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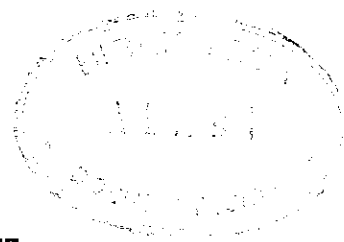
# High-Level Policy Dialogue: Networking Among Regional Trade Agreements of Developing Countries

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Lecture of the  
Secretary-General of the ALADI,  
Dr. Didier Operti Badán

Geneva, March 19th, 2007

**ALADI**  
Asociación Latinoamericana de Integración  
Associação Latino-Americana de Integração



UNCTAD

**HIGH-LEVEL POLICY DIALOGUE:  
NETWORKING AMONG REGIONAL TRADE AGREEMENTS  
OF DEVELOPING COUNTRIES**

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**1. The Current State of the Integration Process within ALADI's  
Framework**

**a) Objectives of the 1980 Montevideo Treaty (TM80)**

Chapter 1 of the TM80 lays down the objectives, duties and principles of the ALADI. Article 1 establishes that the Association is constituted in order to "promote the harmonious and balanced socio-economic development of the region". It also highlights that "the long-term objective of such (integration) process shall be the gradual and progressive establishment of a Latin-American common market".

Article 3 establishes the following principles, which will be taken into account by the countries in order to reach the said objective: a) pluralism; b) convergence; c) flexibility; d) differential treatments; and d) multiplicity.

Those principles have been and still are important regarding the membership (especially pluralism) and the actions of the Association. The combination of flexibility and multiplicity principles has been the basis of the dynamic development of the negotiations within the ALADI, overcoming the inflexibility imposed by the plurilateral negotiation between twelve countries.

The differential treatments principle deserves special consideration. First, regarding the economic-structural characteristics, the countries are classified in three categories. Such treatments shall be applied in a determined scale to the intermediate developed countries, and

in a more favourable manner to the relatively less economic developed countries (PMDER).

Differential treatments are so important in the TM80 that its Chapter III is dedicated to the implementation of a Support System for the Relatively Less Economic Developed Countries, which establishes that their participation in the integration process will be subject to non-reciprocity and community cooperation.

In fact, for the purpose of ensuring the effective differential treatment, it lays down that the member countries shall establish market opening programs, as well as set up programs and other specific forms of cooperation.

Finally, all actions favouring the Relatively Less Economic Developed Countries shall be set in either regional or partial scope agreements.

#### b) Progress Achieved

Twenty-six years after the foundation of the Association one should make a well-grounded evaluation, which should be quite critical in several aspects, but, at the same time, consider the achieved progress, as well as the specific restrictions faced by South-South integration. Regarding the latter, the vulnerability of the region concerning the international crisis has worked against a bigger progress.

The objective of a Latin-American common market is still there, on the horizon, and it is there where lays one of the biggest inadequacies of the process, not due to its non-achievement, but due to the lack of a deadline for such objective.

Nevertheless, the progress is not worthless, because the signed agreements, as well as the resulting trade liberalization process, are now an important basis for the deepening of the regional integration process.

The negotiating dynamism has been shown through the partial scope agreements, according to ALADI's terminology, i.e., bilateral or subregional agreements, by definition, not including all member countries. Another weak point of the integration process within the

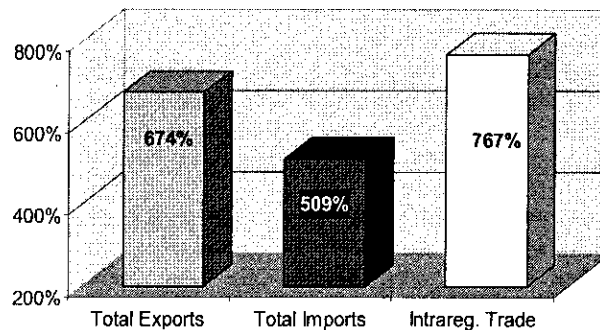
framework of the Association that can be identified is that its progress have been first partial and then regional.

In that sense, the 167 agreements that have been signed among the member countries during that period of the history of the Association went through a deepening and widening process regarding their contents, which has allowed the substitution of first generation agreements (specific and with fixed preferences) by free-trade agreements.

Consequently, an "agreements net" has been made up, which is an important regional resource. In the end of 2006, that net was made up by 74 agreements in force, 7 of regional scope and the other 67, of partial scope. Within the latter, the 13 free-trade agreements stand out which, added to those of the Andean Community, involve most of the bilateral relations among the member countries (49 of 66) and channel most of the trade negotiated among them. Also, for the 17 remaining bilateral relations, fixed (or selective) preferences agreements are in force, having such preferences less coverage and depth.

This wide net of relations of preferential trade made up from the TM80 and its regulations allowed, in 2006, a regional exchange of ca 96 billion US dollars, after a strong recovery in the last triennium, which lead to the doubling of the previous historic record of 47 billion US dollars in 1997. This figure is not worthless and it has to be seen in perspective: from 1980 and up to today, the intraregional trade has turned 8.7 times bigger, the total exports, 6.1 and the imports, 7.7.

**Changes in the Volume of Trade (2006 / 1980)**

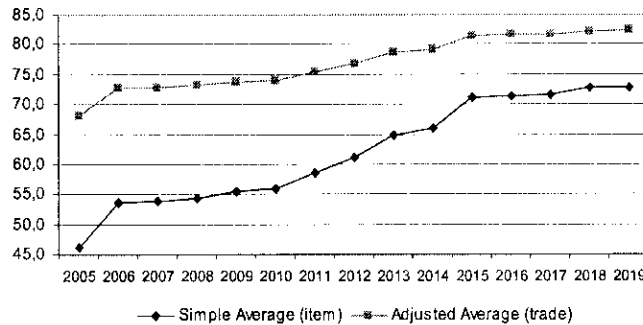


Consequently, the liberalization resulting of this net of agreements, measured regarding the percentage of fully liberalized items, reached 53.7% in 2006.

Additionally, the compliance with the schedules already agreed in the free-trade agreements will sustainedly rise the percentage of liberalized items up to 72.8% in 2019 (deadline of the last agreed schedule). Those percentages are even higher, if one considers the percentage of liberalized items regarding the value of intraregional trade in each bilateral relation. Considering this measurement, the liberalized percentage is 73% in 2006 and would reach 82% in 2019.

It is important to highlight that this does not mean that such raise should be only attributed to the deepening of the integration process. Although its progress is an important factor, other factors have also played their role, such as the trade opening that has taken place in most of the countries.

### Evolution of Liberalization



Lastly, regarding the progress, it seems important to highlight the integration actions that have been taking place since Resolution 59 (XIII), within the scope of the Mandates of the 13<sup>th</sup> Council of Ministers and which show a non-worthless progress.

Aside from the several signed protocols, more than one hundred, aiming either at widening or deepening the Economic Complementation Agreements (ACEs) or the Renegotiation Agreements, others must be added, such as the Commercial

Agreements, Trade Promotion Agreements within the scope of Article 14, and Agricultural Agreements.

In a different area that, in some way, means a qualitative change in such agreements, it is worth to mention the ACE between Cuba and the MERCOSUR, as well as others that rule different fields of free-trade within the ALADI. For instance, the agreements Chile - MERCOSUR (ACE 35), Bolivia – MERCOSUR (ACE 36), Chile - Colombia (ACE 24), and Colombia – Mexico (ACE 33), among others. In fact, many of these agreements have broadened their scope to other fields like Investments, Public Procurement, Competition Policies, Trade-In-Services, Intellectual Property and Double Taxation, all of them of high commercial and economic importance.

#### c) Current Tasks

The said agreements, the trade resulting from them and the current state of the liberalization process have lead the Council of Ministers -higher political body for the managing of the regional integration process- to take the needed measures in order to make up a Free-Trade Area (FTA) between the member countries of the ALADI.

What kind of FTA?

According to Resolution 59 of the said Council of Ministers, one can say that it is an economic area, which will be the result of the combination of the following three elements: **the deepening** of the free-trade agreements that were already signed; **the promotion** of the current negotiations carried out (or the ones to be undertaken) to sign Free-Trade Agreements between those countries that still have fixed preferences agreements; and **the harmonization and incorporation** of the required rules and disciplines, as well as of those matters that might complement and boost the FTA.

The first task, the deepening of the signed Free-Trade Agreements, is probably the least complex, at least regarding tariff matters. In fact, as it has been pointed out, up to today, the countries involved in those agreements have signed liberalization processes which in 2019, the farthest deadline, will include a wide range of items and trade.

Therefore, the progress regarding liberalization within the Free-Trade Agreements will be limited to a group of items, less important regarding the amount, but not insignificant regarding the trade sensitivities of the countries. That requires new negotiations that, taking into account the complexity of the preceding ones -even the most recent-, do not provide a very wide margin in order to expect a radical change in the situation.

What is important in this realm is that in the relations ruled by Free-Trade Agreements, to a larger or a shorter extent, eleven of the twelve member countries are interacting.

The second task involves the transformation of the fixed preferences agreements into Free-Trade Agreements. This is an important challenge, as in the maintenance of the current situation components of trade policies of the participating countries are mixed with the sensitiveness resulting of the economies that seem to be competitive in important areas.

Regarding their scope, the fixed preferences agreements in force cover, on one hand, all those signed by Cuba with the other member countries. This mainly arises from that country's trade policy, as well as from its recent incorporation to the regional integration process (1999). On the other hand, -and here the special sensitivities of the countries play a role- several of the agreements signed by Mexico are in the same situation (starting with Argentina and Brazil, the other two largest countries of the Association.)

As it might come out of the previous, this is not an easy task; in fact, it includes a group of non-worthless complexities. Besides meaning additional negotiations, it faces a change in the *status* of the agreements towards the achievement of wider and deeper ones.

A verification of the latter is that in the recent past, in general, both countries (Cuba and Mexico) and their counterparties have kept the path of deepening their fixed preferences agreements instead of following an alternative way and moving towards the signing of Free-Trade Agreements.

The third task towards making up the said FTA is related to the harmonization of rules and disciplines, which includes: origin, safeguard measures, non-tariff barriers, dispute settlement, sanitary

and phytosanitary measures, rules, technical regulations, and compliance assessment, among others.

Finally, the FTA involves the incorporation of a group of complementary issues, such as: physical integration, digital integration, trade financing, promotion of production, and relation with the business, labour and academic sectors.

All this FTA making up process must be seen as such and, therefore, as a modular construction requiring focused efforts on its different parts, which in principle would not need to progress simultaneously.

So has been understood by the member countries; therefore, the meeting of Senior Officers Responsible for the Integration Policies that took place last May has defined to which areas one should give priority in this stage (Annex I). Regarding that, a set of activities directed at moving towards the said FTA has been programmed, and it is included as a main part in the Action Program for 2007 to be handled by the countries in several levels. On one hand, in an experts meetings and, on the other hand, in a second meeting of Senior Officers that will take place on June 5 and 6. The process will finish on November 16 with the 14<sup>th</sup> Meeting of the Council of Ministers, highest political body of the Association, which will define the main tasks for the next period.

As it has already been pointed out, one of the big unresolved tasks related to the regional integration process within ALADI's framework has to do with the fact that there are different regulations in the signed agreements. That is seen, especially by the economic agents and the international traders, as one of the most important obstacles to increase regional trade. This is especially important regarding disciplines such as origin regulations, dispute settlement mechanisms, and safeguards implementation, just to mention some of them.

These subjects will be part of the work of the Association; therefore, the Agenda 2007 includes three meetings of governmental specialists in March and April for each of the said matters. If a consensual proposal is reached in order to establish mechanisms to harmonize the respective matters, an important progress would be reached in the process towards the making up of the FTA.

This agreement would be one part of the said modular and progressive construction, but, at the same time, it has to be seen as a reasonable step forward, because, after several attempts, the countries would be taking a great step that would make the operation of regional trade easier.

Thus, the success in accomplishing the Agenda 2007 and, specially, in the decisions achieved will be essential inputs to move towards the FTA. Within this framework, it is worth to highlight the activities developed by the Working Groups organized by the Committee of Representatives in order to fulfil the mandates of the ministers.

Among others, regarding its importance and scope, it is worth to highlight the project aiming at supporting the facilitation of intraregional trade through the digitizing of procedures. Then, a powerful challenge will be to settle the preliminary works carried out in 2006 in order to launch a pilot project for the issuing of digital certificates of origin ("Certificados de Origen Digital" - COD). At the same time, another goal is to move in the same "modular" construction towards the digitizing of other trade areas requiring paper work. This would reduce the bureaucratic intervention, which has been recognized as an obstacle to the flow and increase of trade.

## **2. Challenges and Opportunities Faced by the Regional Integration Process**

Taking into account the said progress and limiting factors, the future and the viability of the integration process will depend, to a large extent, on the basic agreement to be reached between the countries about the already mentioned issues, but above all, on the possibility of reaching a stable balance between the international insertion strategies, seen separately, of the member countries and the priority given by them to regional integration.

The Secretariat, as technical body, is not unaware of this challenge, which is related to its ability to include in the Agenda of the Association those subjects that, although with different approaches in the different countries, make up the international agenda and deserve to be handled in the region in order to come to an adequate approach regarding the countries with intermediate development.

In that context, it is worth to highlight the thematic importance of such meeting, which has to be seen as the continuity of a work direction that the UNCTAD shares today with the ALADI.

Of the preceding, apart from the joint activities, it is worth to highlight two seminars that will be carried out in order to face the already defined worry: the inclusion and the treatment of international trade matters from a regional perspective. Those seminars on trade-in-services on one hand, and on competition policies on the other hand, show not only how fruitful this alliance is, but also that it has also turned into an incentive to thematically adequate the Association.

This attempt to “import” the multilateral matters to the region is not self-will; in fact, several free-trade agreements that were signed among the countries of the region have already included many of them.

This year, such cooperation will continue trying to open spaces for reflection in order to deepen the relations between the member countries. In that context, the following seminars are planned:

- UNCTAD-ALADI Regional Workshop on Trade Facilitation;
- Seminar to Analyze the Liberalization of International Trade-In-Services;
- Training Course on Legal Aspects of Digitizing and E-Commerce;
- Training Course on the Negotiation of International Investment Agreements;
- Training Course on Financing for the Development of SMEs;
- Training Course on Competition Policies and International Trade.

a) Integration as an Instrument to Make the International Insertion Process Easier

In spite of the preceding, there is always a common factor when trying to find the difficult balance between the corresponding strategies of the member countries: one has to understand that the regional integration process is a way, maybe the most suitable, to improve the international insertion of the region.

Nowadays, with the current opening levels in the world and in the region, the classical discussion about the inefficiency of regional integration as a mechanism for international insertion and economic development provides more ideological than technical grounds and, in general, it is supported by the exponents of the most orthodox versions of theoretical economy.

One should not forget that the world is not working as it is written in the books, and even less international trade, rich in distortions, especially in the areas in which the countries of the region have competitive advantages.

In that sense, there are innumerable mandates of the political bodies aiming at strengthening the integration process and recognizing its role in the regional development. For instance, the already referred meeting of senior officers of last year has explicitly included this point in its conclusions. This does not exclude the General Secretariat as regards its ability of implementing such mandates.

Additionally, at least two characteristics of the integration process, as it has been conceived up to the present time -basically in its commercial sphere- have to be considered. The first, which supports the thesis of integration as a way for international insertion, refers to the manufactures' component involved with regional trade, and the second, seen as an insufficiency, is the limited proportion represented by intraregional trade in the overall regional trade.

#### b) Composition of Intraregional Trade

The intraregional exports have a positive characteristic that makes them different from the rest: their higher manufactures component. In fact, while currently 48.2% of ALADI's exports to the Rest of the World are manufactures, such participation raises to 62.1% in the exports to the region.

Manufactures exports have some advantages with regard to the rest: within them are the most dynamic and with higher technological component products of international trade and they are less exposed to sudden prices fluctuations. And they also cause a bigger carry-over effect on other sectors of the economy and, in general, are creating more jobs.

These figures show that the net of agreements signed within ALADI's framework has not only contributed to sales dynamism, but has also allowed the member countries to export products with higher added value than the ones sold to the rest of the world.

Besides, in perspective, it is possible to highlight another positive characteristic of intraregional exports. In the last decade, manufactures participation increased from 57% to 62.1%. In contrast, the less elaborated products, like food and beverages and agricultural commodities, have decreased.

These figures show that trade between the countries of the region does not only have a better composition, but also that the latter has been improving. It is possible to state that, in that sense, especially the free-trade agreements that were signed within ALADI's framework since the nineties have been a contribution.

This improvement in the quality of intraregional trade has to be seen, not only as an achievement itself, because of the already mentioned advantages, but also as an intermediate step that allows the insertion of new export branches in the world's markets.

#### c) Intraregional Trade Level in the Total Regional Trade

This proportion has reached in average around 14% of the total, with quite procyclical movements. In general, it has been sustained that this percentage of intraregional trade is reduced in the total and this characteristic has been pointed out as an insufficiency of the integration process.

Nevertheless, one should clarify a few points about the magnitude of this indicator and its comparison with other integration processes, and then think about what is the main problem that we consider is affecting intraregional trade.

First, one should highlight that such proportion reflects an average situation and, therefore, its level is determined by the biggest countries, especially those that are more open to the world. In that sense, Mexico's situation has a predominant influence in the global result, because it is responsible of 45% of ALADI's trade. For instance, in 2006, if Mexico is excluded, intraregional trade moves from 15.6% to 26.2%, i.e., a little bit more than the fourth part of the global trade of the region is with the partner countries.

Second, although in the comparison with the levels of other experiences the level of intraregional trade seems to be low (in general compared with the 60 of the EU), the relative weight of the trade partners involved is not taken into account. It looks like a more adequate comparison would be through the rates of trade intensity, which relativize that proportion according to the relative weight of each region in world trade.

There is a second factor besides the low weight of the regional partners that would tend to explain the difficulties of increasing the figure in question: the low commercial complementarity among the several regional economies and, therefore, the difficulties to increase intraregional trade.

The preceding means neither that intraregional trade has peaked nor that one has to be indulgent with the current situation. Quite the opposite, it is necessary to pay attention to the aspect that we believe would explain why this indicator has not improved as expected.

A first explanation has to do with the low participation of the region in international trade and, additionally, with the still limited regional relation of the biggest countries (especially Mexico, but also Brazil), that does not put any dynamism in the regional demand according with their relative size.

In that sense, another factor that stresses –to this extent structural– has to do with the efforts derived from the commercial priorities of the region. As it is known, as in other regions, the so called North-South trade is what has prevailed in this region, which regardless of its content (commodities versus manufactures) has defined the efforts of the countries, starting on the institutional, going through infrastructure, and even up to a way of giving priority to trade opportunities by the productive agents and sales representatives. All these have been translated in a lack of care of the channels of regional trade, which should be boosted by a regional action.

This additional explanation presents the challenge that its solution may be faced by way of a greater and better integration.

d) The Regional Way in View of the Stagnation of Multilateral Negotiations

Lastly, in view of the ups and downs of the Doha negotiations and regardless their future process, such situations leave open a way of appreciating the region as one of the possibilities of adjusting to the ongoing globalization.

There is no doubt today that the implementation and validity of the multilateral disciplines will sooner or later be part of the international trade practices. Regardless of that, today one has the chance to start adjusting the regional operation to such circumstance. In fact, everything leads to suppose that regarding the situation of the said Round, the role of the countries of the region in the process of making up trade rules may be bigger, as it would be possible to progress in reaching definitions and consensus that allow the participation with voice in such negotiations.

Besides, in the confrontation of the acute distortions prevailing in international trade, especially the ones caused by the subsidies to exports and production granted by the industrialized countries, the harmonizing processes rising from the regional interests look like a strengthening realm for the negotiation ability of the region.

**3. The Dialogue between the Regional Integration Bodies in Order to Promote South-South Trade**

First, we should be happy and congratulate the organizers of this dialogue for having the initiative to enter into this undoubtedly complex subject.

We partially know the reality of other regions regarding the relation between the integration bodies and their work. Nevertheless, one can rescue of the Latin-American experience, in spite of the similarity of objectives -and probably due to that-, is that the horizontal dialogue and the joint work is not the rule that today governs the actions of such bodies.

#### a) Difficulties of a Regional Institutional Dialogue

We should analyze the reasons that make such dialogue difficult. It is known that the ALADI is the "mother" that gives rise to the main subregional institutions. It is the case of the current CAN, in the search of a realm in which the benefits of the integration process could be fairly distributed between the participating countries, and of the MERCOSUR, which started from a strategic political proposal of deepening the process involving some of the member countries of the Association.

*A priori*, it is about two experiences that would not have a reason to collide with the objectives of the Association, which covers 12 countries representing around 90% of the Latin-American indicators regarding size or amounts: either surface, GDP or foreign trade.

Nevertheless, the search of a permanent dialogue is a matter that has yet to be resolved. In fact, what has characterized the interinstitutional relations is a limited vision, in which each of them cares for its own sphere of responsibility.

On the other hand, despite the will of the responsible ones of those institutions and of their technical staffs, an institutional perspective has prevailed, which, in principle, aims at achieving some hegemony or, in the worst of cases, has turned into excluding behaviours and practices.

#### b) The Need of a Regional Dialogue

Taking into account the preceding, it is common to find rhetorical expressions, either of the countries or of the representatives of the regional bodies, highlighting the need and the importance of an interinstitutional dialogue and, even more, of joint works in order to move towards the integration process.

Nevertheless, the concrete experiences in that sense are still rare and in most of the cases, they do not assume the integration project as a global strategy; they just give partial answers to very concrete demands, which continuity tends to disappear quite fast.

### c) Experiences to be Saved

In spite of the described panorama, it is worth to remember and highlight, maybe because of its influence, but also of its topicality, the joint work carried out by the Secretariats of the ALADI, the CAN and the MERCOSUR, aiming at fulfilling the Mandate of the South-American Presidents, put forward by the Cusco Summit that founded the South-American Community of Nations in 2005.

That culminated with the presentation on June 2006 of the corresponding interinstitutional documents prepared under the coordination of ALADI General Secretariat, which aimed at evaluating the situation of the countries of the South-American Community of Nations in three very specific thematic areas: tariff convergence, institutional convergence and the issues related to the treatment of asymmetries.

This experience, with all its meaning due to its singularity, must be kept and emulated; not only to show the importance of joint work, but also to boost the results of our efforts in favour of regional integration and of the common objectives that the member countries have established for our respective institutions.

## **4. Summing-Up**

As a conclusion, it is worth to first be happy for the chance provided by UNCTAD of including a subject that seems to be one of the debts of the regional institutions.

This, with no doubt, will have positive effects on the work of the regional integration institutions and, above all, on their efficiency in accomplishing their objectives. Especially with the task of providing more and better services to our mandators, the member countries.

Lastly, we hope this to be another area of joint work with the UNCTAD, which, added to the already existing ones, can also contribute to widen and improve our actions, being that the contribution of regional integration to the developing process of our countries and regions.

Montevideo, March 13<sup>th</sup>, 2007

