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# ALADI's Current Role in the Integration Process

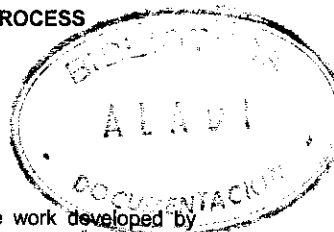


ALADI  
General Secretariat



## ALADI'S CURRENT ROLE IN THE INTEGRATION PROCESS

### FOREWORD



This paper aims at providing general information on the work developed by ALADI General Secretariat within the framework of the mandates of the 13<sup>th</sup> Meeting of the Council of Ministers of the Association provided by Resolutions 59, 60 and 61 of October 18, 2004.

Regarding that, the grounds for the progressive conformation of a Free-Trade Area (FTA) within the ALADI (Res. 59), as well as the special attention to the relatively less economic developed countries (Bolivia, Ecuador and Paraguay) (Res. 61), constitute the new role of the Association in relation to the consolidation of the regional integration process (Res. 60).

As a response to the political will of the member countries and regarding its duties and competence, the General Secretariat has been preparing, together with the Committee of Representatives, working papers for contributing to the performance of the said mandates. The content of those papers is summarized below

Regional events of obvious political importance that happened after that Session of the 13<sup>th</sup> Council of Ministers of ALADI, such as the Cuzco Declaration of December 2004 and the First Meeting of Heads of State of the South-American Community of Nations that took place in Brasilia on September 30 of this year, helped as sources of requests to the regional integration bodies. In the special case of ALADI, the request has to do with the presentation of proposals and comments about the conformation of a South-American FTA, including the Guyana and Suriname – countries not members of the ALADI – in coordination with the Andean Community and the MERCOSUR. The convergence of the last two ones is the object of a specific resolution of the Brasilia Summit.

The work of the whole Association and of the General Secretariat is carried out within this framework. The efforts of ALADI are also a response to that, taking the risks and challenges of a regional integration with multiple dimensions that is as needed as urgent in this globalized world.

Dr. Didier Operti Badán  
Secretary-General

22401

Montevideo, December 9, 2005

## **1. Current Situation**

The Thirteenth Meeting of the Council of Ministers of the Association held in October of 2004 is a fundamental milestone in the development of the regional integration process within the ALADI, based on the progress made in its 25 first years of life and on the political will expressed in Resolutions 59, 60 and 61 (XIII), which establish the guidelines for the Association's action in the medium term and aim at deepening the integration process and developing its new thematic agenda.

The decisions of the Council and the ongoing works for implementing them have the final goal of establishing a Latin-American common market, which will be gradually reached through the commitment of all member countries, taking into account the principles established in the third article of Montevideo Treaty 1980 (TM80), which validity and application allowed to reach the current stage of the process and grant its evolution towards the final goal.

ALADI has today considerable assets, especially related to trade integration, based on a wide net of bilateral and multilateral agreements that involve the 12 member countries. The permanent growth and improvement process of that net of agreements is reflected in the 13 Free-Trade Agreements that cover the relations of most of the member countries, as well as in 17 agreements on fixed-tariff preferences<sup>1</sup>.

According to estimates of the General Secretariat, the total sum of intra-regional imports will be close to USD 76 billion at the end of 2005, i.e., a historic record in trade. In 2003, that amount reached USD 44.9 billion, while in 1980, when the ALADI was created, the intra-regional trade reached USD 12 billion<sup>2</sup>. It is important to highlight that 86% of the whole intra-regional trade is covered by those free-trade agreements.

In spite of this progress, the said assets must continue growing in order to overcome the existing barriers and limitations and move forward towards the final goal. The agenda of the Association will have to include, among others, the conversion of the agreements on fixed-tariff preferences into free-trade agreements, the harmonization of the multiple current trade regulations and disciplines, the increase of the proportion of intra-regional trade to the total exports of the region, as well as of the diversification of exports to third countries, which are mostly based on basic goods today.

Certainly, this is not the only asset of ALADI. Its efforts also cover social, cultural, technological areas, as well as of transport, tourism and others.

## **2. The Resolutions of the Council of Ministers**

The said Resolutions must be visualized taking into account the international and regional environment in the end of 2004 and its foreseeable evolution. In that context, the decisions of the Council define the grounds for a new stage in the integration process that will allow a qualitative progress.

Resolution 59 establishes the "Grounds for the Progressive Conformation of a FTA within the ALADI Aiming at Reaching the Objective Stated in the TM80". Such conformation shall respect the liberalization schedules established in the different

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<sup>1</sup> Eleven of which belong to Cuba that joined the Association in 1999.

<sup>2</sup> US dollars

agreements with their legal frameworks and regarding the principles stated in the TM80: pluralism, convergence, flexibility, differential treatments and multiple (3<sup>rd</sup> Article of the TM80).<sup>3</sup>

The area will include market access, common regulations and disciplines, support to the relatively less economic developed countries and all additional matters that can contribute to its consolidation.

Resolution 60 establishes "ALADI's Role and its Management in Order to Develop the Regional Integration Process". This Resolution consolidates and extends the thematic agenda of the Association and deepens a collection of activities focused on strengthening the process beyond trade. Likewise, it aims at consolidating ALADI's role as discussion and advice forum for its member countries on matters related to regional integration and trade negotiations; and strengthens, as well, the technical ability of the Secretariat, which also gets authority regarding interinstitutional coordination with other integration and cooperation schemes and mechanisms.

In compliance with some of the dispositions of this Resolution, the Committee of Representatives approved the new organic and functional structure of the General Secretariat adjusting its organization to the new demands resulting from the mandates of the Council. It is worth highlighting that the new structure not only shows the balance of the three ranks of countries, which are established according to their level of relative economic development, but also takes into account the geopolitical width of the Association.

For its part, Resolution 61, "Participation of the Relatively Less Economic Developed Countries in the Integration Process", provides additional dispositions in order to facilitate the access of the goods of the said countries to the markets of the other member countries, as well as to implement cooperation action in favour of those countries aiming at overcoming the endogenous and exogenous obstacles that negatively affect their participation in the regional integration process.

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<sup>3</sup> "... member countries shall bear in mind the following principles:

a) Pluralism, sustained by the will of member countries to integrate themselves, over and above the diversity which might exist in political and economic matters in the region;

b) Convergence, meaning progressive multilateralization of partial scope agreements by means of periodical negotiations between member countries, with a view to establish the Latin American common market;

c) Flexibility, characterized by the capacity to allow the conclusion of partial scope agreements, ruled in a form consistent with the progressive attainment of their convergence and the strengthening of integration ties;

d) Differential treatments, as determined in each case, both in regional and partial scope mechanisms, on the basis of three categories of countries, which will be set up taking into account their economic-structural characteristics. Such treatments shall be applied in a determined scale to intermediate developed countries, and in a more favourable manner to countries at a relatively less advanced stage of economic development; and

e) Multiple, to make possible various forms of agreements between member countries, following the objectives and duties of the integration process, using all instruments capable of activating and expanding markets at regional level.

Those Resolutions reflect the need of strengthening regional integration, even beyond trade, as the right way for a better international insertion of the economies of the region in the world market. Such renewed approach entails a great many challenges and difficulties that is indispensable to face in order to achieve higher equity levels regarding the distribution of costs and benefits granting the economic growth and the welfare of the people of the region. Therefore, it is necessary to include integration in the national policies of economic development with more emphasis.

### **3. The Free-Trade Area (FTA)**

Resolution 59 of the Council establishes the grounds for the conformation of a FTA within ALADI's framework. Those grounds reassert the present negotiating strategy either by pairs or by groups of countries and establishes the deepening of the signed free-trade agreements, the promotion of free-trade agreements among the countries having fixed-tariff-preference agreements and the promotion of the harmonization and incorporation of the regulations and disciplines needed for ruling trade, as well as of those matters that complement and boost such Area, according to the principles of the TM80.

Currently, ALADI's General Secretariat and Committee of Representatives are analysing several documents that present alternatives for the development of the FTA.

All in all, the governments will have to define the methods and the graduality in order to make easier the effort that they will have to do in the political and technical levels towards the FTA. That conformation entails a commitment for deepening the integration process regarding its tariffs and regulations.

As for trade regulations and disciplines, there is a multiplicity of treatments common in the different negotiation dynamics, as well as of the balance among the existing agreements. Therefore, the harmonization of the regulations is very important for facilitating intra-regional trade by reducing the complexity entailed by such multiplicity. Besides, in order to deepen the process and help the insertion of the region in the international economy, the subjects included in Resolution 59 must be prioritized in the schedule, i.e., trade in services, copyright, protection of traditional knowledge, investments, double taxation and public procurement.

On the other hand, that Resolution considers a collection of matters that complements and fosters the FTA, such as physical integration, digital integration, trade financing, production stimulation and relationship with the business, labour and academic sectors. All these matters are included in the work programme of the Association and the agreements signed by the member countries include several commitments related to them.

The objective grounds of such basis are in the already signed free-trade agreements and other ones currently in negotiation, especially the recently agreed between the four countries of the MERCOSUR and Colombia, Ecuador, Peru and Venezuela, member countries of the Andean Community. Bolivia, the other member country of the CAN, had already signed a free-trade agreement with the MERCOSUR in 1996. So, that completes trade liberalization between the countries of both sub-regional blocs.

The above mentioned Agreements together with the ones signed by Chile with nine of the member countries<sup>4</sup>, and by México with five make up an important basis for boosting the convergence process.

Another important fact is that the CAN and the MERCOSUR granted the countries of each other the status of associated countries in 2005 and 2004, respectively. This allows them to participate in the most important political meetings, even presidential meetings.

#### **4. Participation of the Relatively Less Economic Developed Countries in the Integration Process**

The TM80 provided the support system for the Relatively Less Economic Developed Countries regulating the principle of Differential Treatments.

The support system is based on the principles of non-reciprocity and community cooperation applied in two basic areas: a) economic preferences, and b) technical cooperation and assistance to those countries.

Up to now, the implementation of that system has been carried out basically from a commercial view of asymmetries favouring the access of the goods of the Relatively Less Economic Developed Countries to the regional markets, especially regarding the tariff preferences granted that resulted in a tariff-free regional market for the said goods.

Nevertheless, this contrasts with the effective use of those preferences by the Relatively Less Economic Developed Countries. For instance, in Paraguay and Ecuador, it is less than 8% and in Bolivia, less than 5%. The evaluation shows that integration did not achieve the benefits expected by the Relatively Less Economic Developed Countries, not due to lack of political will or of the right legal framework, but due to the lack of resources and actions to face the already mentioned limiting factors imposed by structural endogenous and exogenous factors.

In this context, Resolutions 59 and 61 established specific mandates that complement the existing regulations within the ALADI and allow providing more effective mechanisms and instruments for a better insertion of the Relatively Less Economic Developed Countries in the way towards the common market.

Based on the concept of asymmetries and on their recognition, Resolution 59 also highlights the importance of strengthening the support as one of the basic components of the development of the FTA, emphasizing its systemic nature, as well, focused on the deepening of cooperation in order to increase productivity and competitiveness in the economies of the Relatively Less Economic Developed Countries.

For its part, Resolution 61 provides very specific guidelines for facilitating the market access to the goods of the Relatively Less Economic Developed Countries through the development of mechanisms and agreements that grant the certainty and continuance of the preferences received by those countries, the periodic evaluation of the preferential treatment system in order to be able to take measures for adapting the mechanisms to the needs of the Relatively Less Economic Developed Countries,

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<sup>4</sup> Chile signed free-trade agreements with the MERCOSUR, Colombia, Ecuador, Mexico, Peru and Venezuela, and Mexico, with Bolivia, Chile, Colombia, Uruguay and Venezuela.

Including complementary actions as exports promotion, commercial intelligence, construction of the country image, among others.

Likewise, it emphasizes the need of developing cooperation actions focused on the strengthening of the competitiveness of the Relatively Less Economic Developed Countries, especially the ones related to productive aspects and to the improvement of the marketing capability emphasizing the micro and small businesses.

Besides, it includes the support to regional and sub-regional projects and initiatives on physical integration in favour of the Relatively Less Economic Developed Countries, as well as new agreements or actions in transport, telecommunications and energy.

Lastly, it aims at deepening technical and financial cooperation to the Relatively Less Economic Developed Countries through a higher coordination of ALADI's cooperation with the one received by those countries from third parties.

Within the framework of those mandates, the Committee of Representatives and the General Secretariat are developing many activities for their implementation.

## **5. ALADI and the South-American Community of Nations**

In the meeting that took place in Cuzco, Peru, in December 2004, the Presidents of the South-American countries decided to establish the South-American Community of Nations, which goals, action programme and other guidelines were provided in that meeting and in the First Meeting of Heads of State that took place in Brasilia, in September 2005.

In the Cuzco Declaration, the Presidents pointed out "their decision of developing a South-American area integrated in the political, social, economic, environmental and infrastructural areas, which shall strengthen South America's own identity and contribute, from a sub-regional point of view and in coordination with other experiences in regional integration, to the strengthening of Latin America and the Caribbean, leading it to a higher influence and representation in the international forums".

Among others, such area would develop itself by boosting "the deepening of convergence between the MERCOSUR, the Andean Community and Chile through a FTA based on Resolution 59 of ALADI's Council of Ministers. The Governments of Suriname and Guyana joint that process".

On the other hand, the decisions of the meeting of Heads of State in Brasilia include several entrustments to the bodies of the region, including the ALADI, for supporting the Action Programme approved then.

Regarding the ALADI, the convergence between the CAN, Chile and the MERCOSUR will represent a very important progress in the development and consolidation of the FTA, taking into account the flexibility principle provided in the TM80 1980 that allows the progress of pairs or groups of countries according to their possibilities and concrete interests. At the same time, the convergence principle does not exclude the participation of the other member countries.



Article 25 of the TM80 also lets Guyana and Suriname participate in the South-American FTA without having to join the Association. Within the framework of that Article, many agreements were signed between ALADI's member countries and Central-American or Caribbean countries.

It is worth highlighting that now the trade flows of the South-American countries that join the ALADI represent more than 75% of the intra-regional trade.

The General Secretariat is working together with the Secretariats of the CAN and the MERCOSUR on the issues related to convergence within the South-American Community. At the same time, together with the said Secretariats and other regional bodies, like the ECLAC, the CAF, the SELA and the ACTO, it has been developing actions to solve the issues related to asymmetries.

## **6. Interinstitutional Cooperation**

The General Secretariat has been carrying out an active coordination with the different regional integration and cooperation bodies in order to support the activities of the Association and of its member countries.

It is worth mentioning here the taken, ongoing and planned actions carried out together with the CAF, the CAN, the ECLAC, the INTAL, the ACTO, the SEGIB and the SELA that deal with different areas, each of them related with the specialization of each body.

On the other hand, there are ongoing and planned technical cooperation projects carried out together with the IDB, the ICC, the WTO and the UNCTAD, focused on strengthening the technical and operating ability of the member countries in different areas of the institutional work.

Coordination on energy matters has been recently agreed between the ARPEL, the CIER, the ECLAC, the OLADE and the ALADI, where each Body provides its experience and operating ability for supporting the enterprises of the countries of the region in that field.

It is worth highlighting also the fact that the General Assembly of the United Nations in its 60<sup>th</sup> Meeting gave ALADI the Observer status in the Assembly's work.

## **7. Future Challenges**

The performance of the Resolutions of the Thirteenth Meeting of the Council of Ministers shall consider, not only the conditions common in coordinating agreements for deepening and extending the current progress, but also the government changes that will take place in many of the member countries, the strategies common in sub-regional blocs, and the evolution of international economy that shows a favourable tendency for the regional exports. At the same time, it is necessary to take into account the multiple trade negotiations, from the Round of Doha (WTO) to the negotiations with third countries to establish free-trade agreements.

ALADI is not and cannot be unaware of these realities. Its evolution towards higher stages will happen in that context. Therefore, it is necessary to find ways of strengthening convergence, deepening and expanding trade commitments, including the new subjects in the regional agenda and encouraging the participation of the social sectors in the process. Within this framework, the technological development and physical integration in transport, infrastructure, energy and telecommunications will be encouraged.

The work agenda of the Association, wide and complex, shall establish specific goals in order to help through all its mechanisms to reach a regional FTA as a first stage towards the common market.

The multiple negotiations and agreements signed by the member countries among themselves and with third countries demands the reconsideration of the institutional architecture of the region. A first step towards that is to strengthen the interinstitutional coordination between the integration and cooperation bodies of the region maintaining their specificity and their sphere of action. Therefore, it is essential to join forces and resources, share abilities and experiences in order to improve the support to the actions of the member countries of each organization.

At last, it is necessary to consolidate the participation of the different economic and social sectors in the integration process and, at the same time, include regional integration in the concerns and the joint work of each of those sectors, especially, the business, labour and academic sectors. The benefits and the importance of regional integration are not yet perceived by the Latin-American population and that does not help to reach a regional identity based on shared interests.

All the efforts that can be taken with this goal will be welcome by the regional integration system.