

## **RTAs IN THE AMERICAS**

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## **I. Introduction**

Trade Liberalization in particular through regional integration initiatives, occupies a prominent chapter in any economic history account of Latin America in the XX century, a century where external events have played a key role in determining the development path for most countries in the region. Some decades from now, when future economic historians look back at the turning point of this century they will have to pay special attention, once again, to the role played by the external trade policies undertaken by most countries in the region (and their most important partners) during the 1990s. Among all structural reforms implemented in recent times, trade liberalization in general, and market access liberalization in particular, stands out as the most consistent policy advocated by countries throughout the period. Although the extent of liberalization has varied from country to country and from sector to sector, economic historians will look back at this period as the most open in the region since the period before the Great Depression of the 1930s. However, the agenda on hemispheric trade integration is far from being finished.

This paper is dedicated to present a detailed account on how much trade integration has been achieved in the hemisphere and what needs to be completed. It evaluates the complex web of simultaneous unilateral, multilateral and preferential (bilateral or regional) trade liberalization efforts in the region in recent times. These simultaneous policy efforts have defined a new paradigm in the way trade and integration policies have been designed and implemented throughout the region. As analyzed in greater detail in Chapter 1 this new paradigm was first named by ECLAC as “Open Regionalism” and most recently, in similar but more theoretical fashion, analyzed by Ethier (1998) and Devlin and Estevadeordal (2001) under the name of “New Regionalism”. According to Ethier’s analysis, first, most countries (particularly the smaller ones) have made important unilateral reforms and liberalized trade on a multilateral basis before (or simultaneously) to the negotiation of new preferential trade agreements. Second, when the preferential relation involved countries of different relative sizes, the burden of liberalization has been often on the small country. Third, the trade policy reforms have involved usually deep objectives, which go beyond traditional market access opening. Finally, there has been a dominant regional bias, in a geographical sense, in most preferential trade agreements.

Section II is dedicated to briefly present the major changing patterns of trade associated with the intense process of regional integration in the 1990s. Sections III to V provide an overview of the trade policy paradigm in Latin America in recent years quantifying the importance and the degree of trade liberalization and trade integration achieved on several fronts and with respect to various measures affecting trade, mostly tariffs and non-tariff measures. The last section evaluates the complexities associated with the “spaghetti bowl” of trade agreements in the region in the context of the ongoing negotiations of the Free Trade Area of the Americas (FTAA).

## **II. Is there a new pattern of trade in the 1990s?**

During the 1980s, in the aftermath of the debt crisis, the trade performance of LAC economies has been very poor. In 1990 total trade had only slightly surpassed the level reached one decade before (Figure 1). In the same period, the degree of openness, measured by the ratio of total trade over the GDP, stagnated at 26% (Figure 2). In contrast, during the 1990s, as a result of the widespread adoption of outward-oriented development policies the growth of trade flows has been unprecedented. On average, imports grew by 23% annually while exports grew at a rate of 17%, substantially above the 8% annual growth rate of world trade. Consequently the degree of openness increased at 32%. Nevertheless, it is nowadays still lower than that of High-income OECD economies (40%) or of East Asian and Pacific economies (74%).

The opening of LAC economies has been achieved with a three-tier strategy that involved unilateral, multilateral and sub-regional trade liberalization. Although LAC countries have created a complex intra-regional web of preferential trading agreements during the 1990s, it is possible to identify five main sub-regions, i.e : the North American Free Trade Area (NAFTA), the Central American Common Market (CACM), the Caribbean Community (CARICOM), the Andean Community of Nations (ANC) and the Southern Cone Common Market (MERCOSUR). Accordingly, the expansion of total trade has been paralleled by an increasing orientation of trade flows along the lines of negotiated sub-regional trading agreements. Intra sub-regional trade shares increased in almost all major sub-regions, albeit with different strength (Figure 3). Throughout the last decade, intra-regional trade increased from 37% to 47% in NAFTA, from 11% to 21% in MERCOSUR, from 5% to 10% in the CAN and from 7% to 10% in CARICOM. It only declined in the CACM, where it dwindled from 12% to 11%.

In the nineties, the pattern of LAC trade changed not only quantitatively but also qualitatively. In a good number of countries of the region the sub-regional markets provided the opportunity to increase the exports of manufactures good that couldn't be exported in extra-regional markets. Figure 4 shows for selected countries the ratio of manufactures goods exported to the sub-regional market over the total exports of manufacture goods. Compared with the mid-eighties the share of intra-regional manufacture exports has increased dramatically for many countries. The strongest increase takes place in MERCOSUR countries, but also in Nicaragua and Honduras in the CACM and in Venezuela and Ecuador in the ANC. The only notable exception is Costa Rica that strongly reoriented the exports of manufacture goods towards extra-regional markets. This trend shows that regional markets played a key role in allowing member countries to diversify the sectoral composition of their exports. In contrast, Figure 5 shows that even though the regionalization of agriculture trade has progressed during the nineties, it has been on average less dynamic than that of trade in manufactures. Countries such Bolivia, El Salvador and Venezuela have been those in which the integration of regional agriculture markets have been the most dramatic. In general, the progressions of agricultural trade integration manifested more in the ANC and in the CACM than in the MERCOSUR or NAFTA.

These indicators outline the new pattern of trade that emerged during the nineties in the LAC region. Trade flows grew impressively and regional economies are nowadays more open than in the past. In the meantime, sub-regional and regional markets have become an increasingly important destination for LAC exports. In these markets the relative weight of manufacture exports is higher than in global markets, while agriculture trade integration has been less dynamic. In other words, during the nineties LAC economies increased their participation to the globalization through the development of trade flows. The creation of regional markets has been in many cases complementary to global trade liberalization, though providing an opportunity for shifting the pattern of trade specialization toward goods presenting higher value-added content and lower vulnerability to the terms of trade shocks.

### **III. The complex web of trade liberalization in the 1990s: Is there a “Spaghetti Bowl”?**

Starting in the mid to late 1980s, most of the developing world was moving toward substantial market-oriented economic reforms, which included, almost without exception, unilateral trade liberalization policies. In addition, all of this was happening in the context of multilateral efforts in Geneva to liberalize trade in goods and services around the world, which culminated in the Uruguay Round Agreements of 1994 and the creation of the World Trade Organization in 1995. Moreover, a growing interest in regionalism was taking hold around the world, especially in Latin America, in the context of old regional initiatives or as newly crafted preferential trade agreements.

The mid-1990s marked the tenth anniversary of the beginning of the wave of substantive unilateral trade reforms undertaken by most countries in the region. The depth of these reforms is self evident when looking at the average regional tariff rates that went from 40 percent in the mid-1980s to 11 percent in mid-1990s. For most countries those tariff cuts were in the order of 50 percent and they were implemented over relatively short periods of time (two to three years). Average maximum tariffs in the region fell from more than 80 to 40 percent with only very few countries currently applying maximum tariffs of up to 100 percent on a small number of products. Tariff dispersion, on average, has declined from 30 percent in the mid-1980s to an average of 9 percent today. Both the highest average rate and the highest dispersion rate, as measured by the standard deviation, are currently under 18 percent. There are still, however, some important tariff peaks. On average, approximately 20 percent of tariff lines are subject to rates above 20 percent. Table 1 reports the evolution of liberalization since the mid-1980s in selected countries.

Also, in the mid-1990s, the Final Act of the Uruguay Round was signed at Marrakech (April 1994), ending almost a decade of multilateral trade negotiations. The agreements, which made up the final package entered into force on January 1995, including the agreement establishing the World Trade Organization, which is responsible for administering the most sophisticated, and comprehensive world trade agreement ever signed. The Uruguay Round negotiations (1986-1994) were primarily concerned with two basic issues on market access. First, ensuring greater access to markets by reducing or eliminating obstacles to trade in goods and services. Second, making the new levels of market access legally binding under more stringent WTO regulations and procedures. In the area of

tariff liberalization, this latest round of GATT negotiations achieved an average tariff reduction of 38 percent in industrialized countries and, from the standpoint of the Latin American and the Caribbean countries, implied substantial commitments to dismantle import barriers. The central obligation with respect to tariffs requires countries to limit their levels to a specified maximum or so-called GATT tariff commitment or “binding”. The latest round resulted in a significant increase in the number of bound tariff lines. In the case of developed countries, the increase went from 22 to 72 percent; and in the case of countries in transition, it went from 78 to 98 percent. Latin America as a whole agreed to bind practically all tariff lines. This is especially significant when compared to the existing levels of tariff bindings before the Uruguay Round began. In Latin America as a whole, only 38 percent of tariff lines for industrial products were bound, equivalent to 57 percent of imports. For agricultural products, the percentages were 36 and 74 percent, respectively.

These unilateral and multilateral reforms have been accompanied in Latin America and the Caribbean by an active agenda of Free Trade Agreements (FTAs).<sup>1</sup> FTAs have a long history in the region. In the 1950s there was much discussion of a Latin American Common Market. Following a decade of negotiations the Latin American Free Trade Association (LAFTA), comprising the South American countries and Mexico was launched in 1960. The same year the Central American Common Market (CACM) was also officially launched. Also, the Andean Group (AG) was founded in 1969. While the agreements experienced some success (especially the CACM), it was short lived. By the second half of the seventies all of them were in great difficulty and most of them fell into open crisis in the 1980s. These old Post-War regional initiatives can be characterized by the following stylized facts. First, the central objective of the agreements was to support the prevailing state-led import substitution industrialization (ISI) model of development. The model was expressive of export pessimism, skepticism regarding private markets, and great concern about the presence and dependence on foreign firms. The goal was to industrialize by substituting imports behind high levels of national protection (effective protection reached levels of 150-200 percent), state planning and direct public sector intervention in markets. Second, regional integration was seen as an instrument to overcome the limitations of the ISI model through the creation of a regional market. The approach was to eliminate internal barriers to trade while maintaining high levels of external protection and expanding industrial planning to the regional level. Third, the liberalization

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<sup>1</sup>. A detailed comparative analysis between the “Old” and “New” Regionalism can be found in Devlin and Estevadeordal (2001).

mechanisms were mostly based on multiple positive lists coupled with by complex arrangements for special and differential treatment for the less developed members. Fourth, the creation of a costly bureaucratic architecture inspired by the European model in most of the agreements *cum* sectoral industrial programming, eroded credibility with the private sector. Fifth, in terms of liberalization and trade, the old schemes generally did not succeed in meeting their most basic objectives. Negotiations and liberalization schedules bogged down quickly. Hence, effective liberalization was limited and growth of intra-regional trade modest (Central America was probably the only important exception). Other disciplines often did not go beyond paper accords.

The debt crisis of the early 1980s and consequent balance of payments problems induced a deep recession in Latin America and with that, a severe contraction of intra-regional trade. However, to the surprise of many observers, new regional initiatives began to appear in the second half of the 1980s and a true resurgence materialized in the decade of the 1990s. The initial preferential arrangements were the so-called Economic Complementary Agreements (*Acuerdos de Complementación Económica* or ACE in Spanish) under the framework of the Latin American Integration Association (LAIA, or ALADI, *Asociación Latinoamericana de Integración* in Spanish), that was created in 1980 as the successor to LAFTA. ALADI eschewed the objectives of the 1960s in favor of limited agreements confined to market access via the exchange of partial or full preferences on specific products. However, by the time the multilateral talks ended in 1994, a new generation of regional preferential agreements had already spread throughout much of Latin America. Months before the signature of the Final Act of the Uruguay Round, the North American Free Trade Agreement (NAFTA) was implemented. In addition, important advances were made in the Southern Cone in preparation for the launching of MERCOSUR in January 1995, a customs union project among Argentina, Brazil, Paraguay and Uruguay building upon some previously signed bilateral ACE agreements. Later in the year, in December 1994, the most ambitious initiative for economic integration was launched during the Miami Summit under the acronym of FTAA (Free Trade Area of the Americas). Moreover, during the same time period two countries in the hemisphere were in the process of consolidating their positions as strategic trade hubs in the region for the time to come. Mexico was able to secure in 1994 three important agreements--which were based on the NAFTA model-- with Costa Rica in April, with Colombia and Venezuela (known as the G-3 Agreement) in June and with Bolivia in September. All three agreements were implemented at the beginning of 1995. Mexico then built on this momentum by concluding agreements with

Nicaragua in 1997 and the Northern Triangle in 2000 and successfully broadened and deepened its agreement with Chile in 1998. The Americas' other trade hub, Chile, acquired its status by building in a gradual and consistent fashion. It signed its first and most basic agreements, in terms of scope and nature of coverage, with Mexico in 1991, Venezuela in 1992, Colombia in 1993 and Ecuador in 1994. The level of scope and sophistication then somewhat expanded in Chile's 1996 agreement with MERCOSUR and 1998 agreement with Peru. Nevertheless, the broadest expansion yet in the nature of Chilean agreements came in 1996 with the signing a free trade agreement with Canada, which almost completely mimicked the NAFTA. Subsequently, Chile's 1998 upgraded agreement with Mexico was based on the NAFTA model as was its 1999 accords with the countries of the Central American Common Market. Most recently, Chile has been negotiating a free trade agreement with the United States based on the NAFTA model. When concluded, it will add to the ever-growing list of North-South Agreements in the Hemisphere of this type. In addition, around the same time, important institutional and policy reforms were carried out in existing agreements such as the Andean Pact (renamed Andean Community in 1997), CARICOM and the Central American Common Market.

This dynamism has also been present at the extra regional level, in particular, in the context of the APEC initiative. Mexico joined APEC as a full member in November 1993, Chile entered one year later and Peru in 1998. Moreover, during the II Presidential Meeting of APEC in November 1994 in Indonesia (the same year of the launching of the FTAA), the leaders agreed to achieve the goal of free trade and investment in the region by no later than 2010 for the industrialized economies and 2020 for developing countries. This brief review of the integration efforts in the mid-1990s would be incomplete without reference to the European Union involvement with Latin America. In December 1995 a trade and economic cooperation agreement with MERCOSUR was signed. A Framework Cooperation Agreement with Chile followed this in June 1996. However, the most far-reaching process to date has been the *Economic Partnership, Political Coordination and Cooperation Agreement* between Mexico and the European Union. The broad framework agreement was signed in 1997 and led to the signing of a comprehensive free trade agreement between the two parties in 1999. Formal launching of negotiations of Association Agreements by the EU with MERCOSUR and Chile were agreed on April 2000. Chile signed the agreement with the EU in May 2002. In brief, more than 40 trade agreements now coexist in the hemisphere, in addition to other agreements that are now being negotiated or that will be negotiated before 2005 creating what

some authors have called “spaghetti-bowl” of trade agreements with their own tariff reduction scheme, its own rules of origin, and its own technical, procedural and even documental systems (Table 2 and Figure 6). The potential problems of this “spaghetti-bowl” effect will be analyzed in the last section in the context of the challenges for the ongoing FTAA negotiations.

This historical overview provides some insights on how the new regionalism in Latin America and the Caribbean has interacted (and will interact in the future) with other approaches to trade liberalization. Some of the commitments undertaken by the Latin American and Caribbean countries during the Uruguay Round negotiations can be explained by successful unilateral trade liberalization reforms carried out at the national level. In turn, those same commitments at the multilateral level acted as lock-in mechanism for the domestic reforms. At the same time, the Uruguay Round agreements set the stage for the pursuit of regional agreements under a common umbrella of global trade rules and a clearer set of disciplines under which preferential agreements can be negotiated. Moreover, while the reciprocal nature of the multilateral round provides a national political underpinning to further liberalization, and the economic advantages of free trade achieved at the multilateral level are well understood, it is sometimes difficult to evaluate net gains in a negotiating forum of more than one hundred countries with very different strategic interests acting as a constraint to new commitments. Regional and bilateral agreements offer certain advantages in this respect. These agreements are based on reciprocity principles involving a smaller group of countries. This can provide a better environment to reach consensus on the complex range of issues in modern trade agendas, to better evaluate the potential gains from this bargaining exercise and to gain private sector understanding and support for the liberalization process. Ethier (1998) has also pointed out that the incentives for exploiting the advantages of regional negotiations are greater the more successful are the multilateral rounds. In sum, this wave of new regionalism in the Americas including the deepening of agreements already in existence and the hemispheric wide FTAA negotiations should be seen as complementary forces to the unilateral reforms and multilateral efforts. Also, and most importantly, they are key laboratories for the development and the *learning-by-doing* of new paradigms in the design and implementation of trade policy around the world.<sup>2</sup>

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<sup>2</sup>. See Devlin and Ffrench-Davis (1999) and Devlin and Estevadeordal (2001).

#### **IV. Preferential Tariff Liberalization: An Important but Tricky Business**

Market access in traditional preferential agreements, in particular the Latin American ACE agreements, used to be negotiated by means of a fixed preferential tariff below the MFN rates and, in many cases, only for a selected group of products or sectors. Unilateral and multilateral tariff reductions had the effect of progressively eroding the margins of preference initially agreed upon. To maintain constant those margins over time countries had to renegotiate the agreements on a continuous basis. Later on, preferential agreements were based on constant relative margin of preference by means of negotiating a preferential tariff reduction as a percentage of the current MFN applied rates. Nowadays, most of the “new” FTAs have followed the NAFTA model in many respects, moving towards tariff phase-out programs that are relatively quick, automatic, and nearly universal. The tariff elimination process follows pre-specified timetables ranging from immediate elimination up to generally a 10-year period phase-out, with special phase-out periods for those products regarded as “sensitive”. The negotiations usually start with an agreement on a base rate or base level from which phase out schedules will be applied. Those base rates usually coincide with the MFN applied rates to third parties at the time of negotiations. This was the case, for instance, in NAFTA after initial proposals to use GATT bound rates were rejected. In other cases, it has been necessary to take into account previous preferences negotiated under other agreements in order to establish the initial base rate. These rates can also be subject to negotiations with the aim of beginning the phase-out schedules from lower rates. In a second stage, parties must agree on specific tariff elimination programs or phase-out schedules to bring the initial base rates to zero in a defined time period.

Figure 7 displays the evolution of MFN tariffs compared to the average preferential tariffs in several countries from mid-1980s to 1997 showing the simultaneous lowering of external and internal barriers, as one of the key stylized facts highlighted by Ethier (1998) in his analysis of the new regionalism. Figure 8 and 9 (a) and (b) presents several estimates of degree of liberalization by 2005 as a result of implementing existing liberalization programs of current agreements. Although most programs will eliminate internal tariffs for almost all products by 2005 (the average percentage of exceptions is around five percent, which contrasts favorably with most of the old agreements), the internal dynamics of the phase-out programs varies widely across agreements. Figure 10 normalizes the liberalization phase-out paths of several agreements as if all of them had started on the same

date. It then presents the percentage of items and bilateral trade that will be subject to zero tariffs over a ten-year time period, the usual GATT consistent framework for creation of a free trade area.<sup>3</sup> The figure shows the different built-in speeds of each agreement. For some agreements, more than fifty percent of the products become free of tariffs during the first year of implementation of the agreement. For others, those percentages will not be reached until the 5th year or later. Four patterns are observed. First, a high percentage of trade was liberalized in the first year of the US and Canadian NAFTA liberalization schedules vis-à-vis Mexico, the Mexico-Costa Rica FTA and the Mexican liberalization to Bolivia. In the case of the Chilean bilateral agreements and the liberalization of Bolivia to Mexico a high level of liberalization occurred by year five. A third pattern is the Mexican side of NAFTA, which undertakes the bulk of its opening between years 5 and 10. Finally, the G-3 did not undertake much liberalization at all until after year five. The figure also displays a relatively high degree of *nominal* reciprocity in liberalization schedules with the notable exception of NAFTA and the Mexico-Bolivia FTA.

The picture tells a different story when considering the amount of bilateral trade affected by the different tariff elimination programs. It is important to note the caveat that the projections are based on the import structure of the initial period and therefore assumes an unrealistic null elasticity of imports to the elimination of import tariffs. The data in the bottom half of Figure 3 shows a much higher degree of variance and no discernable pattern regarding the speed of the programs and the levels of reciprocity. When the examination it is done by sectors (not shown), the intra-sector dispersion among the agreements is quite marked and, in particular, the agricultural products generally have the most gradual liberalization schedules. Finally, with few exceptions, most of the bilateral trade in the agreements analyzed becomes fully liberalized within a ten-year period.

Figures 11 and 12 present the current average levels and distribution of the bilateral preferential rates among Latin American countries (1999-2000 data) vis-à-vis the multilateral tariff rates. A complete analysis requires looking at relative margins of preference, that is, the levels of tariff preferences relative to MFN rates. Examining first the MFN tariff profiles in Figure 11, the 11 countries fall into three rough groups. The first is characterized not only by higher MFN tariffs, but a wider distribution of tariffs as well. Argentina, Brazil, and Mexico fall into this category, the

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<sup>3</sup>. In reality, of course, the phase-out programs are discrete in time rather than continuous. However, for visual purposes the figures smooth out the discrete phases with a continuous fitting line.

three of them having the three highest tariff medians as well as the three highest extreme values. A second group has smaller overall dispersion and lower tariffs compared to the first group. Interestingly, however, the inter-quartile regions for these countries tend to be larger than those of the first group. This grouping consists of Colombia, Ecuador, Paraguay, Uruguay, and Venezuela. A final group of countries, consisting of Bolivia, Chile, and Peru, has for the most part uniform tariff structures. Furthermore, these countries tend to have lower median tariffs than those in the other two categories, and Bolivia and Chile have the two lowest medians of all.

These differences among categories become even more important when we take into account the preferential tariff structures. In fact, the median preferential tariffs for the Argentina-Brazil-Mexico group fall significantly; although not below those of the countries in the second grouping and the inter-quartile ranges of the preferential distribution are completely below the MFN structures of each respective country. In a sense, the “most protectionist” group is at the same time the one offering the highest margins of preference to the rest. The second group does give notable preferences to their regional trading partners, but apparently not to the same extent. Finally, the preferential tariff structure of the Bolivia-Chile-Peru group preserves the uniformity principle in terms of lower dispersion with significant margins of preference as well.

The effects of a RTA on trade flows can be divided into two categories: changes in the volume of trade and changes in the composition of trade. The effect of RTAs on both of these trade patterns, however, is a question of much speculation. Part of the speculation is due to the relative ambiguity of the relationship between trade agreements and trade volumes found in the academic literature. Most of the empirical literature in this area is based on econometric studies that examine the determinants of trade flows between countries using historical data or general equilibrium models (CGE) that applies simulation techniques to predict the impact of policy changes, in particular trade liberalization scenarios, on future trade flows and other economic variables. However, we know very little about the magnitude and significance of changes in trade barriers, precisely measured, and the resulting changes in bilateral trade volumes.<sup>4</sup>

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<sup>4</sup> Anderson (1999) states “(w)hile limits on information are notorious for non-tariff distortions, there is also surprisingly little systematic detailed information on tariffs and associated import volumes across a broad spectrum of countries and years.”

Estevadeordal and Robertson (2002) have examined the effects of preferential agreements on the volume of bilateral trade employing a gravity equation. This study analyzes the role of preferential and most favored nation tariffs on the volume of trade, based on a specification advocated by Anderson and van Wincoop's (2000) with data from several Latin American countries and its major industrialized partners, United States, Canada, Europe and Japan. Relatively few studies directly incorporate tariffs into the gravity equation.<sup>5</sup> One of the key advantages of this gravity approach is that directly compares the contributions of distance and tariffs, exploiting the fact that under a preferential agreement the policy frictions resulting from tariffs are generally not symmetric, while distance is a variable that measures a symmetric "geographical" friction due mainly to transportation costs. One of the key findings of the gravity model literature is that distance has a large and significant effect on trade volumes. Since trade also seems to be positively related to growth,<sup>6</sup> integration measures are hoped to reduce barriers to trade that will increase trade volumes and, ultimately, stimulate growth. The degree to which this is possible depends on the relative effect of barriers to trade on trade volumes. If distance dwarfs the effects of trade barriers, then countries that are relatively far from larger markets may not experience large benefits from integration agreements. This study suggests that tariff elasticities (the percent change in trade volumes induced by a one percent change in tariffs) are roughly equivalent to the effects of distance, suggesting that, while countries cannot change their location, they can change trade policy in a way to increase the benefits of trade. Chile, a country that suffers from a geographical disadvantage from most industrialized markets, experienced a large increase of bilateral trade after signing a bilateral Free Trade Agreement with Mexico and it has recently successfully signed key FTAs with Canada and the EU (it is currently negotiating another FTA with the United States).

Because of its discriminatory nature, a preferential agreement must distinguish "non-member originating" from "member originating" products in order for a product to be granted preferential access. The growth of international trade in goods that are not manufactured in a single country has made the issue of the rules for determining the "origin" (RoO) of goods traded into one of the most important and complex areas of preferential market access negotiations. Although this has been an area well known to trade lawyers and customs specialists (Vermulst et al. (1994)) it has just recently caught the attention of economists. The economic analysis of RoO has been relatively

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<sup>5</sup> Linnemann and Verbruggen (1991) is one exception.

limited, both in terms of formal modeling as well as empirical testing. It has been argued, from an analytical point of view, that the way in which RoO are defined and applied within modern preferential agreements plays an important role in determining the degree of protection they confer and the level of trade distortion effects which they produce.<sup>7</sup>

One of the most convincing treatments of the potential “hidden” protectionism of RoO has been elaborated by Krishna and Krueger (1995) who argued that RoO can induce a switch in the sourcing of low cost non-regional to high-cost regional inputs in order for producers to take advantage of the preferential rates. Since the tariff applies to the transaction value of final goods whenever preferences are deep and RoO are restrictive there is an incentive for regional producers to buy intermediate goods from regional sources. So, by displacing low-cost intermediate goods from the rest of the world, restrictive rules of origin provide additional protection to regional producers of intermediate goods to the apparent detriment of downstream or final goods producers. This apparent conflict could be explained because of the specific production relations that exist between component producers and users.

If the linkages between the different parts of the production chain are very tight, it may be difficult for a foreign final good producer to locate components within the region and remain competitive, that is, RoO “export protection” both for the intermediate and final goods producers. Moreover, outside producers of intermediate goods hurt by restrictive RoO may have an incentive to move production facilities into the lower-cost country within the region, even though it is not the lowest cost producer worldwide. This situation could potentially distort efficient investment decisions and hinder the liberalizing effects of a FTA.

Conceptually, there are two basic criteria to determine origin. The criterion of “wholly obtained or produced”, where only one country enters into consideration in attributing origin, and the criterion of “substantial transformation”, where two or more countries have taken part in the production process. The first criteria applies mainly to commodities and related products which have been entirely grown, extracted from the soil or harvested within the country, or manufactured there from

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<sup>6</sup> Frankel and Romer (1999) find a positive relationship between trade and growth, but the argument that trade liberalization leads to growth has been disputed (see Rodriguez and Rodrik 1999).

<sup>7</sup> See Hoekman (1993) for a conceptual discussion and Estevadeordal (2000) for an econometric application in the case of NAFTA.

any of these products. Such products acquire origin by virtue of the total absence of the use of any second country components or materials. Even a minimal content of imported components will imply losing its qualification of “wholly produced”. Most countries have adopted the precise definition contained in the Kyoto convention (Annex D.2) for this criterion.

The “substantial transformation” criterion is the second concept recognized by the Kyoto Convention as a basis on which origin of goods may be determined. The Kyoto Convention does not offer a single approach for defining substantial transformation. One of the goals underlying the NAFTA negotiations on RoO was to develop specific criteria to give more precision to this concept. There are at least three methods in the NAFTA agreement:

- A change in tariff classification, requiring the product to change its tariff heading, chapter under the Harmonized Commodity Description System (Harmonized System) in the originating country.
- A domestic content rule or regional value content, RVC, requiring a minimum percentage of local value added in the originating country (or setting the maximum percentage of value originating in non-member countries).
- A technical requirement, TECH, prescribing that the product must undergo specific manufacturing processing operations in the originating country.

These methods have been used with different degrees of precision under different FTAs. In the case of agreements negotiated in the Americas, we find at one extreme of this “continuum” traditional agreements where a general rule is being used across the board for all tariff items (e.g., under the traditional LAIA agreements the general RoO that applies across-the-board is based on a Change in Tariff Classification at the heading level or, alternatively, a regional value added of at least 50 percent of the FOB export value). At the other extreme we encounter the type of RoO negotiated under NAFTA that incorporates a general rule plus additional specific rules negotiated at the product level (6 digit HS), combining in many different ways the three methods described above. An immediate precedent with a lower degree of specificity can be found in the FTA agreement between the United States and Canada. RoO negotiated under the G-3 agreement, the Mexican bilateral with Costa Rica and Bolivia and the recent Chilean bilateral with Mexico and Canada are also close to the NAFTA model. Meanwhile, rules introduced under the MERCOSUR and

MERCOSUR bilateral with Chile and Bolivia, as well as the Central America Common Market, can be considered intermediate models between the two extreme cases.

The most sophisticated origin regime yet devised is, arguably, that contained in the North American Free Trade Agreement (NAFTA). These highly disaggregated and heterogeneous rules run for many pages and make liberal use of the different types of origin methodologies. Understandably, the negotiating history of NAFTA is replete with battles over the content of specific rules of origin, for the difference between a favorable and unfavorable rule can easily run in the millions of dollars annually for some firms.

Although this has been an area well known to trade lawyers and customs specialists (Vermulst et al. (1994)) it has just recently caught the attention of economists. While the impact of political and economic interests in shaping the NAFTA rules of origin is well known, only recently there have been some attempts to estimate those effects. The economic analysis of RoO has been relatively limited, both in terms of formal modeling as well as empirical testing. It has been argued, from an analytical point of view, that the way in which RoO are defined and applied within modern preferential agreements plays an important role in determining the degree of protection they confer and the level of trade distortion effects which they produce (Hoekman, 1993). One of the most convincing treatments of the potential “hidden” protectionism of RoO has been elaborated by Krishna and Krueger (1995) who argued that RoO can induce a switch in the sourcing of low cost non-regional to high-cost regional inputs in order for producers to take advantage of the preferential rates. Since the tariff applies to the transaction value of final goods whenever preferences are deep and RoO are restrictive there is an incentive for regional producers to buy intermediate goods from regional sources. So, by displacing low-cost intermediate goods from the rest of the world, restrictive rules of origin provide additional protection to regional producers of intermediate goods to the apparent detriment of downstream or final goods producers. This apparent conflict could be explained because of the specific production relations that exist between component producers and users. If the linkages between the different parts of the production chain are very tight, it may be difficult for a foreign final good producer to locate components within the region and remain competitive, that is, RoO “export protection” both for the intermediate and final goods producers. Moreover, outside producers of intermediate goods hurt by restrictive RoO may have an incentive to move production facilities into the lower-cost country within the region, even though it is not the

lowest cost producer worldwide. This situation could potentially distort efficient investment decisions and hinder the liberalizing effects of a FTA. Estevadeordal (2000) has documented the interaction between the degree of stringency of Rules of Origin and the speed of the tariff liberalization program under NAFTA stressing the importance of considering RoO as primary policy instruments in the design and implementation of a Free Trade agreement. In the case of NAFTA, RoO clearly perform their main and justified role as instruments against trade deflection. The greater the difference between Mexican and US MFN tariffs, the higher the incentives for trade deflection and, therefore, the higher the degree of restrictiveness imposed by RoO. However, as it has been shown earlier, RoO can have an (intended or unintended) protectionist effect, for example, providing encouragement for certain regional production activities or protecting them from potential competition arising from the formation of the Free Trade Agreement. In the case of NAFTA, there is evidence that sectors with more restrictive RoO are also the ones with longer phase-out periods for tariff liberalization. Borrowing the language of the endogenous protection literature one could conclude that the same forces that push for tariff protection also push for more restrictive RoO. Estevadeordal and Miller (2002) show that NAFTA RoO have had important restrictive effects in specific sectors with respect to the use of the preferential rates granted under the agreement (Figure 13). Taking advantage of the fact that the preferential tariff regime of the previous US-Canada FTA was not modified under NAFTA and the major change of market access conditions come from a drastic change in the origin regime, the study shows that the “utilization rates” (percentage of trade that enters under preferential tariffs as opposed to MFN tariffs) decreased after NAFTA on those sectors where RoO became more restrictive. Depending of the sectors, this effect can be attributed to the sudden administrative burden of dealing with a new set of complicated rules or due to purely restrictive effects of more stringent rules. Because governments have, to a significant degree, abandoned across-the-board protectionism, they are increasingly seeking other restrictive trade instruments that can be used effectively at the micro level. Hence the burgeoning interest in rules of origin and other non-tariff measures. The structure of RoO in a selected number of Latin American FTAs is presented in Table 3. The table illustrates the degree of specificity used in the making of the RoO in these modern agreements.

## V. Measures of Last Resort

As countries succeed in eliminating tariffs, both explicit and subtler new ways to protect domestic industry from external competition have been developed. A major accomplishment of several rounds of multilateral trade negotiations in the context of the GATT agreement has been the steady reduction of tariffs across sectors and countries. Tariff reductions negotiated during the Kennedy Round (1967) and the Tokyo Round (1979) were followed by an increased use of non-tariff barriers in the form of quantitative restrictions. The Uruguay Round made important progress in reducing those types of trade barriers. However, countries are progressively relying in more subtle forms of protection such as antidumping investigations or the use of technical standards. The level of protection provided by such barriers is far more difficult to quantify than for tariffs or other quantitative restrictions, making negotiations for their removal difficult. Due to their potentially restrictive intent, there has been considerable progress made towards the harmonization across countries. Determining the tariff equivalent of a quantitative restrictions are difficult, but determining the costs to an importer of the paperwork for a health permit, a change in packaging requirements, or inconsistent enforcement of customs standards often proves practically impossible. The benefits of traditional trade liberalization could be greatly reduced if countries merely compensate by imposing hidden protective technical measures.

Although most regional agreements contain provisions on the application of non-tariff measures to control imports among partners, in most cases those are applied on a MFN basis. In this section we provide an analysis of those measures, among other, minimum price setting, automatic license arrangements, non-automatic licenses, tariff rate-quotas, import prohibitions, monopolistic measures in the administration of imports, and other technical measures. During the period previous to the trade liberalization reforms most countries required import licenses in order to assure that imports did not surpass pre-set quotas. These levels could be modified by authorities in response to foreign exchange crises, becoming in practice an instrument to deal with balance of payment problems. The countries of the region gradually eliminated quantitative limits on imports both unilaterally and within the framework of multilateral commitments assumed during the Uruguay Round. The gradual elimination of quota systems on imports and their tariffication, prior to the tariff reduction per se, had the initial effect of raising revenues from custom duties and therefore limiting opposition to tariff reform. When both quotas and tariffs reduced simultaneously, however,

fiscal problems arose, even though these reforms were more credible. Taking a regional average for those countries where data is available, non-tariff measures affected 33.8 percent of imports in the pre-reform period, and declined to 11.4 percent. The number of tariff lines affected by these measures fell from 29.6 to 1.6 percent. There remains, however, trade regulation that could potentially restrict trade, such as government purchasing arrangements, inappropriate use of anti-dumping measures, and the increasing use of certain competition policies and technical measures with protective purposes.

In this paper we use two measures based on data compiled by the United Nations Conference on Trade and Development (UNCTAD) and the Inter-American Development Bank (TRAINS for the Americas). Alternative definitions of NTMs have been used in the empirical literature. UNCTAD uses an *overall* non-tariff incidence measure (NTM), and a *core* NTM incidence measure (*core*). Deardorff and Stern have proposed an alternative treatment of non-tariff measures, which disaggregates NTMs into several. In this study we have accommodated Deardorff and Stern's classification to the UNCTAD coding system and methodology in order to work with five additional NTM groups: *quantitative*, *charges*, *government participation in trade*, *customs*, and *technical barriers to trade*.<sup>8</sup> A summary on how the measures have been constructed appears in Annex 1.

As with our tariff analysis, Figure 14 displays the distribution of two aggregate measures: overall NTMs and the *core* measure, as well as the five disaggregated measures used by Deardorff and Stern for several countries. The box plots are constructed based on SITC 1-digit sections (instead of the 3-digit headers used in the tariff box plots), due to the tendency of the measures to be either zero or 100 at the more disaggregated product level. Charges, government, and customs tend to be zero or close to zero for most countries. Therefore, much of the action for overall NTMs is due to the presence of quantitative and technical measures. *Core* NTMs are generally quite low overall, albeit non-zero in terms of their box plots. The behavior of the *quantitative* measure variable varies significantly between countries and even within integration groups. Argentina, Brazil, Paraguay, as well as Colombia, Ecuador, and Venezuela tend to have a higher *quantitative* incidence, while Uruguay, Bolivia, and Peru have a lower incidence. Mexico and Chile have remarkably similar

*quantitative* behavior. Although the profile of the *technical* measure differs between countries, the figure displays clearly the growing importance of those measures, in particular in light of its potential use as protectionist measures.

## VI. The “Spaghetti bowl” and the FTAA<sup>9</sup>

The FTAA faces a difficult job in defining the terms of the FTAA’s coexistence with other trade agreements in the hemisphere. The ministers have coined a language<sup>10</sup> that does not necessarily contribute to solving the technical problems involved. For practical purposes, more than 40 trade agreements now coexist in the hemisphere, in addition to other agreements that are now being negotiated or that will be negotiated before 2005. This implies the challenge of having to decide whether (or how) to deal with current and potential access conditions for the goods that will benefit from this complex set of trade agreements.<sup>11</sup> As we have seen in the first part of this paper, each agreement has its own tariff reduction scheme, its own rules of origin, and its own technical, procedural and even documental systems.<sup>12</sup>

Many of these agreements have led, or are leading, to different complex programs to phase out trade barriers. The pace and speed of each depends on the results of negotiations among member states. Some of these also exclude certain goods or give special treatment to specific sectors. Consideration clearly must be given to what kind of treatment the FTAA can give these goods or sectors; or, if the treatment given under other agreements differs from that negotiated in the FTAA framework, it is worth considering whether both agreements can coexist.

In addition to the multitude of programs for phasing out trade barriers in the hemisphere, each agreement also has its own rules of origin regime. Rules of origin in themselves can add

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<sup>8</sup>. It should be noted here that although the categories are mutually exclusive, they together do not make up all of the measures that embodied in the NTM variable, although they cover most of them. Nor should these statistics be added together, since more than one class of measures could cover a tariff line.

<sup>9</sup> This section is based on Estevadeordal, Jank, Granados (2002).

<sup>10</sup>. The Ministerial Declarations made at the San José and Buenos Aires conferences establish literally that “The FTAA can co-exist with bilateral and sub regional agreements, in so far as the rights and obligations under such agreements are not covered by or do not exceed the rights and obligations of the FTAA.”

<sup>11</sup>. Despite these observations, it is important to remember that the agreements in force are the building blocks of FTAA construction. In many countries in the hemisphere, these agreements have helped build political consensus in favor of freer trade and the FTAA.

<sup>12</sup>. A single source with a series of more detailed analysis of the main agreements and the market access issue is: Estevadeordal and Robert (2001).

considerable complexity, both to negotiations and to their execution and verification. Likewise, the criteria for determining origin, the precise content of the “accumulation” clauses, and the specific rules for goods can vary greatly from agreement to agreement. This leaves us with the same question as before: How can different rules of origin schemes coexist, if only during the FTAA transition period? If a businessperson wants to export and has an FTAA rule of origin and another different rule for the same product under a bilateral agreement, how can his or her decision be facilitated? In fact, one of the basic aims of the FTAA is precisely this - to simplify trade in the hemisphere. At the technical and political levels, however, the question of coexistence is complex and will require a great deal of analysis.

The agreements currently in force in the hemisphere often contain disciplines relating to exporting and importing procedures, document and labeling requirements, technical regulations and standards, and requirements for verification and certification.<sup>13</sup> Once again, it will be up to the negotiators to define the best way of simplifying these requirements – something not always easy.

The panorama is indeed complex for current FTAA negotiations. However, three possible scenarios are most likely: 1) the FTAA negotiates its own tariff elimination program, its own set of rules of origin and its own requirements, while exporters decide on a case-by-case basis whether to opt for FTAA treatment or for treatment in accordance with another agreement, depending on what best suits their interests; 2) the FTAA invalidates pre-existing agreements on tariffs, origin and technical and procedural requirements, making FTAA criteria the only valid ones; 3) the FTAA does not step in to regulate tariffs, origin or procedural requirements among countries which already have a trade agreement in force. Each of these options has its advantages and disadvantages, some greater than others. It is worth noting that if the FTAA manages to rationalize the spaghetti bowl, it will have achieved significant positive externality. It is still early to predict to what degree the FTAA will be able to do this, but there is no reason to be too pessimistic. Perhaps the most important point here is that the FTAA could facilitate convergence toward multilateralism and that, as a result, the FTAA could become a regional agreement that will contribute to the construction of a vigorous multilateral arrangement.

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<sup>13</sup>. For an idea of the vast number of agreements in this area, see the FTAA paper, Provisions on Standards and Conformity Assessment in Trade and Integration Agreements of the Western Hemisphere at the FTAA official website: <[www.ftaa-alca.org](http://www.ftaa-alca.org)>.

## **ANNEX 1**

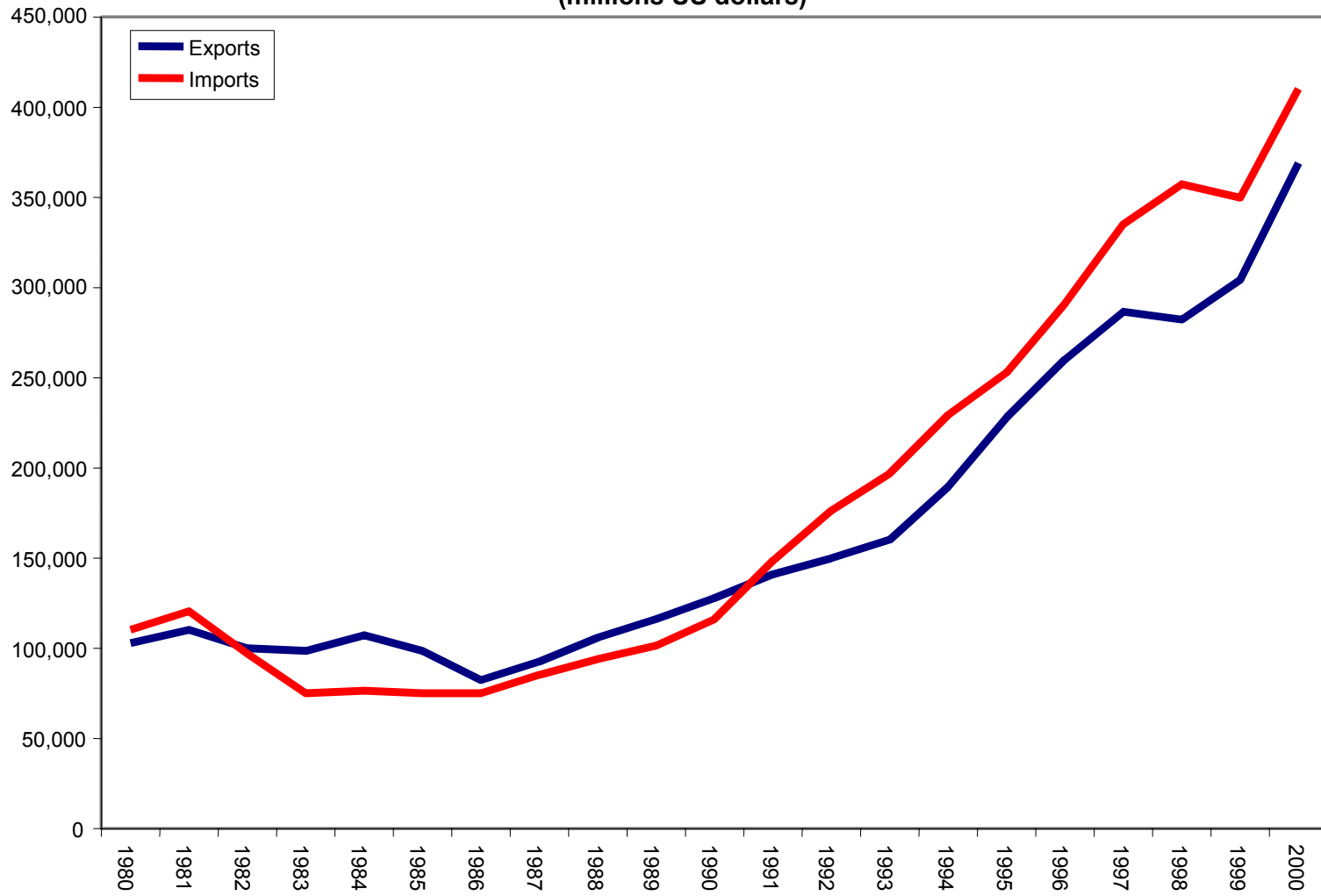
### **Methodology Used to Calculate Non-tariff Measures**

The methodology of NTM calculation follows UNCTAD-TRAINS methodology. The national tariff lines (usually 8 or 10 digits) are assigned a weight of 0 (no coverage), 50 (partial coverage of the tariff line), or 100 (full coverage of the tariff line). For example, if a country's 6-digit tariff line for 010210 consists of 01021010 and 01021090, with the former having partial NTM coverage, and the latter having full coverage, then the incidence for 010210 will be  $(50+100)/2=75\%$ . If there is only one measure covering a national tariff line, and the data denotes partial coverage of that tariff line, then that measure will be weighted as partial. If more than one measure applies to a national tariff line, however, then coverage is automatically considered to be complete. A simple average is then performed on the national tariff lines to find an incidence at the corresponding 6-digit tariff line. Finally, this measure at the 6-digit level is used as a baseline for further averaging into more aggregated measures (SITC).

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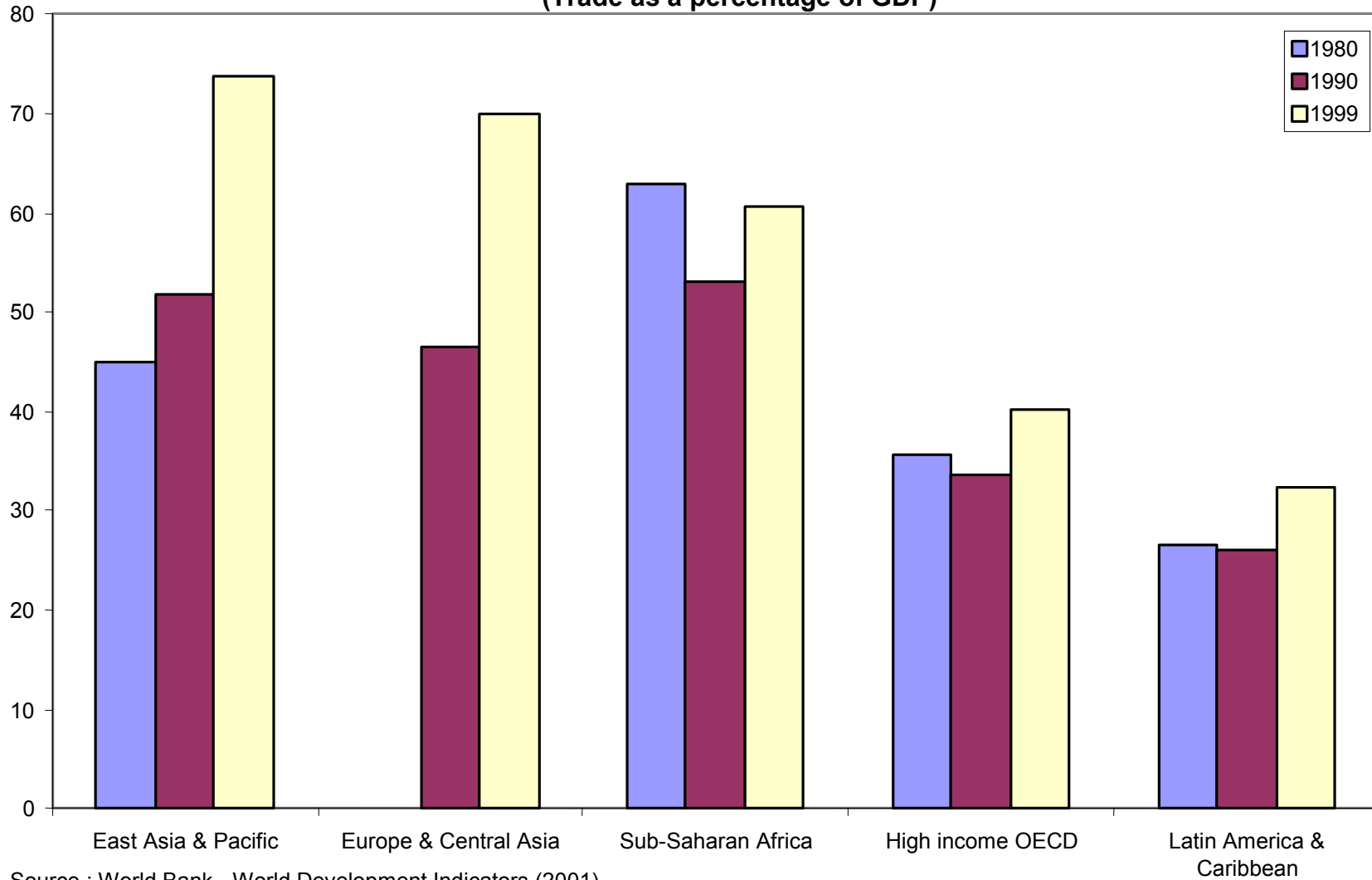
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**Figure 1**  
**Latin America and the Caribbean Trade**  
**(millions US dollars)**



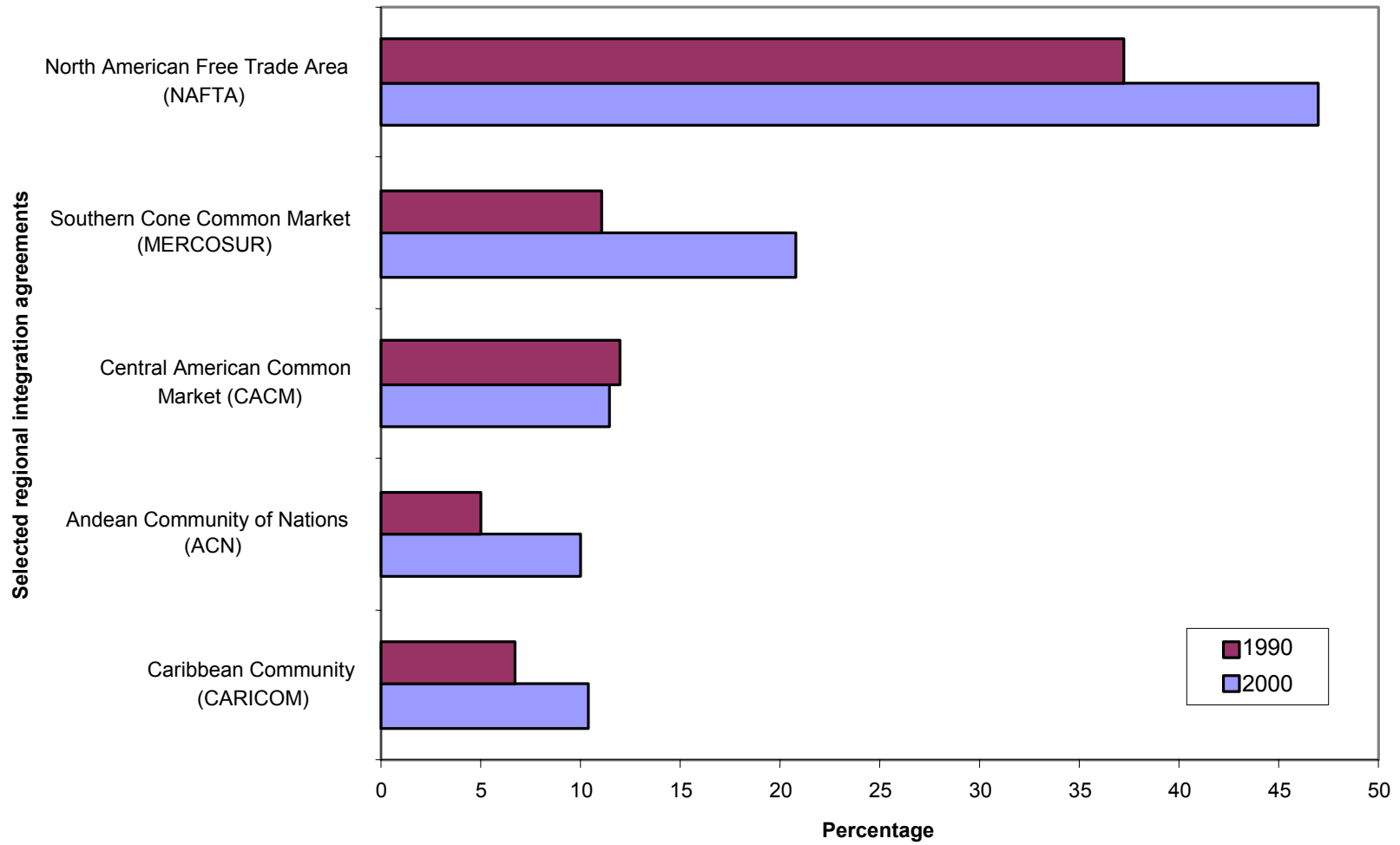
Source: IMF-Direction of Trade Statistics (2001)

**Figure 2**  
**Openness Coefficient**  
**(Trade as a percentage of GDP)**



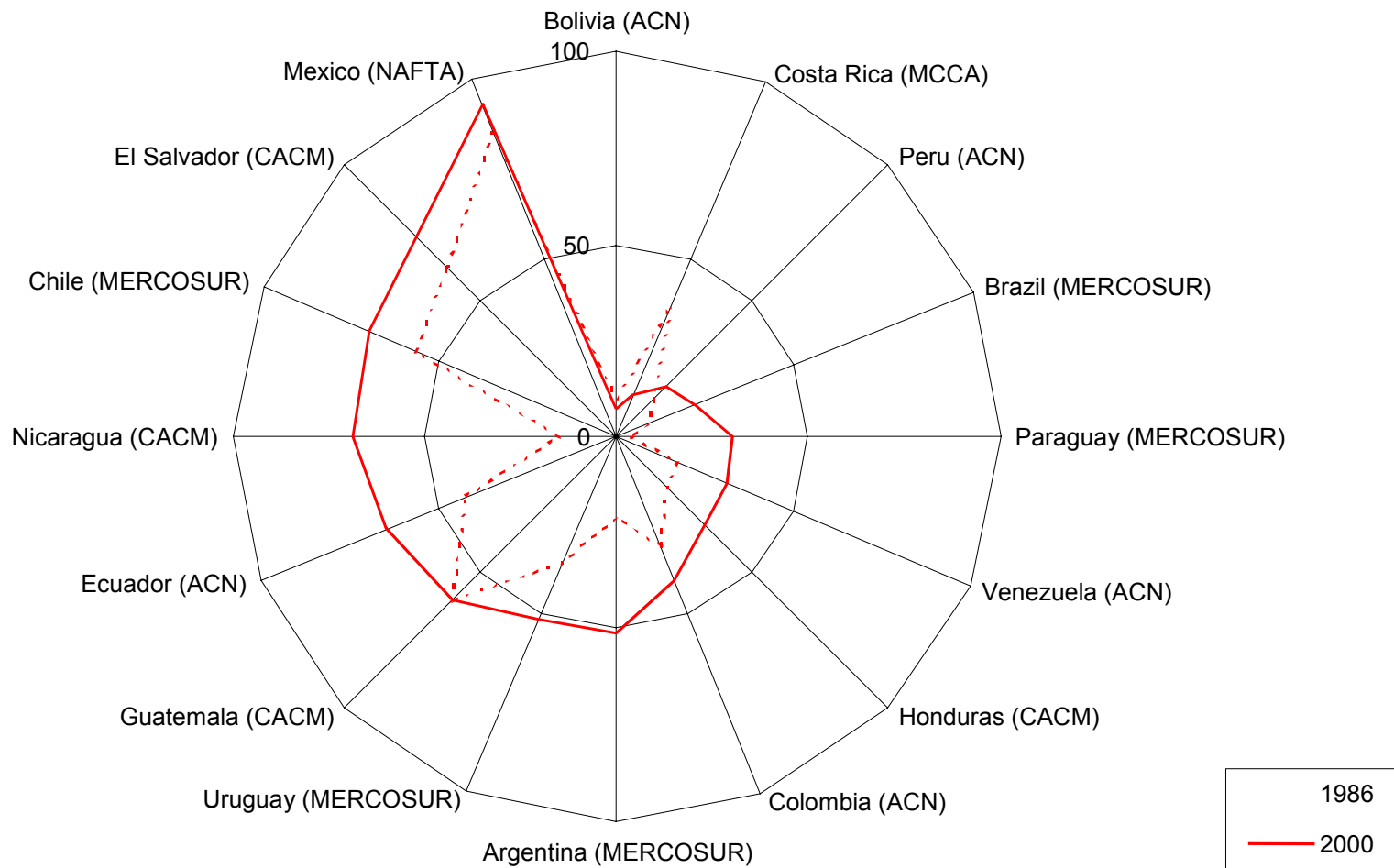
Source : World Bank - World Development Indicators (2001)

**Figure 3**  
**Intra-regional Trade Share**  
**(Percentage of Total Trade)**



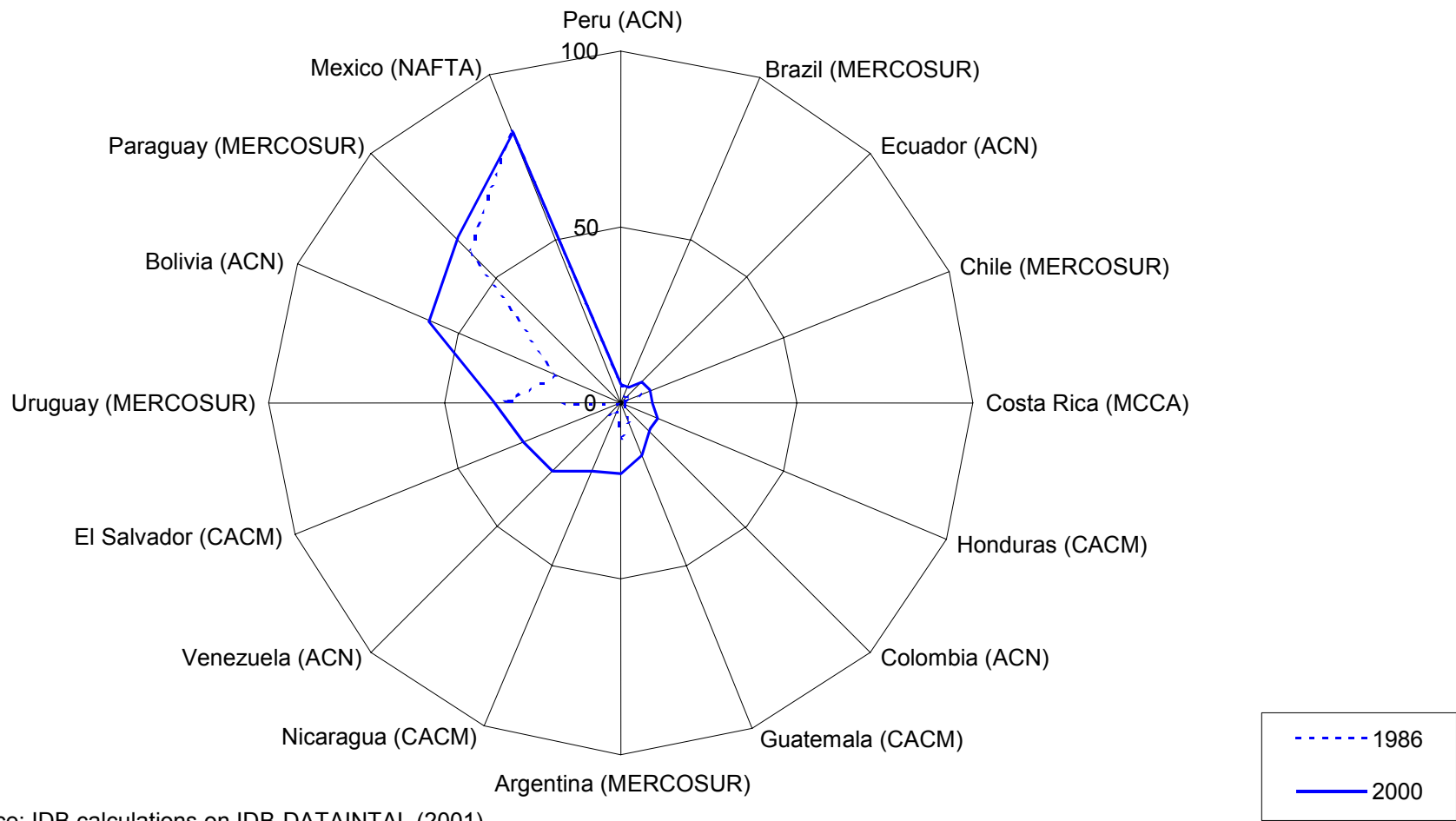
Source: IDB calculations on IMF - Direction of Trade Statistics (2001)

**Figure 4**  
**Intra-regional Exports in Manufactures**  
**Percentage of Total Manufacture Exports)**



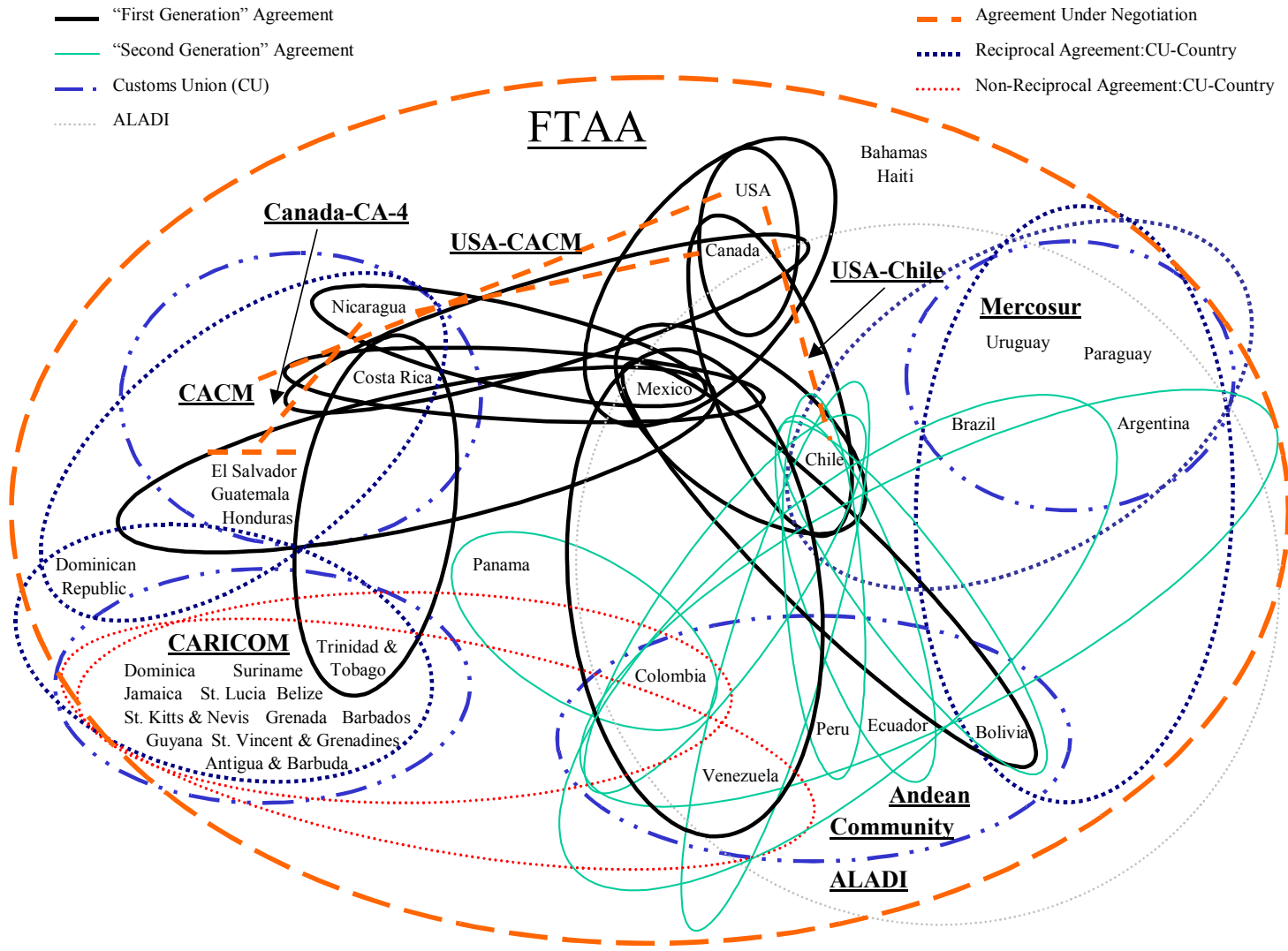
Source: IDB calculations on IDB-DATAINTAL (2001)

**Figure 5**  
**Intra-regional Exports in Agriculture**  
**(Percentage of Total Agriculture Exports)**



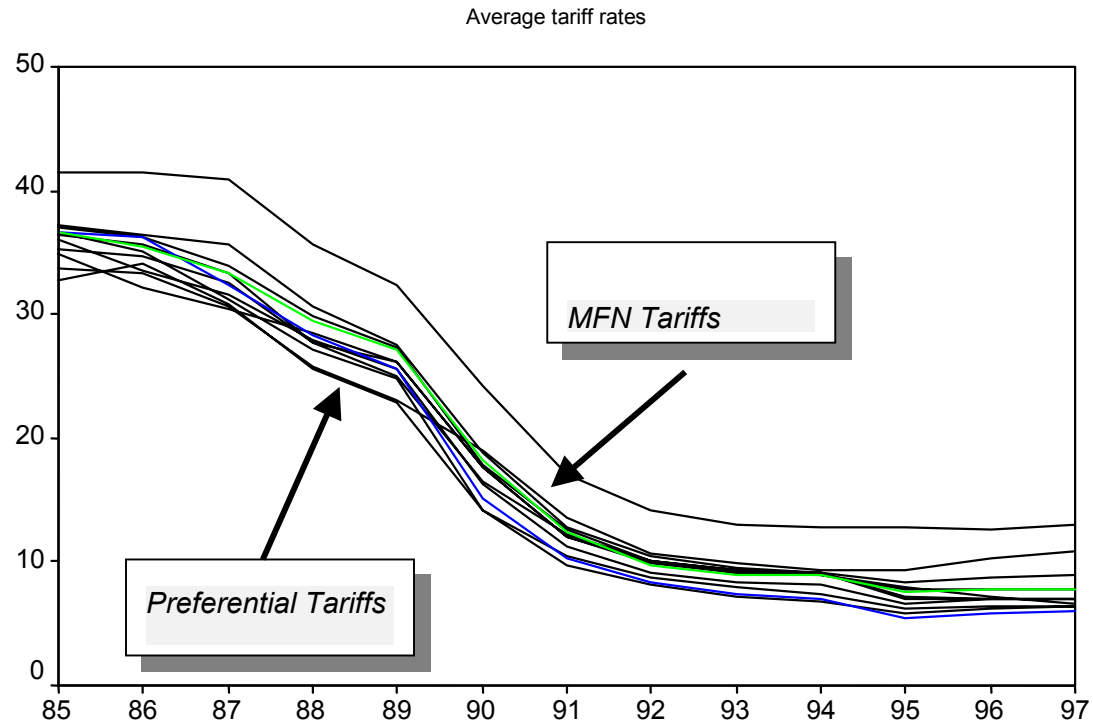
Source: IDB calculations on IDB-DATAINTAL (2001)

**Figure 6**  
**Trade Agreements Signed and Under Negotiation in the Americas**



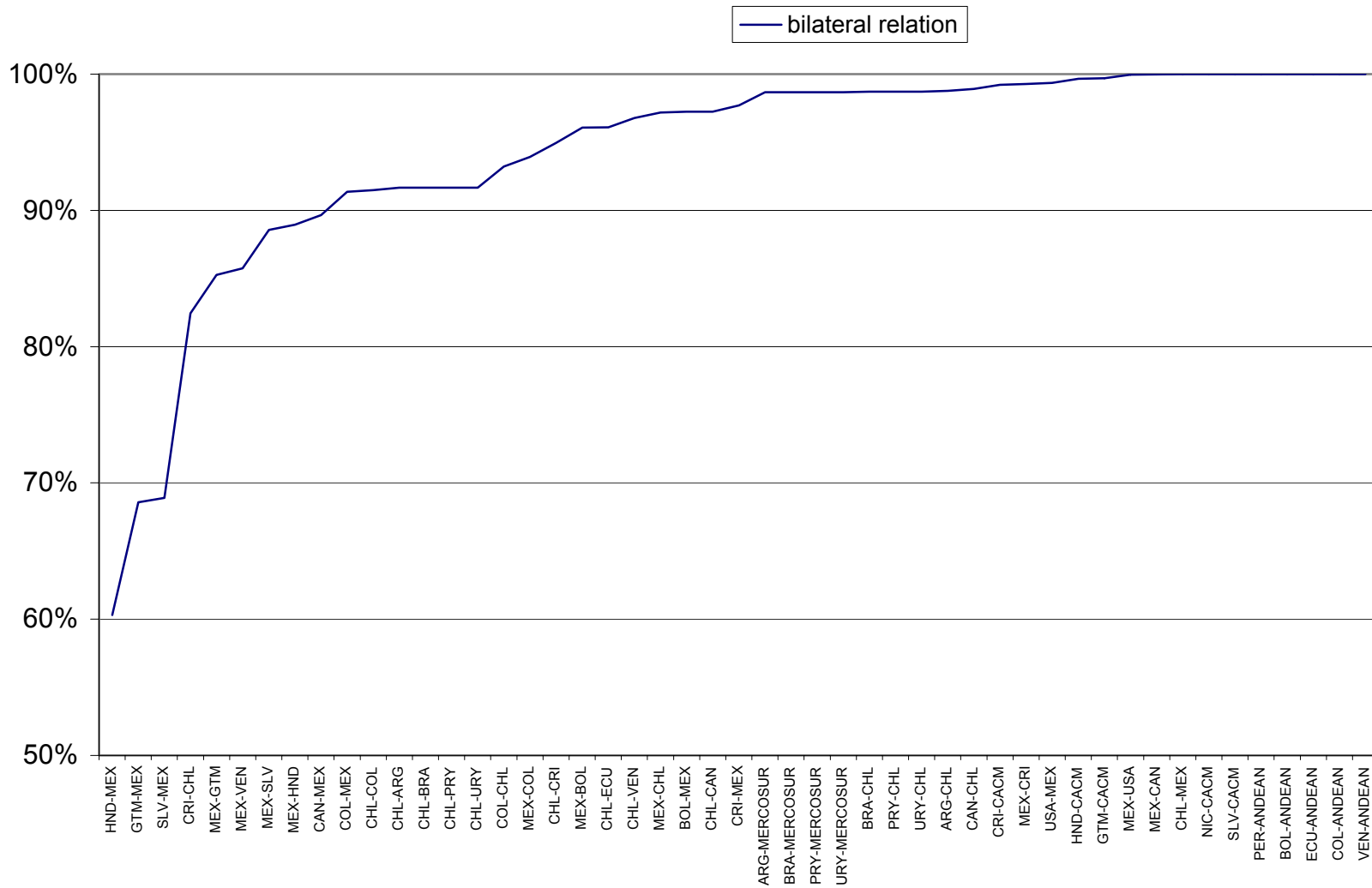
Source: IDB

**Figure 7**  
**MFN & Preferential Tariff Liberalization**  
Latin America 1985-1997



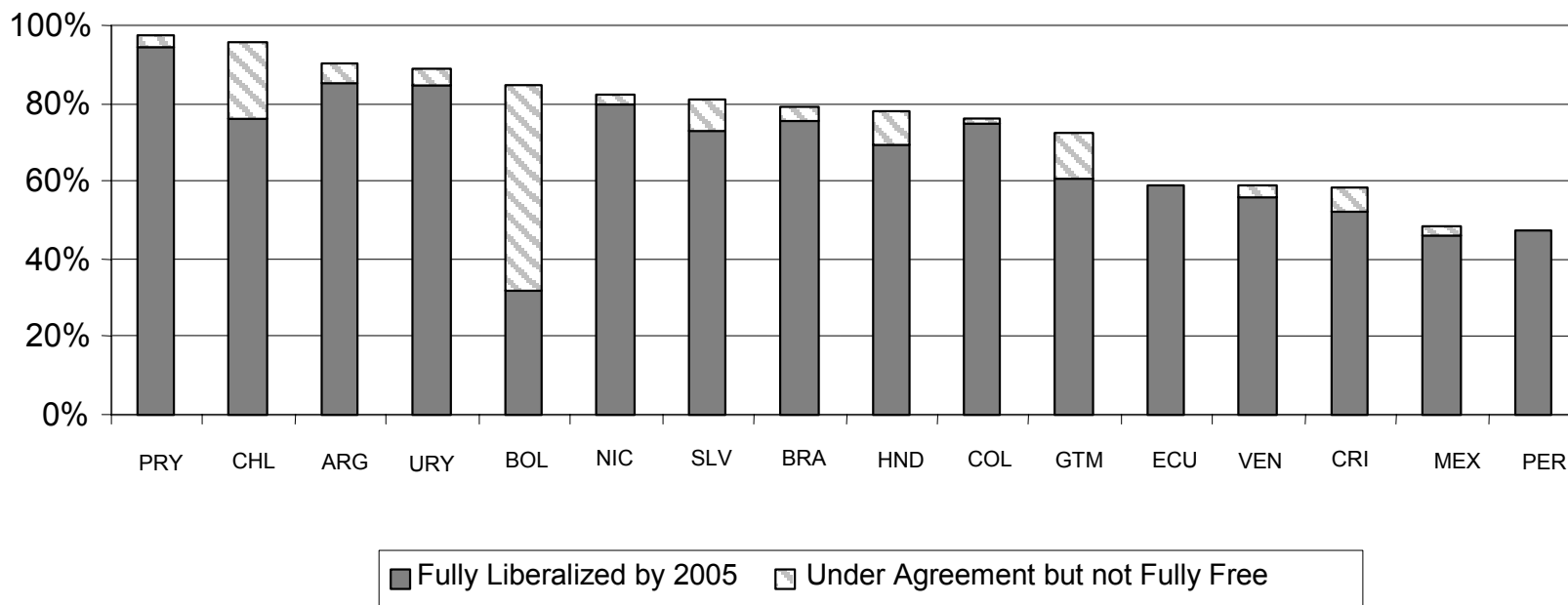
Source: Estevadeordal and Shearer (2002)

**Figure 8**  
**Trade Liberalization by 2005**  
**% of Items Free by 2005**



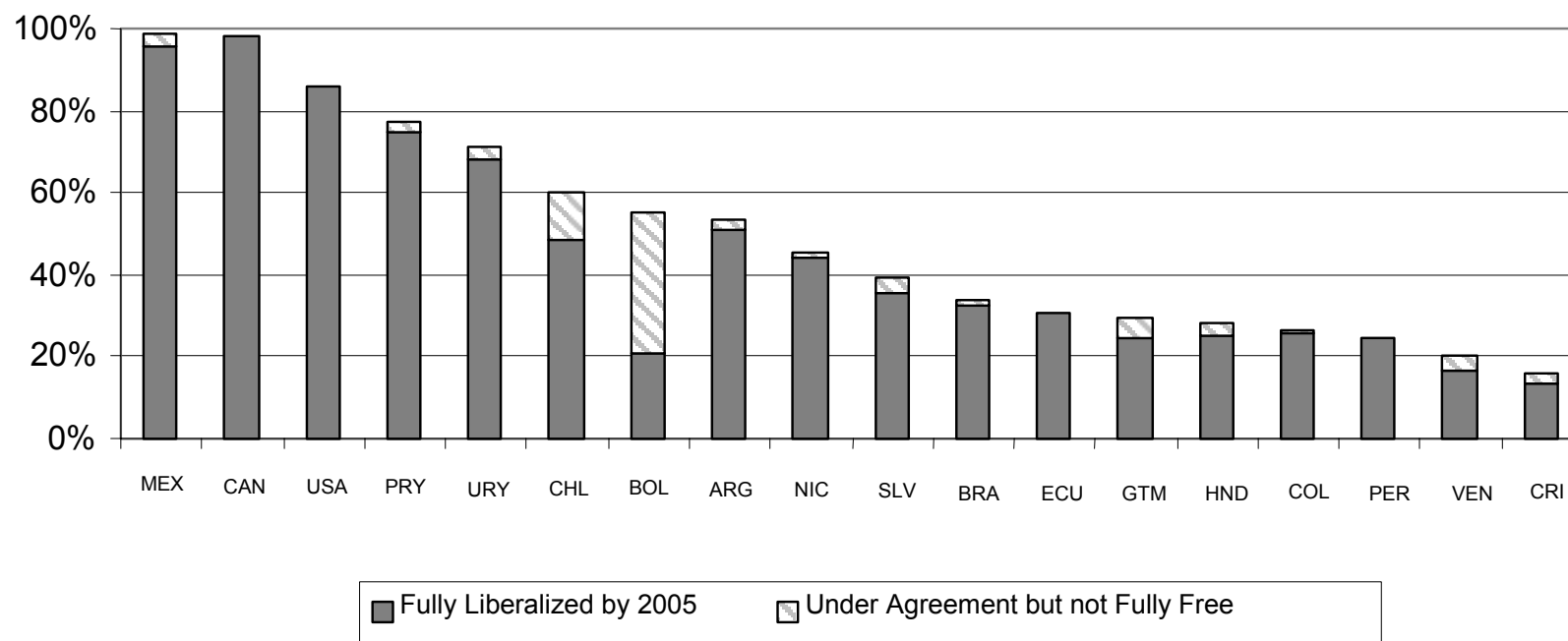
Source: Estevadeordal, Harris, and Shearer (2002)

**Figure 9a**  
**Trade Liberalization by 2005**  
**% Imports from Latin America under current agreements**  
 (Estimates)



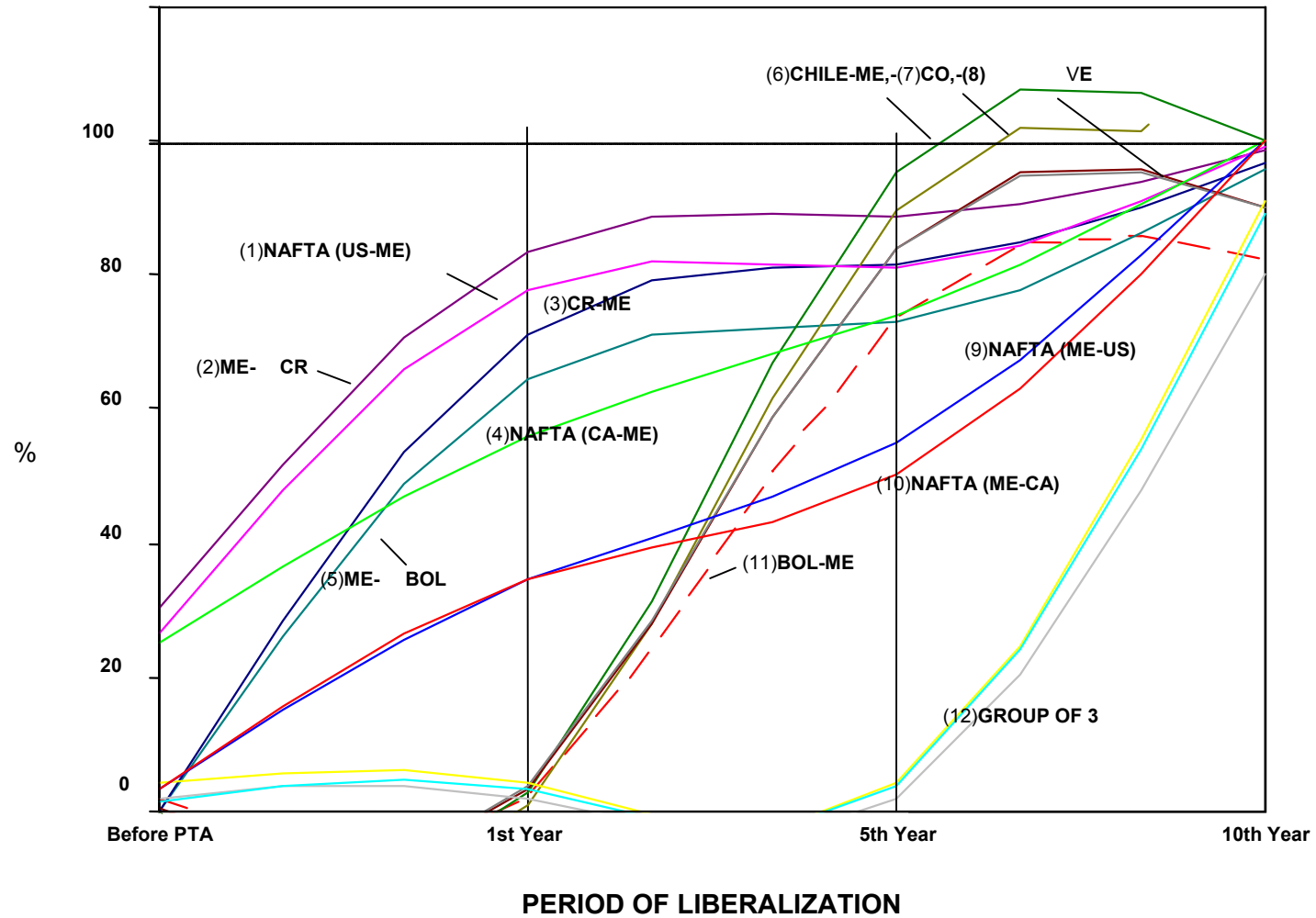
Source: Estevadeordal, Harris, and Shearer (2002)

**Figure 9b**  
**Trade Liberalization by 2005**  
**% Imports from the Western Hemisphere under current agreements**  
 (Estimates)



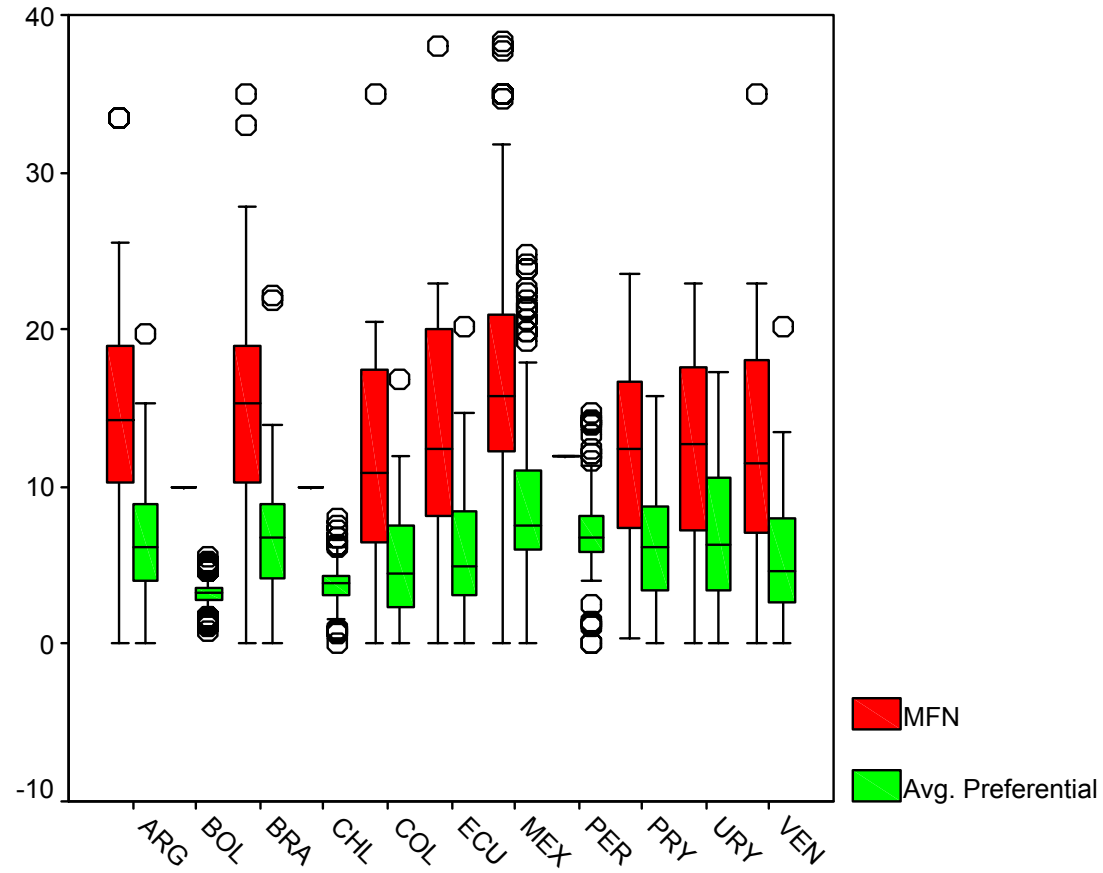
Source: Estevadeordal, Harris, and Shearer (2002)

**Figure 10**  
**New Regionalism: Speed of Intraregional Tariff Liberalization**  
 Percentage of items under Full Liberalization



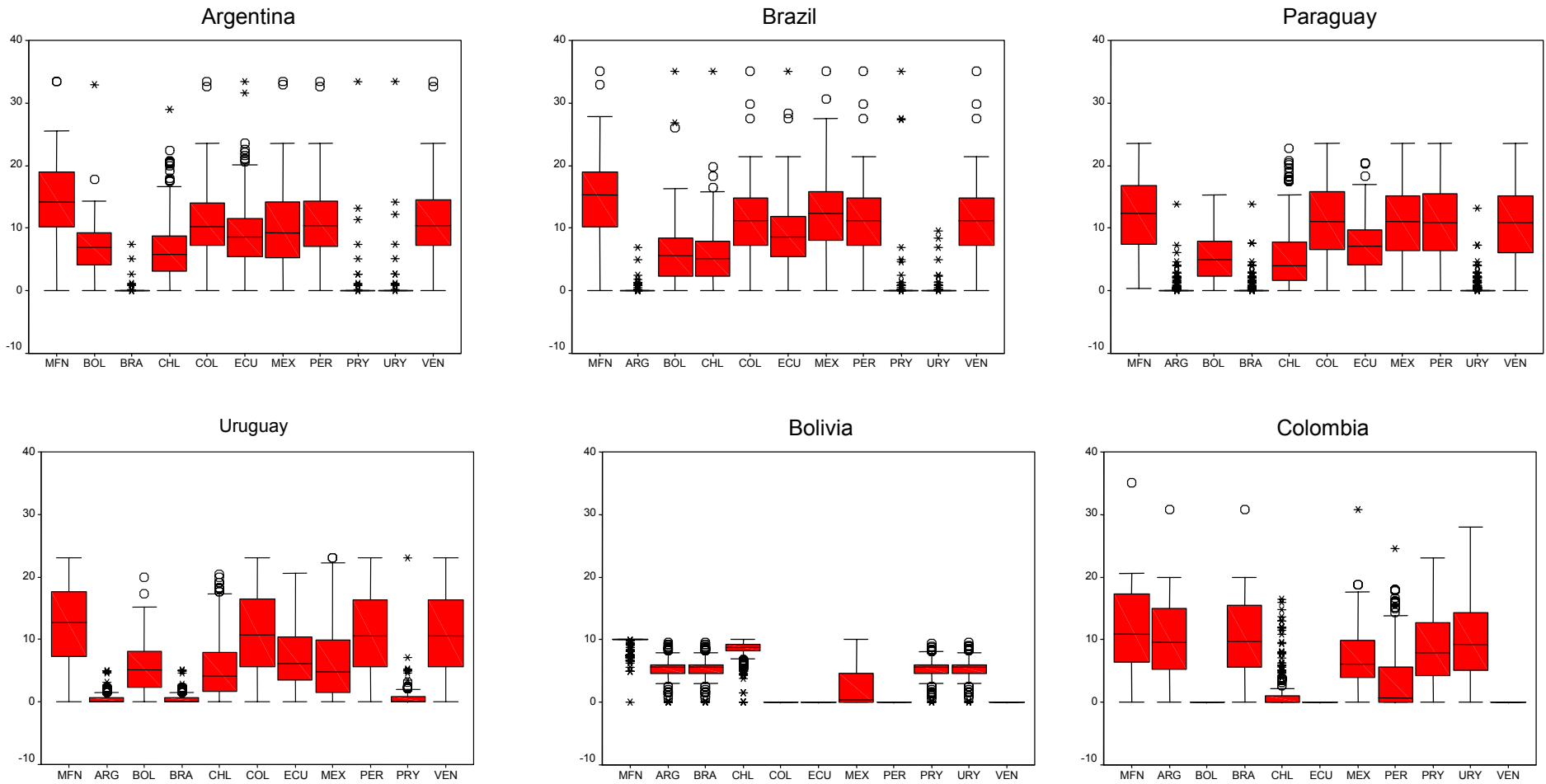
Source: Devlin and Estevadeordal (2001)

**Figure 11**  
**MFN and Preferential Tariff Structure in Latin America 1999-2000**

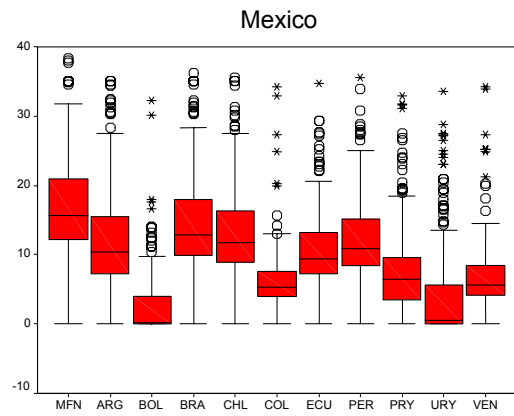
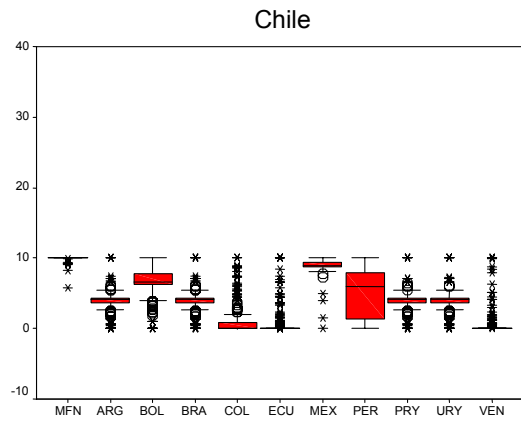
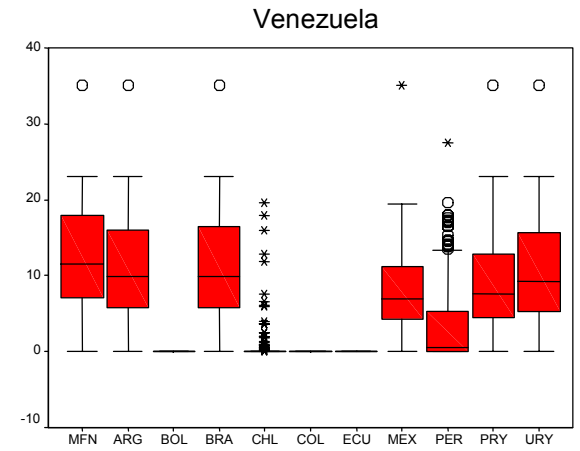
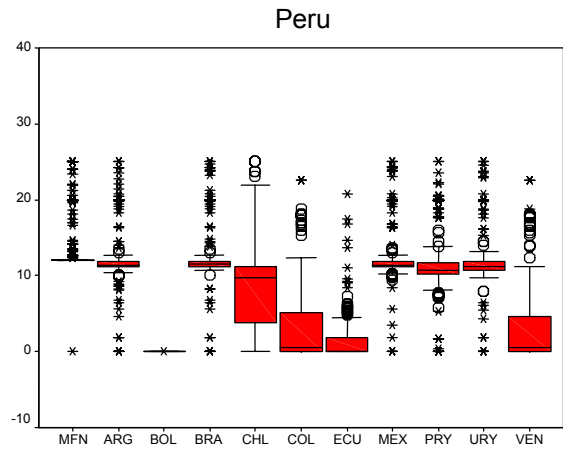
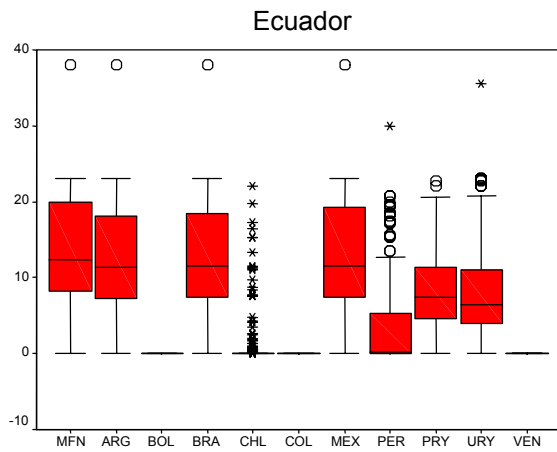


Source: Estevadeordal and Shearer (2002)

**Figure 12**  
 MFN and Preferential Tariff Structure in Latin America  
 1999-2000 by Country

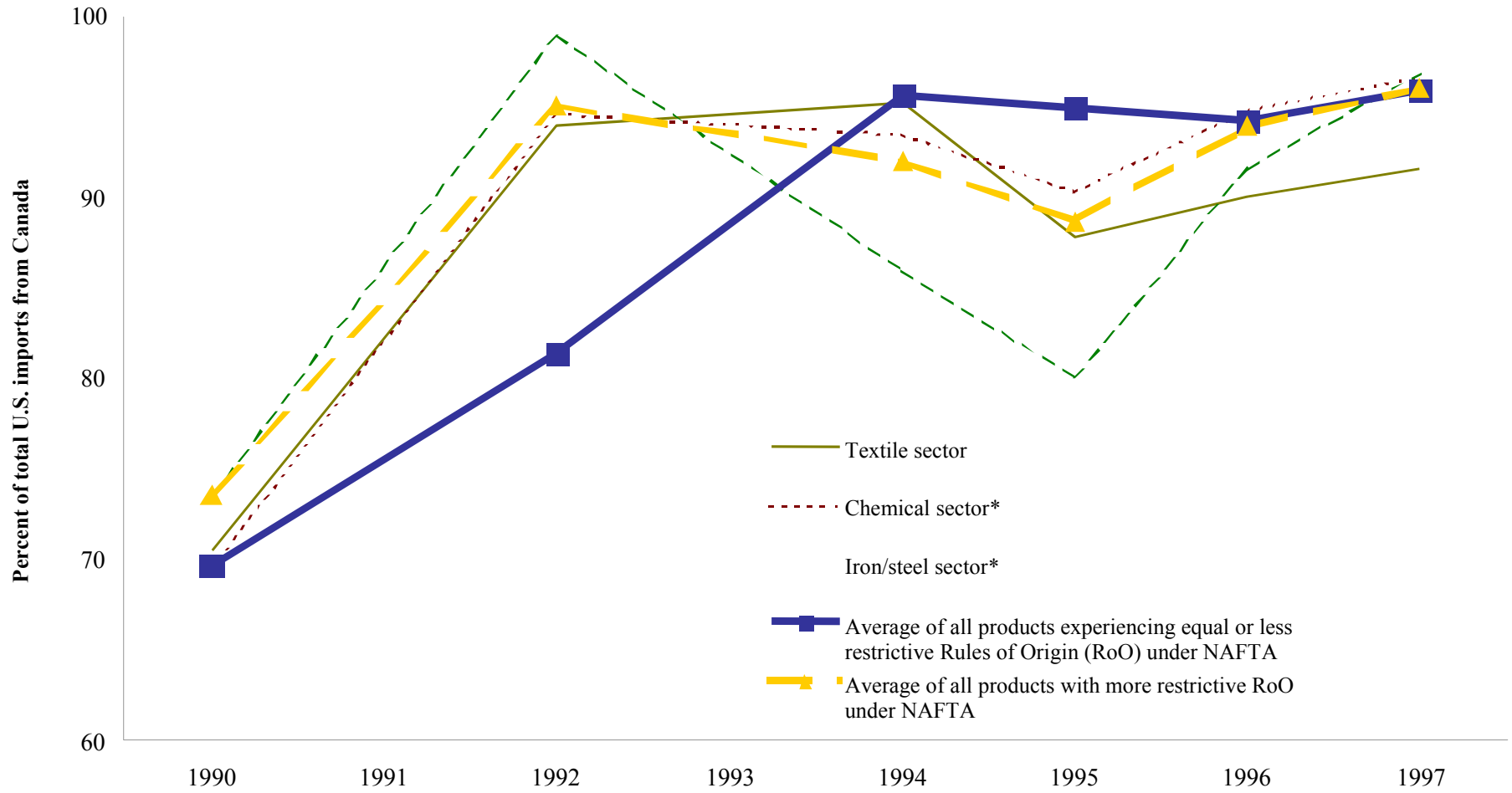


Source: Estedeordal and Shearer (2002)



Source: Estevadeordal and Shearer (2002)

**Figure 13**  
**How did the change from the USA-Canada FTA to NAFTA affect the proportion of Canadian goods entering USA under preferential treatment?**

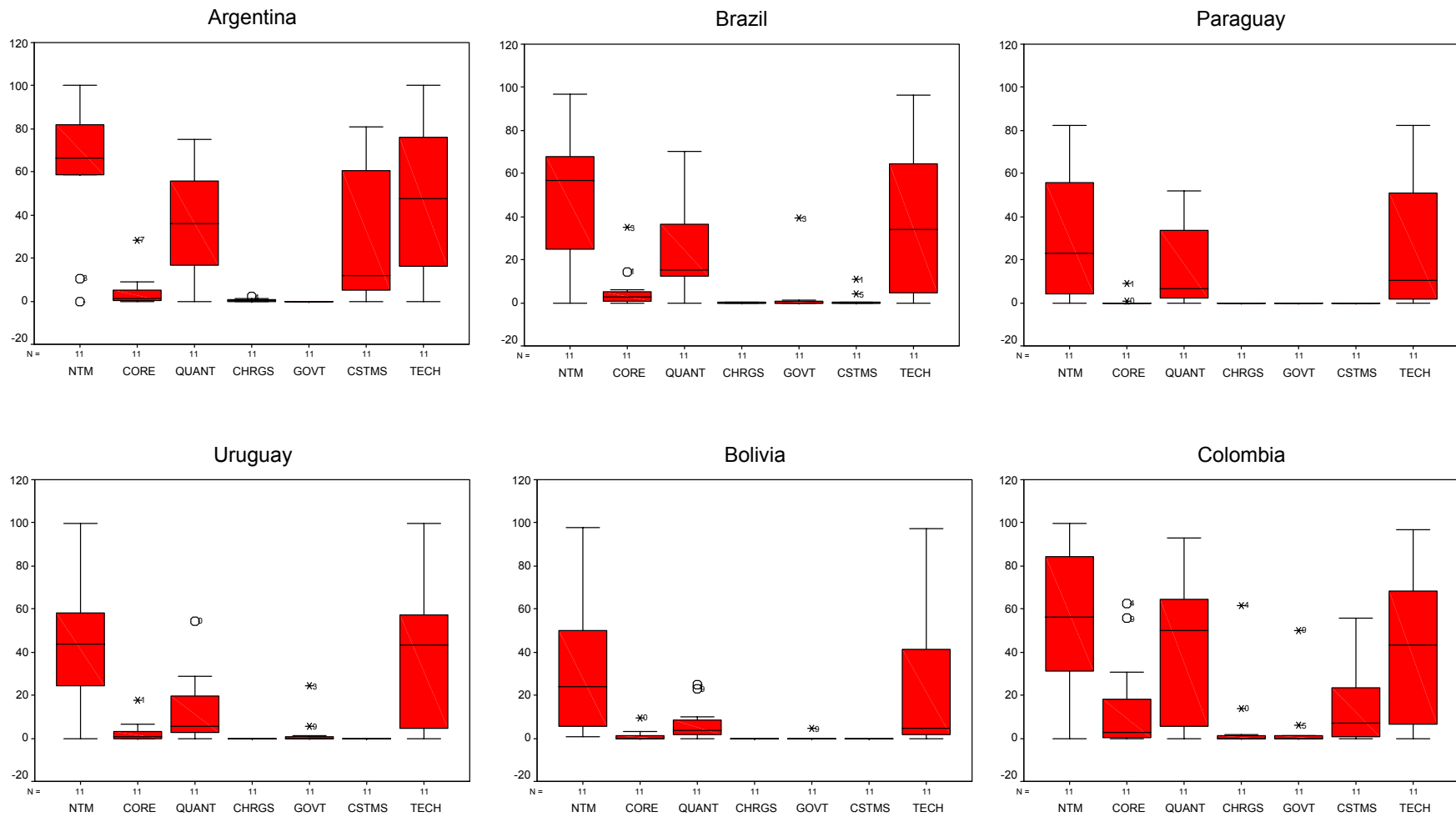


\* Average of products within the sector with more restrictive Rules of Origin under NAFTA.

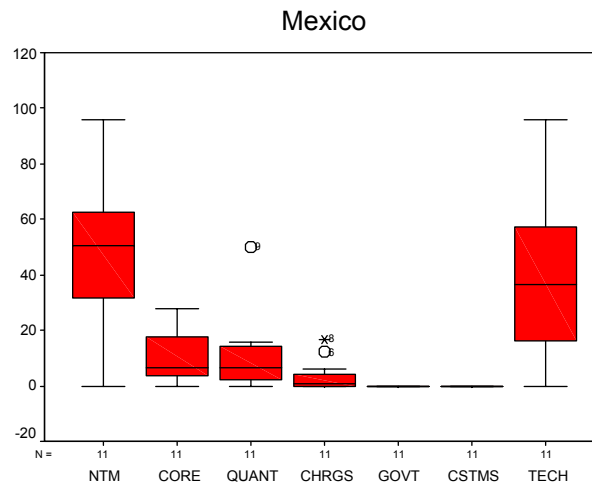
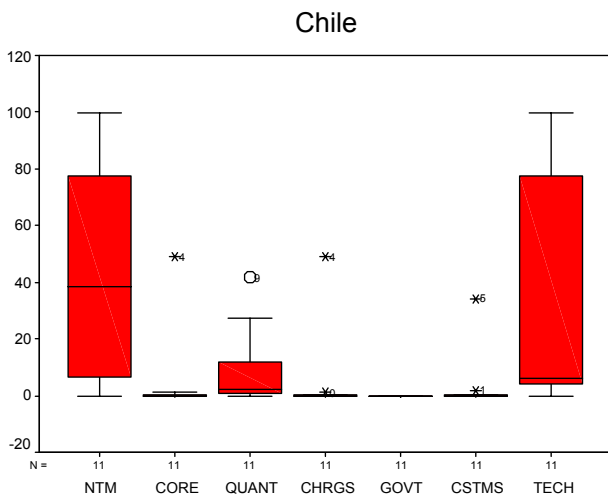
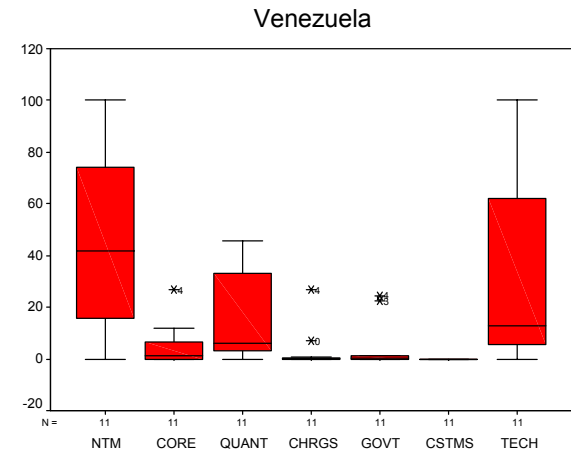
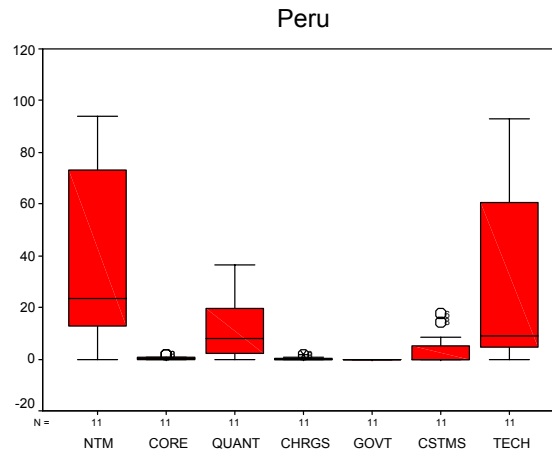
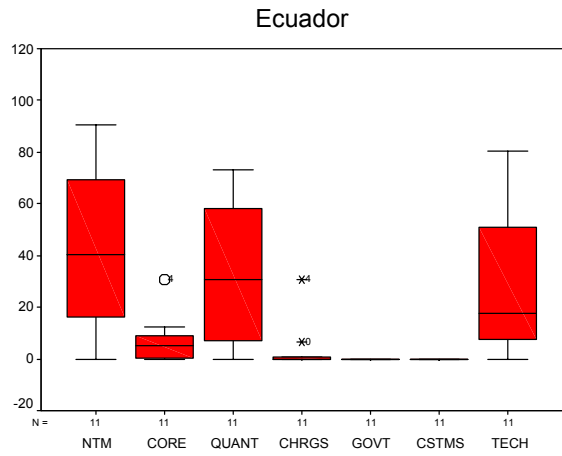
Note: 1991 and 1993 data points linearly interpolated.

Source: Estevadeordal and Miller

**Figure 14**  
NTM Incidence in Latin America 1999-2000 by Country



Source: Estevadeordal and Shearer (2002)



Source: Estevadeordal and Shearer (2002)

**Table 1. Tariff Structure in Latin America 1985 - 2000**

|  |                  | 1985         | 1988         | 1991        | 1994        | 1997        | 2000         |
|--|------------------|--------------|--------------|-------------|-------------|-------------|--------------|
| Average Tariff Rates<br>(Unweighted Averages)  | <b>Argentina</b> | <b>39.3</b>  | <b>30.8</b>  | <b>14.2</b> | <b>15.4</b> | <b>14.1</b> | <b>15.5</b>  |
|  | <b>Bolivia</b>   | <b>22.7</b>  | <b>16.6</b>  | <b>9.2</b>  | <b>9.7</b>  | <b>9.6</b>  | <b>9.7</b>   |
|  | <b>Brazil</b>    | <b>55.1</b>  | <b>41.5</b>  | <b>20.4</b> | <b>9.7</b>  | <b>14.9</b> | <b>15.8</b>  |
|  | <b>Chile</b>     | <b>20.2</b>  | <b>15.1</b>  | <b>10.8</b> | <b>10.9</b> | <b>10.8</b> | <b>10.0</b>  |
|  | <b>Colombia</b>  | <b>46.5</b>  | <b>46.3</b>  | <b>16.4</b> | <b>11.3</b> | <b>11.4</b> | <b>12.2</b>  |
|  | <b>Ecuador</b>   | <b>58.7</b>  | <b>44.5</b>  | <b>16.6</b> | <b>11.0</b> | <b>9.9</b>  | <b>14.3</b>  |
|  | <b>Mexico</b>    | <b>33.6</b>  | <b>10.2</b>  | <b>12.6</b> | <b>12.4</b> | <b>13.7</b> | <b>17.9</b>  |
|  | <b>Paraguay</b>  | <b>18.7</b>  | <b>18.6</b>  | <b>13.6</b> | <b>7.3</b>  | <b>10.0</b> | <b>13.2</b>  |
|  | <b>Peru</b>      | <b>64.4</b>  | <b>70.5</b>  | <b>16.2</b> | <b>15.6</b> | <b>13.1</b> | <b>13.6</b>  |
|  | <b>Uruguay</b>   | <b>35.9</b>  | <b>26.9</b>  | <b>21.3</b> | <b>13.6</b> | <b>10.1</b> | <b>13.8</b>  |
|  | <b>Venezuela</b> | <b>31.6</b>  | <b>42.2</b>  | <b>15.1</b> | <b>11.3</b> | <b>11.5</b> | <b>12.8</b>  |
| Tariff Dispersion<br>(Standard Deviation)  | <b>Argentina</b> | <b>9.4</b>   | <b>10.3</b>  | <b>6.0</b>  | <b>8.8</b>  | <b>6.4</b>  | <b>6.2</b>   |
|  | <b>Bolivia</b>   | <b>4.6</b>   | <b>1.3</b>   | <b>2.5</b>  | <b>1.1</b>  | <b>1.4</b>  | <b>1.2</b>   |
|  | <b>Brazil</b>    | <b>28.0</b>  | <b>19.5</b>  | <b>16.8</b> | <b>6.9</b>  | <b>7.1</b>  | <b>6.2</b>   |
|  | <b>Chile</b>     | <b>1.6</b>   | <b>.9</b>    | <b>1.5</b>  | <b>.9</b>   | <b>1.2</b>  | <b>0.5</b>   |
|  | <b>Colombia</b>  | <b>16.9</b>  | <b>17.4</b>  | <b>8.0</b>  | <b>5.8</b>  | <b>5.8</b>  | <b>6.2</b>   |
|  | <b>Ecuador</b>   | <b>56.0</b>  | <b>35.0</b>  | <b>10.4</b> | <b>6.0</b>  | <b>8.3</b>  | <b>6.6</b>   |
|  | <b>Mexico</b>    | <b>20.3</b>  | <b>6.6</b>   | <b>5.2</b>  | <b>5.5</b>  | <b>14.2</b> | <b>14.8</b>  |
|  | <b>Paraguay</b>  | <b>13.8</b>  | <b>13.7</b>  | <b>11.8</b> | <b>6.8</b>  | <b>6.3</b>  | <b>6.6</b>   |
|  | <b>Peru</b>      | <b>24.6</b>  | <b>24.4</b>  | <b>5.8</b>  | <b>3.8</b>  | <b>3.6</b>  | <b>3.6</b>   |
|  | <b>Uruguay</b>   | <b>14.9</b>  | <b>11.3</b>  | <b>6.5</b>  | <b>5.9</b>  | <b>6.4</b>  | <b>6.7</b>   |
|  | <b>Venezuela</b> | <b>25.2</b>  | <b>36.3</b>  | <b>11.0</b> | <b>6.1</b>  | <b>5.8</b>  | <b>6.5</b>   |
| Tariff Peaks<br>(Average tariff rates top 1<br>Percent products with<br>Highest tariffs) | <b>Argentina</b> | <b>51.5</b>  | <b>57.6</b>  | <b>25.0</b> | <b>30.0</b> | <b>27.2</b> | <b>31.3</b>  |
|  | <b>Bolivia</b>   | <b>32.3</b>  | <b>17.0</b>  | <b>10.0</b> | <b>10.0</b> | <b>10.0</b> | <b>10.0</b>  |
|  | <b>Brazil</b>    | <b>108.0</b> | <b>85.0</b>  | <b>70.0</b> | <b>20.0</b> | <b>35.0</b> | <b>34.0</b>  |
|  | <b>Chile</b>     | <b>27.4</b>  | <b>20.0</b>  | <b>11.0</b> | <b>11.0</b> | <b>11.0</b> | <b>10.0</b>  |
|  | <b>Colombia</b>  | <b>85.0</b>  | <b>88.0</b>  | <b>51.4</b> | <b>20.0</b> | <b>20.0</b> | <b>22.7</b>  |
|  | <b>Ecuador</b>   | <b>245.0</b> | <b>125.0</b> | <b>37.0</b> | <b>20.0</b> | <b>24.5</b> | <b>25.7</b>  |
|  | <b>Mexico</b>    | <b>105.5</b> | <b>20.0</b>  | <b>20.0</b> | <b>20.0</b> | <b>56.2</b> | <b>113.5</b> |
|  | <b>Paraguay</b>  | <b>50.0</b>  | <b>50.0</b>  | <b>52.0</b> | <b>32.0</b> | <b>23.7</b> | <b>24.5</b>  |
|  | <b>Peru</b>      | <b>104.0</b> | <b>109.0</b> | <b>25.0</b> | <b>25.0</b> | <b>25.0</b> | <b>25.0</b>  |
|  | <b>Uruguay</b>   | <b>60.0</b>  | <b>45.0</b>  | <b>30.0</b> | <b>20.0</b> | <b>22.0</b> | <b>23.0</b>  |
|  | <b>Venezuela</b> | <b>100.0</b> | <b>139.9</b> | <b>40.0</b> | <b>20.0</b> | <b>20.0</b> | <b>25.0</b>  |

**Source:** Author's calculations.

**Table 2. Provisions in Selected Trade Agreements in the Americas**

|                                | NAFTA | Ecuador-Chile | G-3 | Chile—Mercosur | Mexico-Nicaragua | Canada-Chile | Mexico-N. Triangle | Bolivia-Mercosur | Caricom-Dom. Repub. | Chile-Cent. America |
|--------------------------------|-------|---------------|-----|----------------|------------------|--------------|--------------------|------------------|---------------------|---------------------|
| Tariff Elimination             | ✓     | ✓             | ✓   | ✓              | ✓                | ✓            | ✓                  | ✓                | ✓                   | ✓                   |
| HS-Based Rules of Origin       | ✓     |               | ✓   |                | ✓                | ✓            | ✓                  |                  | ✓                   | ✓                   |
| ALADI-Based Rules of Origin    |       | ✓             |     | ✓              |                  |              |                    | ✓                |                     |                     |
| Special Rules-Auto Sector      | ✓     | ✓             | ✓   | ✓              |                  | ✓            |                    |                  |                     |                     |
| Agriculture - Separate Chap.   | ✓     |               | ✓   |                | ✓                |              | ✓                  |                  | ✓                   |                     |
| SPS Measures                   | ✓     | ✓             | ✓   | ✓              | ✓                |              | ✓                  | ✓                | ✓                   | ✓                   |
| Tech. Barriers to Trade        | ✓     | ✓             | ✓   |                | ✓                |              | ✓                  |                  | ✓                   | ✓                   |
| Investment                     | ✓     | ✓             | ✓   | ✓              | ✓                | ✓            | ✓                  |                  | ✓                   | ✓                   |
| Investor-State Dispute Settle. | ✓     |               | ✓   |                | ✓                | ✓            | ✓                  |                  |                     |                     |
| Services                       | ✓     | BE            | ✓   | ✓              | ✓                | ✓            | ✓                  | BE               | ✓                   | ✓                   |
| Temp. Entry of Bus. Persons    | ✓     |               | ✓   |                | ✓                | ✓            | ✓                  |                  | ✓                   | ✓                   |
| Government Procurement         | ✓     | BE            | ✓   |                | ✓                |              |                    |                  | BE                  | ✓                   |
| Intellectual Property          | ✓     |               | ✓   | ✓              | ✓                |              | ✓                  |                  | ✓                   |                     |
| Anti-Dumping/Countervail       | ✓     | ✓             |     | ✓              | ✓                | ✓            | ✓                  | ✓                | ✓                   | ✓                   |
| Competition Policy             |       |               |     |                |                  | ✓            |                    |                  |                     | ✓                   |
| Dispute Settlement             | ✓     | ✓             | ✓   | ✓              | ✓                | ✓            | ✓                  | ✓                | ✓                   | ✓                   |
| Labor/Environment              | SA    |               |     |                |                  | SA           |                    |                  |                     |                     |
| Special and Dif. Treatment     |       | ✓             |     | ✓              |                  |              |                    | ✓                | ✓                   |                     |

SA = Side Agreement

BE = Best Endeavor to define in future

\* The Parties agreed to a reciprocal exemption from the Application of Anti-Dumping

Source: IDB

**Table 3**  
**New Regionalism: Structure of Rules of Origin in Selected Agreements**

|  | FTA<br>US-CA           | NAFTA       | G-3         | Mexico-<br>Costa<br>Rica | Mexico-<br>Bolivia | Canada-<br>Chile | MERCOSUR-<br>Chile | MERCOSUR-<br>Bolivia |
|--|------------------------|-------------|-------------|--------------------------|--------------------|------------------|--------------------|----------------------|
| RULES OF<br>ORIGIN<br>BASED ON<br>CHANGE OF<br>CHAPTER         | <b>CC</b>              | 16,7        | 27,0        | 20,0                     | 27,8               | 20,9             | 26,5               |                      |
|  | <b>CC/E</b>            |             | 5,8         | 6,0                      | 5,8                | 6,7              | 5,3                |                      |
|  | <b>CC/OR</b>           | 8,4         |             | 5,5                      |                    | 6,3              |                    |                      |
|  | <b>CC/E/OR</b>         |             | 5,7         | 6,7                      | 5,8                | 6,2              | 7,9                |                      |
|  | <b>CC/RC/OR</b>        |             |             | 2,7                      |                    | 1,2              |                    |                      |
|  | <b>CC or CH/RC</b>     |             |             |                          |                    | 1,0              |                    |                      |
|  | <b>CC or CH/E/RC</b>   |             | 1,3         |                          |                    |                  | 2,0                |                      |
|  | <b>CC or CS/RC</b>     | 12,8        |             |                          |                    |                  |                    |                      |
|  | <b>CC or CS/E/RC</b>   |             | 1,1         |                          |                    |                  | 1,0                |                      |
|  | <b>CC/E or CH/E</b>    | 16,2        |             |                          |                    |                  |                    |                      |
|  | <b>CC/E or CH/RC</b>   | 2,5         |             |                          |                    |                  |                    |                      |
|  | <b>CC/E or CS/E/RC</b> |             | 11,2        |                          |                    |                  |                    |                      |
|  | <b>SUBTOTAL</b>        | <b>56,6</b> | <b>52,1</b> | <b>40,9</b>              | <b>40,4</b>        | <b>41,3</b>      | <b>42,7</b>        | <b>0,0</b>           |
| RULES OF<br>ORIGIN<br>BASED ON<br>CHANGE OF<br>HEADING         | <b>CH</b>              | 21,1        | 7,9         | 14,8                     | 14,9               | 15,2             | 8,9                |                      |
|  | <b>CH/E</b>            | 6,3         | 14,2        | 13,2                     | 16,3               | 13,9             | 14,6               |                      |
|  | <b>CH/RC</b>           | 5,8         | 3,1         | 2,0                      | 2,6                | 2,2              | 3,4                | 10,0                 |
|  | <b>CH/OR</b>           |             |             | 1,0                      |                    |                  |                    | 20,0                 |
|  | <b>CH/E/OR</b>         | 5,8         |             |                          |                    | 1,7              |                    |                      |
|  | <b>CH/RC/OR</b>        |             |             | 8,1                      |                    | 10,0             |                    | 24,0                 |
|  | <b>CH/E/RC/OR</b>      |             |             | 4,9                      |                    |                  |                    | 22,3                 |
|  | <b>CH or RC</b>        |             |             |                          | 1,0                |                  |                    | 46,0                 |
|  | <b>CH or CH/RC</b>     |             |             |                          |                    |                  |                    | 44,6                 |
|  | <b>CH or CS/RC</b>     |             | 6,9         | 1,0                      | 1,1                |                  |                    |                      |
|  | <b>CH or CS/E/RC</b>   |             |             |                          | 7,4                |                  | 7,5                |                      |
|  | <b>CH/E or CS/E/RC</b> |             |             |                          |                    |                  | 1,1                |                      |
|  | <b>CH/E or CH/RC</b>   |             |             |                          |                    |                  |                    |                      |
| <b>CH/E or CH/E/RC</b>   |                        | 1,9         |             | 2,6                      |                    | 2,5              |                    |                      |
| <b>SUBTOTAL</b>  | <b>39,0</b>            | <b>34,0</b> | <b>45,0</b> | <b>45,9</b>              | <b>43,0</b>        | <b>38,0</b>      | <b>100,0</b>       | <b>100,0</b>         |
| RULES OF<br>ORIGIN<br>BASED ON<br>CHANGE OF<br>SUB-<br>HEADING | <b>CS</b>              | 1,1         | 1,3         | 1,0                      | 1,6                | 1,7              | 11,0               |                      |
|  | <b>CS/E</b>            |             |             |                          | 1,3                | 1,3              | 1,6                |                      |
|  | <b>CS/RC</b>           |             |             | 4,6                      | 4,2                | 4,2              |                    |                      |
|  | <b>CS/E/OR</b>         |             |             |                          |                    |                  |                    |                      |
|  | <b>CS or RC</b>        |             |             |                          | 1,3                | 1,3              |                    |                      |
|  | <b>CS or CS/RC</b>     |             |             |                          |                    |                  |                    |                      |
| <b>CS/E or CS/RC</b>   |                        |             |             |                          |                    |                  |                    |                      |
| <b>SUBTOTAL</b>  | <b>1,1</b>             | <b>1,3</b>  | <b>5,6</b>  | <b>8,4</b>               | <b>8,5</b>         | <b>12,6</b>      | <b>0,0</b>         | <b>0,0</b>           |
| <b>TOTAL</b>   | <b>96,7</b>            | <b>87,4</b> | <b>91,5</b> | <b>94,7</b>              | <b>92,8</b>        | <b>93,3</b>      | <b>100,0</b>       | <b>100,0</b>         |

Notes: Only percentages above 1% of the total are reported. The following abbreviations are used (see text): CC - Change of Chapter; CH - Change of Heading; CS - Change of Subheading; CI - Change of Item; E - Change of Tariff Classification including Exceptions; OR - Other Technical Requirements; RC - Regional Value Content Criteria.

Source: Devlin and Estevadeordal (2001)