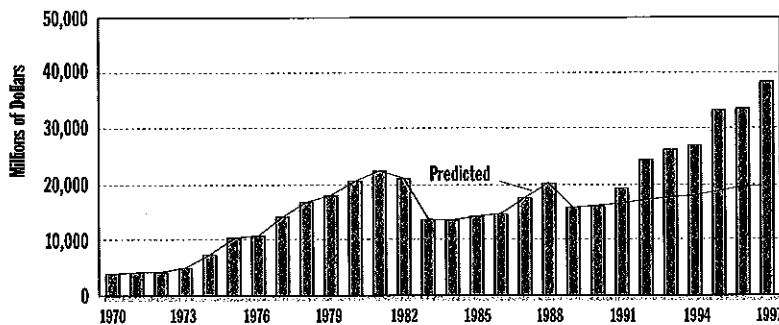
Figure 4. Andean Community: Simple Concentration Index



Source: IMF and World Bank

that rather than suffer as a consequence of the Andean Community, the outside world has continued to expand its access to the Andean market. Moreover, had imports from third countries kept their pre-agreement rate of growth, their actual sales to the Andean Community would have been much lower. This does not say that third countries' imports have grown because of the agreements, as they may have been influenced by the unilateral liberalization measures and the renewed economic growth that the Andean countries have experienced in recent years. However, the

Figure 5. Admissability Test



Source: IMF Direction of Trade Statistics and author's estimates

data show that far from shutting out other countries, the Andean countries have been consolidating their integration efforts in a context of greater participation in, and opening to, the world economy.

Finally, it is relevant to look at the changing patterns in the geographic distribution of trade between the Andean countries and the rest of the world. This is reflected in Figure 6, which shows the Andean Community's main trading partners in 1997. For the Andean Community as a whole, the United States continues to be the main trading partner. This is also true for each individual Andean country except Peru. However, where the changes seem to be most dramatic is in the reorientation of the Andean Community's trade towards its own market and those of other Latin American countries.

Nearly three-quarters of Andean Community trade takes place within the Western Hemisphere, thus supporting the validity of the Andean countries' negotiating agenda, which focuses on the Mercosur and the Free Trade Area of the Americas (FTAA) negotiations.

Sectoral Policies

The Andean Community has also addressed many of the newer trade issues, such as investment, competition policy, services and intellectual property rights. The Andean countries have adopted common

policies in most of these areas. Thus, a common investment regime is in place—mandated by Decision 291, which replaced the old, restrictive Decision 24. The new regime grants national treatment to foreign investors and eliminates all restrictions on capital and profit remittances. Decision 291 also eliminated the concept of reserved sectors, which had limited investment in many sectors to nationals from the Andean countries. These new non-discriminatory rules have yielded an upswing in investment flows, which reached US\$9.7 billion in 1997—five times more than in 1993—for the Andean Community as a whole.⁸

A common regime is also in place for intellectual property protection. Decision 344, which replaced the rather restrictive Decision 85, grants patent rights to pharmaceutical products that had previously been excluded from patentability, extends the duration of patents, and expands the protection granted by trademarks. Also, Decision 351 was adopted by the Andean Commission to deal with copyrights. It extends copyright protection to software and computer programs. These decisions are now in the process of being adjusted to make them fully consistent with the Uruguay Round agreements of the World Trade Organization (WTO).

Competition policy and rules on antidumping and countervailing duties are also part of the Andean Community framework. They are regulated by decisions 283, 284 and 285. These rules complement the national regimes of the Andean countries, and are intended to guarantee a level playing field in the operation of the regional market.

There are common policies in the area of transportation as well. In land transportation, the regulations allow for the free movement of passenger and commercial vehicles; in maritime transportation, the Andean countries eliminated restrictions to cargo at the subregional level; and there exists an

⁸ Andean Community, General Secretariat, Subregional System of Statistical Information

Figure 6.
Andean Community Exports:
Trading Partners, 1997

	Millions of Dollars	Percent of Total
United States	21,552	43
Canada	1,067	2
Latin America/Caribbean	12,200	24
Andean Community	5,360	11
Mercosur	1,936	4
Brazil	1,464	3
Chile	955	2
Mexico	548	1
European Union	7,329	15
Asia	3,041	6

Source: IMF Direction of Trade Statistics, Yearbook

"open skies" policy that has had a positive impact on flight frequency and efficiency.

In most of these sectors there is a pending agenda, as many of the common policies need to be updated and, in some cases, fundamentally restructured. This is the case of the rules on competition and on unfair trade practices, where the evolution of the Andean Community calls for their substantive reform and expansion (Jatar and Tineo, 1998). As mentioned, some adjustments need to be made to the common intellectual property regime so that it conforms to WTO rules. In addition, the Andean Community may have to start expanding the scope of its common policies by including issues such as government procurement.

The Andean Community's External Relations

The development of a common foreign policy figures prominently in the Andean Community's top policy priorities. The creation of a Council of Foreign Ministers by the Trujillo Protocol and the current negotiations with the Mercosur countries reflect the importance that the Andean Community attaches to this objective. However, much remains to be done before the Andean countries effectively act in concert

in the international arena. Some decisions adopted in the early 1990s led to the signing of bilateral or plurilateral trade agreements by individual countries, particularly Colombia and Venezuela, with other Latin American countries. This has been strongly resented by the other Andean countries, and has made the development of a coherent policy vis-à-vis third countries or groups of countries much more difficult. The uneven application of the common external tariff, as discussed previously, has also prevented the Andean countries from developing a common approach in market access negotiations, the most critical area of any trade agreement.

Still, progress is being made. The Andean Community has set an ambitious external agenda. It includes the establishment of closer links with the Latin American and Caribbean countries, as well as with the United States and Canada. It also involves the joint participation of the Andean countries in the WTO and, in particular, the FTAA negotiations. However, it is in the negotiation of a free trade agreement with Mercosur that the Andean Community seeks to achieve results in the short term.

After some setbacks, the negotiations between the Andean Community and Mercosur are now moving forward rapidly. In 1998, it was decided to implement a two-stage approach to conclude these negotiations. This agreement will include, but not be restricted to, the trade preferences negotiated bilaterally by the Mercosur and the Andean countries under the umbrella of the Latin American Integration Association (ALADI). These preferences are referred to usually as the *common heritage* or *patrimonio histórico* of Latin American economic integration. The second stage of the process will focus on the negotiation of a free trade agreement that will cover all sectors and products, including those included in the preferential agreement completed during the first stage. If deadlines are met, the free trade agreement between the Andean

“ Once fully implemented, a free trade agreement between the Andean Community and Mercosur would significantly widen the region's trade liberalization process. ”

Community and Mercosur would enter into force on January 1, 2000.

The negotiations between the two blocs have raised great expectations. Their conclusion could change the landscape of Latin American economic integration. Once fully implemented, a free trade agreement between the Andean Community and Mercosur would significantly widen the region's trade liberalization process. It would lead to the formation of an actual South American free trade area in all but name, as Chile already has trade agreements with Mercosur and most Andean countries. Still, the strength of a free trade agreement between the Andean Community and Mercosur cannot be taken for granted, as differences between the two blocs need yet to be resolved. These differences relate to the nature and scope of the agreement under negotiation.

The Mercosur countries have indicated their preference for limiting the agreement to trade in goods. Trade disciplines, in their view, should be kept to a minimum and limited to those needed to protect the trade concessions granted under the agreement, such as rules of origin and safeguards. The Andean Community initially took the opposite view, and demanded an agreement covering trade in goods and services, as well as investments and other trade-related issues. It is not clear yet which of these proposals will prevail, and what would be the consequences for the scope of the final agreement. Another cause of friction is the Andean countries' insistence for some sort of preferential or asymmetrical treatment from Mercosur. Although the ALADI framework—under which the negotiations are taking place—provides for this preferential treatment, this position is clearly inconsistent with the new orientation of the trade and integration arrangements entered into by the Latin American countries—including most Andean countries—in recent years.

Some analysts have questioned the wisdom of the Andean countries placing such a high priority on their negotiations with

Mercosur. They point out that the Mercosur countries are of secondary importance as trading partners for the Andean Community (Weintraub, 1998), and that existing trade patterns between the two groups show a high concentration of trade in natural resources and raw materials (Hufbauer and Kotschwar, 1998). However, trade agreements are not made to lock in past patterns of comparative advantage, nor should they restrict their effects to the trade field. If the experience of the Latin American countries with their recent trade agreements is any guide, greater economic integration between the Andean Community and Mercosur should lead to an important expansion of trade and investment flows.

There are some additional considerations in favor of an agreement between the Andean Community and Mercosur. First, it makes political sense to negotiate such an agreement. It would tie countries that share a common vision of their place in the international system, are striving to consolidate their democracies, and are making comparable efforts to alleviate poverty and strengthen their civil societies. Second, an agreement between the two blocs would re-establish the regional dimension of Latin American integration efforts, which has been blurred by the wide network of existing trade arrangements. The other consideration is of a more pragmatic nature. These negotiations have been, and still are, a learning experience for the Andean countries. This is the first time that they are acting as a group. To develop a common negotiating strategy they have had to soften their national positions. This has not always been easy. However, by acting in concert, the Andean countries have gained negotiating strength.

This negotiating strength will certainly be needed for the participation of the Andean Community in the other priority area on its external agenda: the FTAA negotiations. Ever since the Andean presidents resumed their regular meetings, in September of 1995, they have underlined

the need for their countries to coordinate and develop joint proposals to deal with the various issues included in hemispheric negotiations. Most recently, the Council of Foreign Ministers and the Commission have been tasked to ensure an effective coordination of the Andean countries in the FTAA negotiating groups as well as the FTAA ministerial and vice-ministerial meetings.⁹ As already noted, the United States is the single most important trading partner for all Andean Community countries but Peru, and the hemispheric market is the largest market for all of them. Thus, the FTAA negotiations are of strategic significance to the Andean countries, and they would stand to gain from trade and investment liberalization at the hemispheric level (Weintraub, 1998). Andean countries chair three of the FTAA negotiating groups—market access, competition policy and intellectual property rights.

The Andean Community has also started to explore the possibility of negotiating trade agreements with the Central American Common Market (CACM), Caricom, Panama and Canada, and a series of meetings at the political and technical levels have taken place with these countries and groups of countries. With the United States, consultations are under way to establish a U.S.-Andean Community Trade and Investment Council that would replace the existing bilateral councils negotiated by the Andean countries with the United States in the early 1990s.

To date, there has been no initiative by the Andean Community to develop a common approach vis-à-vis Chile and Mexico. Most Andean countries have concluded bilateral free trade agreements with these two countries. Only Peru has not yet signed an agreement with either of them, and Ecuador does not have one with Mexico. In some cases, as between Chile and Colombia, and Chile and Venezuela, the existing

agreements have already liberalized their reciprocal trade, as tariffs have been phased out. The Group of Three Agreement, between Colombia, Mexico and Venezuela, has also effected a high degree of trade liberalization. Given these developments, it seems only natural that the Andean Community seek to “multilateralize” these agreements, i.e., expand the bilateral or plurilateral agreements to include all the Andean countries, as this would enhance its internal cohesion. However, this may have to wait until after the negotiations with Mercosur are completed.

Conclusions

In summary, the Andean Community has in recent years made considerable progress in fostering greater economic integration among its members. It has moved forward in that direction, in spite of political tensions between some of its member countries. The main success of the Andean Community has been to effect a significant reduction of barriers to trade among its members. Although Peru maintains some exceptions to the Andean Community free trade area, they are of a temporary nature and do not cover a significant amount of current trade. The implementation of the common external tariff has been a more complex exercise, but considerable progress in this regard can also be registered. The fact that the CET has been set at levels comparable to those achieved by the countries through their unilateral trade liberalization measures has played a crucial role in keeping the Andean Community in line with the market-oriented strategies of its members.

The Andean Community is representative of a new approach to trade and economic integration throughout the Latin American region. Rooted in and expanding upon the market-oriented reforms of the 1980s—which included tariff reductions, elimination of most non-tariff measures and implementation of more stable exchange rate systems—the Andean Com-

“ Andean

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rights.”

⁹Acta de Sucre, adopted by the Andean Presidential Council, Sucre, Bolivia, April 24, 1997.

munity is achieving a great deal of success in the trade field. Trade flows among its member countries have reached unprecedented levels, are freer than ever before, and have grown faster than trade with the rest of the world. Equally important, Andean trade with the rest of the world has also risen, and imports from third countries have consistently increased since the agreement was reactivated in the early 1990s. As a result, non-members have continued to enjoy their access to the markets of the Andean Community, in fact increasing considerably their exports to the group.

Another encouraging fact is that the set of trade and trade-related issues dealt with by the Andean countries has considerably widened. As the frontiers of trade policy have moved beyond the traditional focus on border protection measures (i.e. tariffs and non-tariff measures) to embrace a variety of *new* issues such as investment, competition policy, services and intellectual property rights, so have the areas addressed by the Andean Community. This represents a major departure from more traditional Latin American trade agreements, which only incidentally touched upon those issues, and which concentrated primarily on the reduction or elimination of tariffs. It is

becoming increasingly clear that market access depends only partially on tariff commitments, as countries—and businesses—are able to restrict or distort trade through a variety of devices and practices, including internal regulations and policies that have mostly been outside the scope of trade negotiations. In adopting common policies on these issues, the Andean Community has benefited from the supranational character of its institutions, as well as the direct enforcement of its decisions in all the member countries.

Finally, in implementing a common external policy, the Andean Community is focusing on the negotiation of trade agreements with its most important trading partners. It has placed a high priority on negotiations with the Mercosur countries and on developing a common approach in the FTAA process. This is the right choice. This is where the Andean Community has the most to gain, as the hemispheric market represents a dynamic and critical component of Andean trade. The Andean Community must also work to multilateralize the agreements that individual members have made with other countries of the region, particularly those with Chile and Mexico, as this will increase its internal coherence. ■

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- 11:30-1:00 p.m. *The Multinational Perspective*
Moderator: José Manuel Salazar, Organization of American States
Commentary: Jorge Ramírez Ocampo, Business Forum of the Americas
Miguel Rodríguez Mendoza, Georgetown University
L. Ronald Scheman, Greenberg Traurig
- 1:30-3:00 p.m. *Working Lunch: A Wall Street Perspective on Latin America*
Moderator: W. Bowman Cutter, E.M. Warburg, Pincus & Co., Inc.
Commentary: Bernard Aronson, Acon Investments, LLC
Joyce Chang, Merrill Lynch
David Rothkopf, The Newmarket Company
- 3:00-4:30 p.m. *Infrastructure Development and Hemispheric Integration*
Moderator: Richard Frank, Darby Overseas Investments, Ltd.
Commentary: Roberto Dañino, Wilmer, Cutler & Pickering
Roberto Jaguaribe, Ministry of Foreign Affairs of Brazil
Juan José Echavarría, FEDESARROLLO
- 4:30-6:00 p.m. *Financial Markets and Hemispheric Integration*
Moderator: Sebastian Alegrrett, Andean Community
Commentary: Everett J. Santos, Emerging Markets Partnership
Augusto de la Torre, World Bank
David Rolley, Loomis Sayles
- 6:00-6:30 p.m. Closing Remarks: Enrique García and Peter Hakim
- 7:00-9:30 p.m. Reception at the Organization of American States
- 7:00-7:30 p.m. Cocktails
- 7:30-8:30 p.m. Speakers: Miguel Angel Burelli
Peter Romero
Enrique Iglesias

Annex II: Biographies of Presenters

Sebastian Alegrett is Secretary General of the Andean Community. He was formerly Ambassador to Colombia from Venezuela.

Peter Allgeier is Associate U.S. Trade Representative for the Western Hemisphere.

Bernard Aronson is Managing Partner at Acon Investments. Formerly U.S. Assistant Secretary of State for Inter-American Affairs, he has also served as International Advisor to Goldman, Sachs & Co., and Chairman of Bolivar International, Inc., a firm specializing in U.S. financial and political relations with Latin America.

Richard Bernal is Ambassador of Jamaica to the United States and Permanent Representative to the Organization of American States. He has also served the Government of Jamaica in various capacities in the Central Bank, the Planning Institute of Jamaica and the Ministry of Finance.

Miguel Angel Burelli Rivas is Secretary of State for Foreign Affairs in Venezuela, and former Minister of Justice. He has also served as Ambassador of Venezuela to Colombia, the United Kingdom, and the United States.

Joyce Chang is a Managing Director in the International Emerging Markets Fixed Income Research Department at Merrill Lynch and the firm's chief emerging markets debt strategist. She was a Managing Director at Salomon Brothers and a consultant for the United States Agency for International Development.

W. Bowman Cutter is Managing Director at the venture capital firm E.M. Warburg, Pincus & Co., Inc. Previously he served as Deputy Assistant to the President for Economic Policy at the National Economic Council.

Roberto Dañino is a partner in the law firm of Wilmer, Cutler & Pickering. He was founding General Counsel of the Inter-American Investment Corporation, and Secretary General of the Peruvian Ministry of Economy, Finance and Trade.

Juan José Echavarría is Executive Director of FEDESARROLLO in Colombia. He has served as a consultant for the Organization of American States Trade Unit and the Andean Development Corporation.

Roberto Gianetti da Fonseca is President of Silex Trading S.A. and Director of Lazarus Metals Ltd. He also serves as Director of the Brazilian Exporters Association (AEB).

Richard Frank is Managing Partner of Darby Overseas Investments, Ltd. He also served as the International Financial Corporation's Vice President of Finance and Planning and as Managing Director of the World Bank.

Enrique García is President and CEO of the Andean Development Corporation (CAF). Previously he served as Bolivia's Minister of Planning and Coordination and was head of the Economic and Social Cabinet of Bolivia.

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

Peter Hakim is President of the Inter-American Dialogue.

Oswaldo Hurtado presides over CORDES (Corporación de Estudios para el Desarrollo), a non-profit organization dedicated to studying issues affecting Latin America and Ecuador. He was President of Ecuador from 1981 to 1984.

Enrique Iglesias is President of the Inter-American Development Bank. He was Minister of External Relations of Uruguay, President of its Central Bank, and Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).

Roberto Jaguaribe is Director General of the Trade Promotion Department of the Ministry of Foreign Relations of Brazil. He was Secretary of International Affairs at the Ministry of Planning and Budget and Head of the Division of Intellectual Property and Sensitive Technologies at the Ministry of Foreign Relations.

Claudio Loser is Director of the Western Hemisphere Department at the International Monetary Fund.

Kathryn McCallion is Assistant Deputy Minister for International Business and Communications at the Department of Foreign Affairs and International Trade of Canada. She has also served as Assistant Deputy Minister for the Latin American and Caribbean branch of the same department.

Clyde Prestowitz is founder and President of the Economic Strategy Institute. He was U.S. Deputy Assistant Secretary of Commerce, Acting Assistant Secretary of Commerce and Counselor to the Secretary of Commerce.

Jorge Ramírez Ocampo is Chairman of the Colombian-American Business Council and the Sudamer's Bank. He was President of the National Exporters Association and Minister for Economic Development of Colombia.

Marta Lucía Ramírez de Rincón is Minister of Foreign Trade of Colombia. She has served as President of the National Association of Financial Institutions (ANIF) and directed the presidential campaign of Noemí Sanín.

Miguel Rodríguez Mendoza is an independent consultant for the Inter-American Dialogue and the Organization of American States. He has served as Chief Trade Advisor to the Secretary General of the Organization of American States and Minister of Foreign Trade of Venezuela.

David Rolley is the Emerging Market Debt Strategist in the Fixed Income Management Group at Loomis Sayles. He was a principal and Director of International Capital Markets Research at DRI/McGraw-Hill.

Peter F. Romero is Acting U.S. Assistant Secretary of State for Inter-American Affairs. He was Principal Deputy Assistant Secretary of State for Inter-American Affairs and U.S. Ambassador to Ecuador.



Roberto Dañino, Wilmer, Cutler & Pickering; Richard Frank, Darby Overseas Investments; Roberto Jaguaribe, Brazilian Ministry of Foreign Affairs; and Juan José Echavarría, FEDESARROLLO

David Rothkopf is President of The Newmarket Company. Previously he was Managing Director of Kissinger Associates, Inc. and has served as Acting U.S. Under Secretary of Commerce for International Trade, head of the International Trade Administration, and Chairman and CEO of International Media Partners in New York.

José Manuel Salazar is Chief Trade Advisor to the Secretary General of the Organization of American States. He has served as Minister of Trade of Costa Rica and Executive Director of the Federation of Private Entities of Central America and Panama (FEDEPRICAP).

Everett J. Santos is the CEO of the Latin American Group of Emerging Markets Partnership (EMP) and Managing Director of the Principal Adviser of the AIG-GE Capital Latin American Infrastructure Fund (LAIF).

L. Ronald Scheman is Chairman of the International Development/Finance Division at Greenberg Traurig. He served as U.S. Executive Director of the Inter-American Development Bank.

Augusto de la Torre is a Lead Specialist, Finance at the World Bank. He was Governor of the Central Bank of Ecuador and an economist at the International Monetary Fund.

The Andean Development Corporation (CAF) is the financial arm of the Andean Community. Its objective is to support sustainable development and regional integration among the Andean countries and in Latin America at large.

The Organization of American States (OAS) is the world's oldest regional organization, dating back to the First International Conference of American States, held in 1890. The OAS Trade Unit was created in 1995 to assist the 34 OAS member countries with matters related to trade and economic integration and, in particular, with their efforts to establish a Free Trade Area of the Americas (FTAA).

The Inter-American Dialogue is the premier center for policy analysis, exchange, and communication on issues in Western Hemisphere affairs. The Dialogue engages public and private leaders from across the Americas in efforts to develop and mobilize support for cooperative responses to key hemispheric problems and opportunities.

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