

ECONOMIC INTEGRATION IN THE AMERICAS:
THE ROLE OF THE ORGANIZATION OF AMERICAN STATES

by

DR. RICHARD L. BERNAL

Ambassador of Jamaica to the United States,
Permanent Representative to the Organization of American
States, Member, Special Trade Committee of the OAS

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America.⁸ "Economic integration became the new nostrum for Latin America's economic ills".⁹

By the mid-1950s, the volume of intra-Latin American trade was substantially higher than it was before World War II, but it had grown at a lower rate than the growth of total world trade.¹⁰ Forecasts for the growth of exports for Latin America¹¹ including those to the United States¹² were pessimistic, serving to redirect attention to the potential of intra-Latin American trade.

In February 1960, the Treaty of Montevideo, creating a free trade area encompassing Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay was signed, establishing the Latin American Free Trade Association (LAFTA).¹³ The Central American Common Market came into existence in 1960 and the Caribbean Free Trade Area was established in 1969.

Trade within regional integration arrangements experienced growth during the 1960s expanded import substitution industrialization. Intra-regional trade declined during the 1970s and contracted sharply during the 1980s.¹⁴ During the 1980's economic integration schemes and regional trade agreements either ceased to function or existed only in name. The contraction of trade and the collapse of regional arrangements were due to (1) the perception of a polarization of benefits; (2) policy disparities and limited policy cooperation due to widely different ideologies and economic development strategies; (3) internal political crises, including civil wars and coups; and (4) the adverse impact of oil prices, declining commodity prices, protectionism, external debt, and exchange rate volatility.

III. THE PRESENT STATE OF ECONOMIC INTEGRATION

There has been a resurgence of interest in regional economic integration in the Caribbean and Latin America.¹⁵ This resurgence of interest in regional economic integration in the region has been influenced by:

1. The transition to a world market as national economies merge and amalgamate into trade blocs. The deepening of the integration process in the European Economic Community (EEC) and the conclusion of negotiations for the North American Free Trade Agreement (NAFTA) are manifestations of a trend toward the emergence of trade blocs. The need for a response to the formation of trade blocs in a "regionalized" world economy provided strong impetus to the new wave of regional integration.

2. The severe economic crisis of Latin America and the Caribbean during the 1980s, which caused a reorientation of economic policy. The new focus was on economic reform and structural adjustment to stimulate a private-sector led, market-driven, outward-looking growth strategy. An important aspect of this for most Latin

customs duties and non-tariff barriers to trade, and the eventual removal of all duty drawbacks.

Another important element of the NAFTA is the provision which seeks to protect countries from potential disruptions in their market brought about by the implementation of this agreement. The NAFTA establishes transparent rules and procedures which allow any party to the agreement to take safeguard actions to provide temporary protection for industries which are adversely affected by import surges caused by the agreement. The NAFTA, therefore, not only seeks to expand trade within the North American continent by the removal of trade barriers, but also to ensure that parties to the agreement are not placed in a disadvantageous position vis-a-vis their partners.

The NAFTA represents a new departure because: (1) It integrated countries at different levels of development and widely different income and wage levels; and (2) The Agreement extends beyond trade to include services, investment, intellectual property rights, and dispute settlement. Several innovations and precedents are embodied, making NAFTA one of the most comprehensive trade agreements.

2. LATIN AMERICAN INTEGRATION ASSOCIATION

Latin American Integration Association was started in 1980 and replaced the Latin America Free Trade Association, which was created in 1960. The membership of LAIA consists of Argentina, Bolivia, Brazil, Chile, Columbia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. This agreement takes in the countries of South America. Unfortunately, it has remained largely on paper, but it is being pursued.

3. GROUP OF THREE

An agreement between Mexico, Columbia and Venezuela which went into operation in 1994, assuming ratification by the respective countries, the treaty should enter into force on January 1, 1995. Once the treaty enters into force, about 40% of Mexico's exports to Colombia will be duty free, with a five year lapse before certain exports such as cotton yarn, copper wiring, furniture and penicillin, are allowed in duty free. Duty free entry of products to Venezuela will be phased in over a ten-year period.

4. MEXICO-CENTRAL AMERICA

There is also an agreement between Mexico and five Central American countries was signed in 1992 with the objective of free trade by the end of 1996.¹⁶ This process is complicated by negotiations between Mexico and the "so called" Central American Northern Triangle (El Salvador, Guatemala, and Honduras) towards a free trade agreement. Meanwhile, the Mexico-Costa Rica FTA is

2. CENTRAL AMERICAN COMMON MARKET (CACM)

Work towards regional integration in Central America commenced as early as 1951,²⁴ and the Central American Common Market was established in 1961. By 1969, nearly 95% of trade had been granted duty free status. However, the CACM declined during the 1970s because of economic, political, and ideological differences among the governments and continues to face problems.²⁵ The value of intra-regional exports is now 40 percent below the 1980 level.²⁶ The resuscitation of intra-regional trade has been delayed by the slow and uneven pace of adjustment among the member countries. Policy changes have been somewhat erratic in their timing, sequencing, and calibration, and important policy reversals have occurred.²⁷ The CACM is criss-crossed by several agreements among various sub-sets of member countries, covering numerous topics. El Salvador, Nicaragua, Guatemala, and Honduras have signed an agreement to establish a free trade zone by January 1993, but Costa Rica did not sign.²⁸

3. THE CARIBBEAN COMMON MARKET (CARICOM)

CARICOM is an integration scheme which aims to create a Common Market between 12 English-speaking countries is noteworthy because it is the longest existing regional integration agreement. The CARICOM was established in 1973 as further integration of those economies which had previously comprised the Caribbean Free Trade Association, which had operated since 1968.²⁹ During the 1980s intra-regional trade declined sharply due to severe economic recession in several member countries and the collapse of the regional payments facility. However, in 1984, CARICOM members agreed to establish a common external tariff, which, at present, is partially implemented.³⁰ The CARICOM has failed to meet successive scheduled dates to establish a Common External Tariff (CET). A CARICOM Stock Exchange went into operation on January 1, 1992.

5. ANDEAN GROUP/PACT

The Andean Common Market, which started in 1969, involves Peru, Bolivia, Venezuela, Columbia, and Ecuador. The Andean Common Market has not functioned as well as expected, partly because of different economic policies pursued by member countries. The Andean Common Market Pact was signed by Bolivia, Columbia, Ecuador, Peru, and Venezuela in May, 1991. Subsequently, a number of measures have been implemented to eliminate restrictions and to standardize various regulations. The group has pledged to establish a common agricultural policy and to harmonize exchange and fiscal policies.

C. PREFERENTIAL TRADE ARRANGEMENTS

This type of agreement is based on preferential arrangements

TABLE 1
BILATERAL AGREEMENTS

Agreements	Year signed
Argentina-Uruguay	1982
Brazil-Uruguay	1982
Argentina-Uruguay	1984
Chile-Uruguay	1985
Mexico-Uruguay	1986
Argentina-Mexico	1986
Argentina-Brazil	1986
Mexico-Peru	1987
Argentina-Peru	1988
Argentina-Venezuela	1988
Argentina-Columbia	1988
Argentina-Brazil	1988
Argentina-Paraguay	1989
Argentina-Bolivia	1989
Argentina-Brazil	1990
Bolivia-Uruguay	1991
Argentina-Colombia	1991
Chile-Mexico	1991
Bolivia-Peru	1992
Argentina-Venezuela	1992
Argentina-Ecuador	1992
Colombia-Venezuela	1992
Bolivia-Chile	1993
Chile-Venezuela	1993
Chile-Colombia	1993
Mexico-Costa Rica	1994

Source: Economic Commission for Latin America and the Caribbean

negotiating the free trade agreements. Some flexibility will be necessary since any regional arrangement aimed at integration and/or trade liberalization must accommodate development heterogeneity, at least initially. This includes different levels of development, coexistence of a variety of growth strategies, and structural adjustment at varying stages of completion. Indeed, this is recognized and reflected in the Caribbean Common Market, and embodied in the European Economic Community, and in the U.S.-Israel Free Trade Agreement.

The inclusion of special and differential treatment for less-developed countries in regional trade arrangements is consistent with the GATT in which the principle of "differential and more favorable treatment for developing countries" is explicitly recognized.³⁶ Article XXXVI notes the special characteristics and importance of trade of developing countries and the need to promote growth and facilitate diversification. In paragraph 8 it states: "The developed contracting parties (countries) do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less developed contracting parties (countries)".³⁷

Reciprocity can have a range of connotations which cannot be reduced to equivalence in trade concessions. Asymmetrical adjustment is one way to recognize and compensate for differences in the levels of development. The notion of differential treatment is deeply entrenched in developing countries and it will be difficult to disabuse these countries of this tenet of their philosophy of development. There can be little opposition to the concept of phasing out of differences in obligations over a period - perhaps twenty years - which takes account of size, structure, and levels of development. It may not be wise to entrench special and differential treatment in perpetuity. Therefore, specific criteria for graduation to reciprocity must be specified.

Reciprocity requirements for less developed countries should not commence immediately but be phased in over an extended period. The apprehension over immediate and complete reciprocity derives less from the inability to undertake policy measures and institutional changes than from the social and economic costs of structural adjustment. This is a valid concern because in these economies, structural adjustment implies both (a) resource allocation from extinct to emerging or growing sectors and (b) resource creation for the instalment of new or upgraded productive capacity.

The period of adjustment is critical and can be general, sectoral, or product-specific. Product or sector-specific adjustment periods, if sufficiently long, will allow these small and/or less developed economies to implement orderly economic reorganization. There are a number of mechanisms which can ease the pace of adjustment. The phase-in periods can be varied to

V. FROM REGIONAL TO HEMISPHERIC FREE TRADE

The idea of forming an economic bloc, either as a region or a part of a Western Hemisphere grouping was being discussed in Latin America prior to the end of World War II.⁴¹ In 1960, Rockefeller and others proposed a "hemispheric common market"⁴² In 1990, President George Bush, announced the Enterprise for the Americas Initiative, which has as its objective the creation of a hemispheric free trade area commencing with NAFTA. The NAFTA countries constitute a market of 363 million people with a combined GNP of \$6.5 trillion. A Western Hemisphere Free Trade Area would have a combined GNP of \$6.8 trillion and a market of 719 million.

The movement from regional agreements to hemispheric free trade could occur in three ways:⁴³

1. Accession

The NAFTA, by virtue of its economic size, dominates trade in the Western Hemisphere, in addition its members are the three most developed economies in the hemisphere. Hence, NAFTA has become a pole, attracting other countries seeking membership.

The NAFTA accession clause is a single vague sentence, which neither sets out eligibility criteria for new members nor application procedures for interested countries. Article 2204 of the NAFTA merely provides that any country or group of countries may accede to the NAFTA "subject to such terms and conditions" as may be agreed to between those countries and the NAFTA Free Trade Commission (comprising Cabinet level officials from Mexico, Canada, and the United States). Although the NAFTA itself fails to prescribe the criteria for NAFTA accession, the NAFTA implementing legislation indicates a short list of basic criteria which is considered necessary for such a determination.

The NAFTA must be expanded in membership otherwise it could set in motion trade and investment diversion in the rest of the hemisphere, which sells 40% of its total exports to the U.S.⁴⁴ The NAFTA must not become a closed citadel to the countries of the Americas, chanting the mantra of free trade. What is required is a clearly stated set of eligibility criteria, an application procedure, and a transparent process of selection. It is also essential that some institutional mechanism be established to supervise and implement the accession process, perhaps, the NAFTA Trade Commission could undertake this responsibility.⁴⁵

2. Hub And Spoke

One frequently discussed proposal is that NAFTA would constitute the core of an expanded trading bloc by "docking" additional countries. However, the absence of a decision on

exchange of views on the problems of trade and related matters in order to accelerate trade liberalization and expansion in the Hemisphere, to study and put forward suggestions for improving conditions under which trade takes place among the member states and encourage steps necessary to achieve that purpose, encompassing the elimination and non-application of trade barriers, including those which affect or may affect the exports from the developing member states (c) to consider means to enable beneficiary countries to make full use of the preferential programs of the developed countries of the Hemisphere and to consider proposals and suggestions for the improvement of such programs, in order to achieve their better utilization by the beneficiary member countries.

The STC has established an Advisory Group, comprised of nine senior trade policy officials from the member states. The OAS is to establish a technical unit that will be responsible, under the direction of the Advisory Group and the Special Committee on Trade, for presenting a broad range of existing material on issues relevant to proposals, problems, and policies under consideration; preparing information requested for meetings; and providing the Special Committee on Trade with general support services. The STC must hold one regular meeting each year, on the date and place established at the previous regular meeting. When so required by an urgent issue or circumstance, the discussion of which cannot be postponed until the next regular meeting, STC will schedule a special meeting. Delegations to meetings of the STC shall be comprised of senior officials in charge of trade policy and related matters. The meetings of the Committee will be held at the ministerial level, when so decided. The STC will establish close cooperation and coordination with the regional and subregional organizations (ALADI, IDB, ECLAC, SELA), and with integration mechanisms (Andean Pact, CARICOM, MERCOSUR, SIECA).

VII. CONCLUDING COMMENT

The proliferation of a variety of free trade agreements and economic integration schemes could prove confusing and thereby inhibit the trade liberalization they are supposed to promote. The urgent need to rationalize and catenate the various agreements could best be addressed by an ongoing hemispheric dialogue. The OAS through its Special Trade Committee could be forum in which the necessary dialogue, consultation and negotiations could be conducted.

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