



## **PECC Trade Forum**

# **Proliferation and Convergence of RTAs in Latin America**

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**PROLIFERATION AND CONVERGENCE OF RTAs  
IN LATIN AMERICA**

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# Strategies for MCP & PC

- ◆ an old challenge in LAC,
- ◆ now extended to the Americas at large.

# Old Vision: LAC Integration (I)

- dominant during “Old Regionalism” (OR):1960s – most of 1980s).
- convergence in model: first LAFTA, then EU-style (LA Common Market), *but*
- disperse implementation:
  - ◆ RTA mechanisms: LAIA (bilaterals), sub-regional CUs.
  - ◆ regional economic cooperation mechanisms: SELA, LAIA.
  - ◆ regional political cooperation mechanisms: ‘Group of Rio’, SELA.

# Old Vision: LAC Integration (II)

- inward-oriented PTAs and very partial liberalization regionally[1]:
  - ◆ 68 LAIA PS-PTAs (Nov.90 count).
  - ◆ 4 sub-regional CUs (CACM, AC, CARICOM, MERCOSUR).
  - ◆ intra-PTA trade increased but remained very low inter-PTAs.
- LAC strategies for MCP & PC started late 1980s:
  - ◆ adoption of outward-oriented approaches by sub-regional PTAs.
  - ◆ conversion of bilateral PS-PTAs into LAIA-type FTAs (*ACEs*).

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[1] Gonzalez-Vigil, F. and R. Pizarro and J. M. Quijano (1994)

# New vision: Americas ('Western Hemisphere') Integration (I)

- dominant during 'New Regionalism' (NR): Since 1990s.
- comprehensive plan of action and more organized implementation[2].
- 'Americas Plan of Action' (Miami Summit, 12/94):
  - ◆ trade component: FTAA, and related facilitation and c-b.
  - ◆ cooperation components on democracy, poverty, sustainable development.

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[2] Feinberg, R. (2000)

# New vision: Americas ('Western Hemisphere') Integration (II)

- at the same time, RTA proliferation persists: as of 06/01[3],
  - ◆ within the WH: a total of 26 PTAs (plus 3 GSP-type programs), of which,
  - ◆ 5 sub-regional PTAs: NAFTA plus the four CUs.
  - ◆ 17 bilateral or plurilateral FTAs: 10 NAFTA-type, plus 7 LAIA-type.
  - ◆ and the proliferation continues (e.g. Chile-US plus others in negotiation).
  
- Current strategies for MCP & PC within the WH:
  - ◆ FTAA: major force of convergence, of outcome depending on
  - ◆ US-led spreading of NAFTA provisions through bilateral/plurilateral FTAs.
  - ◆ Brazil-led amalgamation of SA sub-regions (AC and MERCOSUR).

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[3] Gonzalez-Vigil, F. (2001)

# Goods Trade Liberalization in the WH: accelerated and deep (I)

- Main results of a three-tier (unilateral-PTA-multilateral) liberalization process[4]:
  - ◆ Rapid tariff reduction programs: most of tariff lines totally liberalized up front (i.e. brought to 0 tariff at the PTA's entry into force); for the rest, reduction typically completed within a 10-year period.
  - ◆ Tariff line coverage is universal or near universal: exceptions rarely exceed 6% of total tariff lines, usually in agriculture, energy and automotive sectors.
  - ◆ Average external tariffs have sharply declined, though some remain above 20% particularly in few sectors excepted or under special regimes.
  - ◆ Some NTMs (import prohibition, surcharges) have been dismantled up front; others (safeguards, subsidies) are being phased out under agreed PTA schedules or adjusted according to WTO commitments.

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[4] Devlin, R. and A. Estevadeordal (2001)

# Goods Trade Liberalization in the WH: accelerated and deep (II)

- The way such a PTA-led process is proceeding,
  - ◆ Is WTO-consistent, in terms of tariff elimination's coverage and period, reduction of external tariffs, and NTMs treatment.
  - ◆ Implies that by 2005 at 0 tariff level would already be the bulk (above 60%, up to 100% in the NAFTA and AC cases) of tariff lines for trade within the WH.

# FTAA Negotiations on Market Access for Goods: consensus thus far<sup>[5]</sup> (I)

- Tariff lines coverage: universal or near universal (usual exceptions likely).
- Tariff elimination program:
  - ◆ Lineal reduction method, and possibly non-lineal in some exception cases.
  - ◆ Starting from the national MFN tariff applied as of 15Oct02, or from the sub-regional CET notified until 15Apr03 (temporary exceptions allowed).
  - ◆ Schedules for total liberalization: up front (Tariff Basket A), no more than 5 years (TB B) or than 10 years (TB C), and more than 10 years (TB D).

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[5] MINCETUR-VMCE (2003); [www.alca-ftaa.org](http://www.alca-ftaa.org)

# FTAA Negotiations on Market Access for Goods: consensus thus far (II)

- Tariff elimination program (cont.):
  - ◆ Negotiation on a bilateral or plurilateral basis: lists of TB offers and requests being exchanged by country or country groupings.
  - ◆ Such lists may include different schedules taking into consideration differences in size, in levels of development, and the case of small economies.

# FTAA Negotiations on Market Access for Goods: consensus thus far (III)

- General objectives on Agriculture:
  - ◆ Gradual tariff elimination (coverage: Annex I, WTO-AA) and NTMs.
  - ◆ Non trade-restricting application of S & PS measures.
  - ◆ Elimination of subsidies to agricultural exports affecting WH trade.
  - ◆ Other trade-distorting practices: to identify them and improve disciplines.

# Rules of Origin (I)

- Main RoO regimes now in force within the WH[6]:
  - ◆ LAIA approach (e.g. AC, CARICOM): CTC (at heading level) *or, alternatively*, RVC (at least 50% of FOB export value) as general rule applicable across the tariff universe, with rather few special RoO (e.g. assembly operations in the AC).
  - ◆ NAFTA approach (followed by most NAFTA-type FTAs): CTC as general rule too, yet at *any* specified level and *many* times overruled by RVC or special RoO based on technical requirements.
  - ◆ In between are CACM and MERCOSUR (and its FTAs in SA).

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[6] Estevadeordal, A. (2003); MacKay, D. and M. Robert and R.M. Plank-Brumback (2001)

# Rules of Origin (II)

- RTA-related forces behind RoO regimes' growing complexity:
  - ◆ Comprehensive FTAs: RoO as key tool to avoid trade deflection, given the absence of CET.
  - ◆ Proliferation of juxtaposed PTAs: RoO as key tool to preserve exchanged preferences.
  
- RTA-related actual and possible forces of convergence:
  - ◆ RTA outward-openness: as external tariffs decrease, less incentive to “jump” them through RoO.
  - ◆ FTAA objective: a RoO system transparent, efficient and not unnecessarily trade-restricting.

# Technical Barriers to Trade<sup>[7]</sup> (I)

- Main differences on Standards-Related Measures (SRMs) among WH-PTAs:
  - ◆ Approach: Harmonization (CU-PTAs) and “Make Compatible” (NAFTA-type FTAs).
  - ◆ Conformity assessment and approval procedures: mutual recognition widely encouraged but actual procedures differ markedly.

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[7] Kotschwar, B. (2001)

# Technical Barriers to Trade (II)

- Main similarities on SRMs among WH-PTAs:
  - ◆ Provisions coverage: most include services and cover standards, technical regulation and metrology.
  - ◆ Use of international standards: widely encouraged, except where inappropriate or ineffective to national legitimate objectives.
  - ◆ Transparency and information systems: most require the establishment of national inquiry points or bodies/committees cooperating among them, and include dispute settlement mechanisms.
  
- Thus, even though national SRMs prevail in practice (only MERCOSUR and, to some extent, CARICOM have progressed in the gradual forming of common regimes), there is already in place an important basis for a WH-wide regulation.
  - ◆ FTAA objective: to eliminate and prevent unnecessary TBT.

# Beyond strategies for MCP & PC: Another look at RTAs in the Americas (I)

Main revealed overall strategies:

- “*Hub’s anchoring*”
  - ◆ a NAFTA-centered FTAA.
  - ◆ US bilateral/plurilateral FTAs with LAC countries.
  - ◆ In big contrast with OR times: ‘Alliance for Progress’ but keeping LAC apart.

# Another look at RTAs in the Americas (II)

## Main revealed overall strategies (cont.):

### ■ “*Sub-Hubs contest*”

- ◆ OR: - among “A-BRA-MEX”, dominant in LAFTA ⇒ LAIA.
  - “spokes” answers: CACM, AC, CARICOM.
- ◆ NR: - Mexico integrates into NA ⇒ NAFTA.
  - Argentina and Brazil forming of MERCOSUR.
  - Mexico’s bilateral/plurilateral FTAs with CA, Caribbean, and Andean countries.
  - Brazil’s SAFTA project (⇐ AC-MERCOSUR amalgamation).
  - Chile’s emergence: domestic reforms; “next to Mex.”; bilateral/plurilateral FTAs with SA, CA and Caribbean countries ⇒ advantage in the SA Pacific Coast.

# Another look at RTAs in the Americas (III)

## Risks for Americas Integration and Global Liberalization?

- Important, without doubt, since the above
  - ◆ fuels RTA proliferation
    - FTAA will co-exist with 'FTAA Plus' bilateral/plurilateral PTAs
  - ◆ incubates political tensions.
  - ◆ and, more generally, incentives to RTA expansion have limits[8]

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[8] Scollay, R. and B. Bora and J. Gilbert (2001)

# Another look at RTAs in the Americas (IV)

## Risks for Americas Integration and Global Liberalization? (cont.)

- Could be abated *if*
  - ◆ US's commitment to FTAA continues, its bilateral/plurilateral FTAs notwithstanding.
  - ◆ More Trans-oceanic PTAs are signed with EU and Asia-Pacific countries.
  - ◆ WH countries' commitment to active participation in WTO is kept alive by successful multilateral negotiations.

*Thanks*