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FOREWORD

Europe and Latin America and the Caribbean are facing a number of common challenges and opportunities, related to international conditions, and to the two regions' integration processes. Externally, both regions have to tackle the mounting pressure of global competition, particularly the rise of Asia, and should take appropriate steps to improve efficiency and boost competitiveness. On the internal front, both regions confront concerns that globalization is creating new asymmetries and leading to widening inequalities. These challenges appear even more pressing in these times of uncertainties, regarding both the mapping of regional integrations and the conclusions of the Doha Round. In this regard, cross-analysis of political and economic integration, exchanges of ideas, experiences and good practices between Europe and Latin America are particularly relevant.

With this in mind, in 2002, the Inter-American Development Bank, through the Office in Europe and the Integration and Regional Programs Department, through the Institute for the Integration of Latin America and the Caribbean (INTAL), launched the Euro-Latin Study Network on Integration and Trade (ELSNIT). The Network operates with the collaboration of partner European centers, leaders in research in the area of integration and trade. ELSNIT represents a platform for an exchange of ideas between European and Latin American experts, and ultimately a source of support for policy makers on both sides of the Atlantic.

This publication provides an account of the main findings of the third cycle of activities of the Network during 2005/2006, and in particular those resulting from the Annual Conference held in the Institute of World Economics (IfW) in Kiel, Germany in October 2005, and the Latin American Conference of the Network, which recently took place in the Fundação Getulio Vargas in São Paulo, Brazil, in April 2006. As hereby reflected, the discussions focused especially on the Interaction between political and economic features of integration: global and regional dimensions, the Natural resource-rich countries facing regional and global integration, and the Dispute settlement in trade agreements

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INTRODUCTION

In October 2002 the Inter-American Development Bank (IDB), through the Office in Europe (SOE) and the Integration and Regional Programs Department (INT), through the Institute for the Integration of Latin America and the Caribbean (IDB/INTAL) in Buenos Aires and the Integration, Trade and Hemispheric Issues Division (ITD) launched the Euro-Latin Study Network on Integration and Trade (ELSNIT). This initiative creates in Europe a forum on integration and trade issues relevant to Latin America and the Caribbean (LAC). The main objectives of the Network are to generate research, studies and debate on these issues, draw on a rich European experience and increase interaction between European and Latin American researchers.

Latin America, like much of the world has been opening its economies, while simultaneously pursuing regional integration both of the South-South and North-South variety. European perspectives can provide important policy insights on these processes as well as in areas such as trade; the behavior of investment and Foreign Direct Investment (FDI); macroeconomic coordination, exchange rate management and monetary cooperation; growth and convergence; labor market dynamics; migrations; regional institutions and compensatory mechanisms. Moreover, developments in Latin America are important for Europe in the context of global competition and cooperation.

The ELSNIT has involved the establishment of a Steering Committee that includes leading European research centers and the IDB (represented by SOE and INT). The Steering Committee currently incorporates the Institute for World Economics (IfW), Kiel, Germany; the Center for Research in International Economics (CREI), Barcelona, Spain; the RSC for Advanced Studies of the European University Institute (RSC), Florence, Italy; and the *Centre d'Etudes Prospectives et d'Informations Internationales* (CEPII), Paris, France.

The first cycle of ELSNIT was launched in January 2003 with a call for papers on three topics: macroeconomic dimensions of regional integration; European Union (EU) enlargement and adjustment policies during the transition, and the impact of regional integration on economic convergence and growth. Twelve papers were selected for the first Annual Conference¹ of the Network that was held in Barcelona on November 6-7, 2003. The event was hosted by the CREI, under the sponsorship of and in co-organization with the IDB. The findings of the first Annual Conference, together with policy indications for Latin America and future research agenda proposals, were discussed at a follow-up seminar on April 27-28, 2004 in Buenos Aires, organized by IDB/INTAL. The coordinators of the sessions of the Annual Conference each prepared an issue paper for this occasion. The papers and the comments of Latin American experts were published in "ELSNIT - Issues Papers, First Annual Conference".²

¹ The agenda of the First Annual Conference, the papers presented, as well as the discussants' comments, can be viewed at the Network's webpage on the IDB Office in Europe (SOE) website <http://www.iadb.org/europe> or at IDB/INTAL's website <http://www.iadb.org/intal> under Integration Networks.

² Also available at <http://www.iadb.org/europe> or in the following link: http://www.iadb.org/intal/aplicaciones/uploads/publicaciones/i_ELSNIT_PrimerReunionAnual_2004.pdf.

The second ELSNIT cycle launched in February 2004 involved two major additions. First, the topics covered by the Network were broadened to three areas, or tracks: Macroeconomic Dimensions of Integration and Trade, Empirical Dimensions of Integration and Trade, and - this being the new area added - Institutional Dimensions of Integration and Trade. Second, the call for papers was extended, besides Europe, to LAC. Altogether eighteen papers were presented at the second Annual Conference of ELSNIT held in Florence on October 29-30, 2004, hosted by the RSC for Advanced Studies of the European University Institute and organized jointly with the IDB.³ On the basis of the coordinators' issue papers covering the deliberations of the Florence conference, a follow-up seminar was held in Santiago de Chile on May 6-7, 2005, co-organized with the Economics Department of the University of Chile and IDB/INTAL.⁴

The third Annual Conference of the Network was held on October 21-22, 2005 in Kiel, Germany, hosted by the IfW and was organized jointly with the IDB.⁵ Subsequently, in April 7, 2006, the ELSNIT Seminar in Latin America took place in São Paulo, Brazil, in co-organization with the *Fundação Getulio Vargas* (FGV), the *Federação das Indústrias do São Paulo* (FIESP) and the IDB/INTAL (see agenda in Appendix). The three issues papers discussed at the seminar are presented in this publication; the papers were authored by the coordinators of the sessions of the Kiel conference.

The first issues paper, corresponding to the session of the conference on Macroeconomic Dimensions of Integration and Trade, was written by Omar Licandro of the European University Institute and Jaume Ventura of CREI and Universitat Pompeu Fabra. The paper presents what the authors call speculative thoughts on the consequences of the growing mismatch between economic and political borders. As the process of globalization advances, economic borders are changing rapidly; and the barriers to trade are lower than ever, creating global markets for goods and assets. Nevertheless, globalization is changing political borders only slowly, if at all. The authors note that globalization appears to be fueling two trends that might seem at odds at first sight: on the one hand, there is a growing tendency to create and reinforce large supranational entities that assemble various states, and on the other, there is a process of political fragmentation within many states (Europe being a most clear example). It is argued that both processes can be understood as rational and complementary responses to globalization.

Licandro and Ventura reach three conclusions that they see as constituting a sound start for the study of the interactions between economic integration and political structure. The first conclusion is that globalization, by creating a mismatch between economic and political borders, has been the source of new policy externalities that worsen governments' economic policies and lead to suboptimal policy choices from a global standpoint. The second conclusion is that cooperation among states is likely to be only a partial and quite inefficient way to cope with the growing policy externalities. Cooperation among states could be extended to lead to developing global markets for policies. But this would not be a permanent solution, since these markets are

³ The agenda of the Conference, the papers presented, and the discussants' comments are posted on SOE's and IDB/INTAL's respective above-mentioned websites.

⁴ See publication "ELSNIT – Issues Papers, Second Annual Conference" at the following link http://www.iadb.org/intal/aplicaciones/uploads/publicaciones/i_ELSNIT_SegundaReunionAnual_2005.pdf.

⁵ The Conference papers presented are likewise available on the above websites.

likely to be inefficient. In the long run, the only way to deal with growing policy externalities is to change the world political structure.

Currently, centralized jurisdictions or states concentrate all the political and decision-making power. As globalization advances and as the gap between the borders of markets and nations dramatically widens, the world should break these centralized jurisdictions and -this is the authors' third conclusion- move towards a new political structure that better adapts to the globalized world, on the basis of a set of overlapping jurisdictions that are both smaller and larger than existing states. On one side, achieving increased diversity in the provision of cultural public goods requires passing real power from current states to smaller jurisdictions that coincide with cultural borders. And on the other, achieving a better provision of economic goods requires passing real power from current states to larger jurisdictions that coincide with economic borders.

Michel Fouquin of CEPPI and Rolf J. Langhammer of the IfW, together with Rainer Schweickert, also of the IfW, prepared the second issues paper, relating to the session of the Kiel conference on Empirical Dimensions of Integration and Trade. The paper is entitled "Natural Resource Abundance and its Impact on Regional Integration". For Latin America, resource abundance has, throughout its history, been a very relevant issue. And today, the issue is back on the agenda. Due to strong global demand and certain supply constraints, Latin American countries as suppliers of commodities have seen the terms of trade shifting in their favor and have experienced a windfall in export revenues. In this context, natural resources are increasingly looked upon as a strategic capital stock that is strongly influencing the perceptions of policy-makers.

The authors start with an account of the papers presented at the Kiel conference that, among other topics, also analyze the impact of globalization and regional integration on structural adjustment and poverty alleviation. The papers suggest that natural resource rents associated with very capital-intensive technologies do not improve the income position of the poor, while labor-intensive activities without any resource rents will keep workers at minimum salaries. For exports to contribute to reducing poverty, it is argued that they would have to focus on sectors which are labor intensive and which at the same time also exploit natural resources. Sectors mentioned as fulfilling these criteria are modern agriculture and tourism.

The issues paper also notes that a distinction probably has to be drawn between oil-exporting countries, mineral ore producers and agricultural resource-based economies. The criteria of distinction are the processing potential, the degree of dualism, the spread between intra-regional and extra-regional demand, and the degree of exposure to exogenous shocks.

The authors bring forward several observations with regard to the influence of natural resources abundance on regional integration. One of them refers to post-war evidence that suggests that resource-rich countries have neither been driving forces for establishing regional integration schemes nor -once they were members of such schemes- push factors for deeper integration. They also note that the jury is still out concerning the role of resource abundance as either a stumbling block or stepping stone for regional integration. Conditions have changed since the first, inward looking import substitution stage of regional integration in Latin America. While at the time commodity prices were mostly flat or declining, at the present, in conditions of more outward-looking regionalism, there is a high demand for commodities. And, with the process of reforms, ownership structures have changed in favor of foreign participation through foreign direct investment.

The relationship between resource abundance and neighborhood relations (a somewhat broader term than integration) needs to take into account socio-economic aspects such as the allocation and enforcement of property rights on natural resources, and the division of labor between the state and the private sector in collecting and spending revenues from resource extraction.

The third issues paper draws on the session of the conference devoted to Institutional Dimensions of Integration and Trade. Professors Helen Wallace of the RSC for Advanced Studies of the European University Institute, and Jacques Ziller, of the Law Department of the European University Institute coordinated the preparation of this session. Jacques Ziller is the author of the paper presented in this publication.

The paper discusses the subject matter of trade dispute settlements in the context of the "spaghetti bowl" of trade and regional integration agreements. This issue emerged as particularly topical out of several papers presented in Kiel. The image of a "spaghetti bowl" has been coined in order to underline the challenges, which result from having differing rules in numerous trade agreements at the regional, inter-regional as well as multilateral level. A major challenge is the burden that the "spaghetti bowl" creates for businesses and public administrations of the countries that are parties to the agreements. It furthermore increases the difficulties of establishing causalities between specific provisions and the development of trade and integration. This in turn may lead to poorly adapted legal provisions in trade and integration agreements.

A point raised at the Kiel conference is that among Latin American countries there is a novel trend towards an increased use of rule-oriented dispute settlement mechanisms, or in other words, towards a "judicialization" of trade relations. This is seen as a result of two factors: first, the deepness of trade reforms; and second, the "de-dramatization" of suing a political partner. Examples illustrating these trends in the scope of the existing regional trade agreements, and of those signed with the EU are presented.

It is further argued that dispute settlement mechanisms are of great importance for the effectiveness of trade and integration agreements, for a more effective and better drafting of these agreements, and for depoliticizing trade conflicts. If agreements do not contain a dispute settlement mechanism, or if they rely on negotiation at the highest level for the solution of disputes, non-compliance to the agreement may degenerate in a political conflict, or be used as a pretext for litigations based on other reasons.

Also discussed in the paper is the issue of the relevance and applicability of existing dispute settlement mechanisms, as well as of the transposability of the European experience, for the drafting of texts of dispute resolution mechanisms in future agreements. The author concludes the paper with an analysis of the main elements of effective dispute settlement mechanisms.



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FIRST SESSION: ECONOMIC INTEGRATION AND POLITICAL STRUCTURE

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ECONOMIC INTEGRATION AND POLITICAL STRUCTURE¹

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I. INTRODUCTION

Globalization is changing economic borders rapidly.² Barriers to trade are now lower than ever, and this has led to the creation of many truly global goods and asset markets. As a result, the volumes of trade and cross-border financial flows have grown dramatically in the last decades, both among industrial countries and also between industrial and developing countries. There are signs that some factor markets are also acquiring a global dimension. Advances in telecommunications technology and the standardization of software have allowed some industries to combine physical and human capital located in different regions of the world, thus creating a global market for some specialized types of workers and capital. As a consequence of increased integration in goods, asset and factor markets, shocks are now propagated across the world with a force and speed that were difficult to imagine only a few decades ago.

And yet globalization is changing political borders only slowly if at all. To be sure, there is some stress on the world's political structure, as it appears that globalization is fueling two trends that might seem at odds at first sight. On the one hand, there is a growing tendency to create and reinforce large supranational entities that assemble various states. On the other hand, there is also an ongoing process of political fragmentation within many states.³ We shall argue later that these trends are not only at odds with each other, but also indeed they can both be understood as rational and complementary responses to globalization. But for now, we just note that both trends are still in their infancy. Despite all the noise, the effective power still lies in the hands of the traditional states that were formed well before globalization was in sight.

This paper weaves together some speculative thoughts on the consequences of this growing mismatch between economic and political borders. In particular, we ask what are the problems

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¹ This paper was written for a conference in Sao Paulo on April 7, 2006 jointly organized by the *Fundação Getulio Vargas* and the ELSNIT. The contents of this paper are based on the discussions that took place in the Third Annual ELSNIT Conference in Kiel on October 21-22, 2005. The authors thank Gino Gancia for useful comments on an earlier draft and to the Inter-American Development Bank (IDB) for its financial support.

² Since globalization means different things to different people, we hasten to say that here we adopt a "technological" definition of globalization, *i.e.* a gradual reduction in the costs of trading goods and services across the world. Moreover, we also think of globalization as an "exogenous" event, *i.e.* we analyze its consequences rather than try to explain its causes.

³ These two trends are perhaps more clearly seen in Europe, where the creation of the European Union is going hand in hand with the re-emergence of nationalisms and separatist movements inside the borders of many European countries.

("inefficiencies") that this mismatch creates and how should we ("the citizens of the world") deal with them. Admittedly, our answers are incomplete as our arguments have loose ends that we do not know how to tie. Despite this, we do not shy from reaching three robust conclusions that we think constitute a sound starting place for the study of the interactions between economic integration and political structure.

The first conclusion is that globalization is creating new policy externalities and this leads governments to choose worse economic policies. Typically, governments only consider the effects that their policies have on their constituencies. The current world political structure is such that governments' constituencies are located inside the state. As a result, governments disregard the effects of their policies that are felt on the other side of the state's border. These effects therefore constitute policy externalities and lead to suboptimal policy choices from a global standpoint. As market borders expand far beyond state borders, these policy externalities become more prevalent and indicate that there is a discrepancy between those jurisdictions that hold power and those that could effectively use it in a globalized world. The result is a worsening in policymaking that could seriously mitigate the gains from globalization and even turn them into losses.

The second conclusion is that cooperation among existing states is only a partial and inefficient way of coping with these policy externalities. In the short run, globalization has arrived with a fixed (and inappropriate) political structure and the only option to counteract policy externalities is by building institutions that foster cooperation among states. These institutions include international treaties, multilateral organizations and *ad-hoc* agreements of many sorts. One can usefully think of these institutions as initial steps towards the development of a global market for policies. After all, Coase's theorem tells us that externalities are a sign of missing markets and can be eliminated by creating these markets. Unfortunately, there are strong reasons to believe that a global market for policies is not going to work well. Even if one is willing to downplay the enormous practical problems of implementing such a market, we should recognize that it would miss two key ingredients of efficient or competitive markets: first, government are the only seller of their policies and buyers of policies are a small group of governments that can easily collude; and second, the absence of a global jurisdiction with the power and the incentives to enforce trades.

The third conclusion is that globalization requires a new political structure that redistributes power away from the current centralized jurisdictions or states and towards a new set of overlapping jurisdictions that are both larger and smaller than existing states. While the optimal jurisdictions for the provision of education and justice consist of geographical areas that share a common language and culture, the optimal jurisdictions for the provision of monetary policy and anti-trust legislation consist instead of geographical areas that share the same markets. If the borders of markets and nations do not differ much, economies of scope make it cost-effective to have centralized jurisdictions that provide all public goods. But globalization has dramatically widened the gap between the borders of markets and nations, and it is no longer cost-effective to have centralized jurisdictions that go far beyond the borders of nations but still fall far short of the border of the market. It is now more efficient to have a new set of overlapping jurisdictions adapted to subsets of public goods with similar geographical scope. This is why globalization has simultaneously created forces towards political concentration and fragmentation. In the long run,

these forces will lead to a new and better political structure that allows the world to reap all the gains from globalization.⁴

In the rest of this paper, we develop each of these three conclusions in more detail.

⁴ The theory of optimal political structure used in this paper has been heavily inspired by Alesina and Spolaore [2003]. But it shows substantial differences, too.

II. GLOBALIZATION CREATES EXTERNALITIES AND WORSENS POLICIES

If economic and political borders coincide, those who decide economic policies also face their consequences. This is a necessary condition for governments to choose efficient policies.⁵ If there is a discrepancy between economic and political borders, economic policies create costs and benefits that are not taken into account by those that choose economic policies. These costs and benefits constitute policy externalities. If these externalities are important, inefficient policies are likely to be chosen. The first thesis of this paper is that globalization, by creating a mismatch between economic and political borders, has been the source of new policy externalities that worsen economic policies. We start by illustrating this point with the help of two examples.

A. The Terms-of-Trade Externality and the Size of Governments

Many expected globalization to reduce the size of governments. This belief was based on standard theory which tells us that the cost of taxing factors increases with their supply elasticity. In a world with local factor markets, these elasticities are low at least in the short run since changes in factor supplies mostly come from factor accumulation and this takes time. In a world with global factor markets, factor supply elasticities are high even in the short run since changes in factor supplies can be achieved not only through factor accumulation but also through international factor movements. Through this mechanism, taxation creates a positive policy externality since it induces factors to move abroad and this benefits the rest of the world. With this tax-competition externality in mind, many held the view that globalization would reduce the size of governments below the optimum. That is, the fear was that globalization would raise the cost of governments to provide public goods and implement social programs and lead to "too much" fiscal discipline.

The data has been unkind to this view, however. Cameron [1978] was the first to document that countries that trade more tend to have larger governments. The source of this correlation was unclear however. Cameron's sample consisted only of eighteen Organization of Economic Co-operation and Development (OECD) countries and it did not allow him to distinguish the hypothesis that globalization increases the size of governments from other reasonable alternatives. For instance, small economies also tend to trade more and have larger governments as a share of income (Alesina and Wacziarg [1998]). Is it really trade that increased the size of governments? Or it is the size of the economy that determines both trade and the size of government? With Cameron's small sample, there was no hope of knowing this.

Rodrik [1998] was the first to push the interpretation that it is in fact trade that leads to larger governments. To do this, he used data for a cross-section of about a hundred countries. This sample size allowed him to control for size and many other potential variables that could affect both trade and government size. He also made an effort to establish that causality goes from trade to government size by using an instrumental variable procedure. One could still argue that, by using a single cross-section, Rodrik analysis was mainly static and could not shed light on the

⁵ It is obviously not a sufficient condition, since there are other reasons why governments choose inefficient policies such as lack of commitment or imperfect information.

effects of globalization. But Epifani and Gancia [2005] have now re-examined the evidence using a panel of about one hundred and fifty countries. Their work clearly documents that trade increases government size not only "between" countries, but also "within" countries.⁶ Moreover, they also find that the relationship between trade and government size is growing stronger over time. The conclusion is clear: the data shows that globalization is leading to larger governments. Although the last word on this empirical relationship has not been written yet, there are no dissenting voices at this point.

The next step, of course, is to ask why trade leads to larger governments and whether this is an efficient outcome. Here we do find dissenting voices. All of them recognize that globalization has had small effects on factor mobility and this is the reason why tax-competition arguments based on factor supply elasticities have proved beside the point. All of them also focus on goods trade as the culprit for the increase in government size. But these voices differ when it comes to explaining what is it about goods trade that raises the size of governments.

On one side of the debate, Rodrik has taken the view that globalization is worsening markets and the increase in government size is nothing but a desirable response to this problem. In particular, Rodrik's explanation has two parts. First, increased trade in goods has led to an increase in the risk faced by individuals. Mostly, this increased risk comes from exogenous terms-of-trade fluctuations. Second, asset markets do not work well and individuals cannot insure themselves against this risk. Under these circumstances, governments optimally react by increasing social insurance programs and also by directly substituting the market as producers of goods that are subject to less fluctuations. This is why, according to Rodrik, globalization leads to larger governments.

On the other side of the debate, Epifani and Gancia take the view that globalization worsens governments rather than markets, and the observed increase in government size is undesirable. Their argument also has two parts. First, government spending exhibits a substantial home bias and therefore shifts demand towards domestic goods and away from foreign ones, leading to an improvement in the terms of trade. Second, domestic and foreign factors are imperfect substitutes and this improvement in the terms of trade raises domestic factor prices relative to foreign ones. Therefore government spending creates a negative externality as part of its cost is shifted abroad in the form of improved terms of trade. As a result of this terms-of-trade externality, governments choose sub-optimally large sizes.⁷

Why does trade raise the size of governments? The verdict is still open and, at the end of the day, both explanations might be part of the final story. But Epifani and Gancia have made one simple observation that strongly suggests that their explanation should be preferred to Rodrik's. In

⁶ In the jargon of econometrics, the "between" finding is that, *when looking at sample averages*, those countries that trade more on average also tend to have larger governments on average. The "within" finding is that, *when looking at the average country in the sample*, those years when this average country trades more it also tends to have a larger government.

⁷ It is straightforward to show theoretically that, if the terms-of-trade externality is large enough, globalization might even lead to Pareto inferior outcomes as the negative effects on welfare of a deterioration in economic policy more than offsets the positive effects of increased goods trade. Whether this is also the case empirically needs to be determined yet.

particular, they notice that there is a way to empirically distinguish both hypotheses. It follows from Rodrik's argument that the effects of trade on government size should be stronger in countries with a high elasticity of substitution between imports and exports since this tends to magnify the effects of exogenous terms-of-trade fluctuations. It follows instead from Epifani and Gancia's argument that the effects of trade on government size should be stronger in countries with a low elasticity of substitution between imports and exports since this tends to magnify the effects of government size on the terms of trade. Epifani and Gancia then go to the data and show that the relationship between trade and government size is strong among the subset of countries where the elasticity is low, but weak or inexistent among the subset of countries where the elasticity is high. It seems therefore that globalization is increasing government size mostly in those countries that can shift abroad a sizable fraction of the cost of this increase.

B. The Over Borrowing Externality and the Workings of Financial Markets

Many also expected globalization to improve risk sharing and welfare. After all, a reduction in trade costs allows individuals to pool consumption risks for a wider range of goods. That is, globalization enlarges asset trade opportunities, *i.e.* the possibility of trading more goods across dates or states of nature. Standard theory says that this increase in trade opportunities would have two implications. First, the costs and sources of financing should become more stable as the market grows and the country-specific or idiosyncratic components of shocks vanish. Second, consumptions should become more correlated between countries and, to the extent that increased competition improves the workings of financial markets, also within countries.

Once again, the data has not gone along with these expectations. The notion that sources of financing would be more stable has proved dramatically wrong. In East Asia, Latin America and elsewhere, financial markets have become more vulnerable to shocks and have experienced a flurry of crises. Perhaps as a result of this, the evidence is mounting that globalization has increased consumption volatility and reduced consumption correlations across countries (at least, relative to output correlations which is what the theory predicts). See, for instance, Prasad *et al.* [2003] and Kose *et al.* [2006]. There are also widely held views, although no hard evidence, that consumption volatility has also increased at the individual level. These beliefs are so ingrained in popular discourse that many observers of the world economy take it as an evident fact that globalization has made the world riskier for all.

This increased instability in financial markets can be explained in part by a change in government behavior. Before globalization, governments made substantial efforts to ensure the stability of their financial markets. To be sure, governments have always defaulted on their own debts and this has always led to crises and problems. But governments also implemented tough (and poorly designed!) regulations limiting the risk that banks and other financial intermediaries could take on. Moreover, governments tended to help these institutions when they were in distress. After globalization, this is no longer the case. Governments have largely removed regulations restricting risk-taking behavior by financial institutions and are letting banks and large firms default on their promises before bailing them out.

What has prompted this change in government behavior? One view is that heavy regulation and bailouts create inefficiencies that are no longer sustainable in an environment in which there is

intense international competition among banks and other financial intermediaries. According to this view, globalization is simply raising competition and imposing financial discipline on governments. Financial crises are just an (unfortunate) sign that financial markets are working better and punish those who make bad investments. It is hard however to find any empirical support for this view in light of how inefficient and costly financial crises have been for the countries that have experienced them. Moreover, it is hard to explain why improved financial markets would increase overall consumption volatility and reduce international risk sharing. It is no wonder then that this view has been abandoned even by those that firmly believe that markets tend to work well most of the time.

Caballero and Krishnamurty [2001], Tirole [2003] and Broner and Ventura [2006] have argued in different ways that this pattern of instability might be the consequence of an over borrowing externality created by globalization. This externality leads governments to adopt financial regulations and make other choices that lead to sub-optimally high probabilities of financial crises. This argument starts by noting that financial crises amount to domestic banks (and other intermediaries, of course) defaulting on their creditors, domestic and foreign. The result is a redistribution from these banks' creditors to their debtors, which are usually domestic firms. This redistribution entails costs of various sorts. It increases inequality as small domestic savers end up paying in part the costs of banks making bad loans to firms. Moreover, these crises are often protracted and the financial system is unable to provide additional credit during this period. This leads to a halt in investment and economic growth.

The probability of a financial crisis depends on financial regulations and government's resolve to enforce contracts. Governments can take actions that lower this probability, but usually this comes at a cost. After all, safety requires foregoing good but risky investment opportunities. The key observation is that globalization changes the mix of bank creditors. In particular, it increases the fraction of foreign to domestic creditors of the domestic financial sector. Since governments do not care about the losses that financial crises create to foreign creditors, globalization leads governments to adopt "unsafe" financial regulations and to weaken their resolve to enforce contracts. As a result of this over borrowing externality, globalization has led to an increase in volatility and financial crises that lower risk sharing both between and within countries.⁸

Existing research has therefore shown how globalization is a source of new policy externalities that lead to sub-optimal choices regarding the size of the government and the workings of financial markets. But these are nothing but two illustrations of a general trend. There are many other areas of economic policy where globalization is creating new policy externalities, such as the conduct of monetary policy, the design of anti-trust legislation, the choice of labor market regulations, social security systems and so on. We could easily expand the list of examples. But the point has already been made. The next question, of course, is how to deal with these policy externalities.

⁸ Once again, it is easy to show theoretically that globalization might even lead to Pareto inferior outcomes as the negative effects on welfare of a deterioration in economic policy more than offsets the positive effects of increased trade. Once again, whether this is also the case empirically needs to be determined yet.

III. A GLOBAL MARKET FOR POLICIES?

In the short run, the world's political structure is not going to change and any attempt to deal with policy externalities must come from the existing set of states. Underlying the examples above is the notion that governments act non-cooperatively and choose their economic policies taking those of other governments as given. In this section, we ask whether it is possible to eliminate the negative effects of policy externalities through cooperation among states.

The initial and instinctive reaction of an economist when facing a problem of externalities is to apply Coase's theorem. According to this theorem, externalities arise because markets are missing. The logic is simple and powerful. Assume there is a government; say A, that can adopt a policy that generates a benefit to this government but a cost to another government, say B. For simplicity, think of the benefit and cost of this policy as monetary. If governments cannot trade actions for money, then this policy generates policy externalities. If A has the right to decide the policy, it will adopt it even if the cost to B exceeds the benefit to A. In this case, A's decision imposes a negative externality on B. If instead B has the right to bar the policy, it will bar it even if the benefit to A exceeds the cost to B. In this case, B's choice imposes a negative externality on A.

These outcomes are clearly inefficient and can be ruled out by creating the appropriate market. If governments can trade actions for money, efficiency is ensured regardless of how we assign property rights over the policy. If A has the right to adopt the policy, it will do so if and only if the cost to B is smaller than the benefit to A. Otherwise, B would be willing to pay enough for A not to adopt the policy. If instead B has the right to bar the action, it will do so only if the benefit to A is smaller than the cost to B. Otherwise, A would be willing to pay enough for B to lift the ban on the policy. Although the assignment of property rights has important distributional consequences, it is irrelevant for efficiency. To ensure that only efficient policies are adopted we only need a market.

Coase's theorem therefore tells us that, if we want to eliminate the harmful effects of policy externalities, we should assign property rights over policies and create a global market for them. At first sight, this notion might seem farfetched. But it should be obvious that a very limited and imperfect version of this market already exists and sometimes goes by the name of "cooperation" among states. One can think of international treaties, multilateral organizations and ad-hoc agreements of many sorts as instances of trade in policies. One example is the World Trade Organization (WTO) where governments "buy" tariff reductions from other governments and "pay" with tariff reductions of their own. Another example is the International Monetary Fund (IMF) which can be thought of as a forum in which the international community "buys" specific macroeconomic policies from governments in distress and "pays" them with cheap loans.

At this point, it is instructive to think about the details of how such a global market would work for the terms-of-trade and over borrowing externalities discussed in the previous section.

A. The Terms-of-Trade Externality

The problem in this example was that the increase in government size shifts demand from foreign products to domestic ones and this raises domestic factor prices. The underlying reason is that government spending tends to have a stronger home bias in consumption than the private spending it replaces. The non-cooperative solution leads governments to spend too much. This outcome is inefficient and governments would be willing to reduce their own spending if all other governments did the same in return. Of course, one could think of implementing this collective trade of policies by means of an international agreement. But such an agreement would have to be enforced by a supranational authority with sufficient power, since all governments have incentives to violate the agreement and increase their own spending after the other governments have reduced theirs. This free-rider problem plagues all international agreements in which governments promise to depart from individual maximizing behavior in order to achieve collective maximizing behavior.

A market that would solve the terms-of-trade externality would be one in which governments pay other governments to consume their goods. That is, government B would pay government A a certain amount for each unit of goods produced by B's residents that it buys. Since B would be willing to pay no more (and no less) than the change in the terms of trade this purchase generates, these payments would eliminate the terms-of-trade externality. The effects on the terms-of trade of increases in A's spending on domestic goods would be offset by the lost payments from B. This market leads A to internalize all the effects of its spending and, as a result, to choose an optimal government size. Note that this market would not suffer the free-rider problems associated with international agreements since it aligns individual and collective maximizing behavior.⁹

B. The Over Borrowing Externality

The problem in this example was that the costs of financial crises are suffered in part by foreign creditors. The non-cooperative solution entails governments adopting unsafe financial regulations and having weak resolve to enforce contracts. This leads to a too high probability of financial crises. This is inefficient and governments would be willing to adopt safer financial regulations and toughen contract enforcement if all other governments did the same in return. As in the previous example, this collective trade of policies could be implemented by means of an international agreement. Also as in the previous example, this agreement would be subject to free-rider problems since all governments have incentives to violate the agreement once the rest of governments comply with it.

A market that would solve the over borrowing externality would be one in which governments buy insurance from other governments. That is, government B would buy from government A insurance that covers the losses that B's residents have when there is a financial crisis in country A. Since B would be willing to pay the net present value of these losses, these payments would eliminate the over borrowing externality. The effects of A adopting unsafe financial regulations

⁹ Note that this market solution consists of basically subsidizing exports and therefore violates antidumping rules of the WTO.

and weakening the resolve to enforce contracts would lead to A having to make insurance payments that coincide with the losses of foreign residents. This market therefore leads A to internalize all of the costs of its policies and choose the optimal probability of default. Once again, this is done without having to worry about free-rider problems.

These two examples are useful to describe the role of a global market for policies. But they might also give the impression that the costs of implementing such a market are small since, as all trades are individually and collectively maximizing, there is no need to enforce or monitor them. This would certainly be a deceptive impression. Assigning property rights over policies is much more difficult than it might seem at first sight.¹⁰ But even if we assume away this problem, one should still remember that markets align individual and collective incentives if and only if they are "competitive", *i.e.* if and only if they comply with some well-known conditions. It is unlikely however that these conditions be met in a global market for policies. More precisely, there are at least two important ways in which a global market for policies would depart from the paradigm of competitive markets. Both of these departures are likely to create substantial inefficiencies.

The first departure is that governments are likely to behave strategically instead of adopting the passive price-taking behavior of competitive markets. Since governments are the only sellers of their own policies, it is reasonable to expect them to behave as monopolists who restrict sales in order to push up the price. As a result, they would only partially internalize the costs and benefits that their policy choices have abroad. This problem might be further exacerbated by the fact that the buyers of policies are a small group of governments that might find it relatively easy to collude and restrict their purchases in order to push the price down. If both demand and supply are artificially restricted, policy externalities are only reduced but not eliminated.¹¹ Even with a global market for policies inefficiencies would remain, albeit smaller, and grow with globalization.

The second departure from the paradigm of competitive markets is the absence of an "enforcer", *i.e.* an institution that has both the power and the incentives to ensure that all trades are carried out as agreed upon. This institution is crucial when governments trade future policies (or policy rules) rather than current policies (or discrete policy actions). Without such an enforcer, governments cannot credibly commit to adopt policies in the future. For instance, in the example of the over borrowing externality, why would a government make insurance payments (as agreed) to foreign governments when a financial crisis occurs? Since there is no supranational authority that can play the role of "enforcer" in the current world political structure, the only possible answer to this question is: the government will make the payment if and only if it is in its own interest to do this. If this is not always the case, the market is distorted or even missing and the global market for policies is unable to eliminate the over borrowing externality. More generally,

¹⁰ If anyone doubts this statement, we would suggest that he/she thinks for a minute about the problem of assigning rights over the environment. Should governments have the right to adopt policies that increase emissions without restriction? Should governments have the right to adopt policies that deplete fishing stocks and/or oil reserves?

¹¹ The situation might even be more complicated if market mechanisms are abandoned and parties decide to bargain. When is two-sided or multi-sided bargaining likely to deliver efficient outcomes? The answer is unclear since we know much less about bargaining than about markets.

the absence of an enforcer limits the scope of a global market for policies in such a way that inefficiencies would remain and grow with globalization.

What do we conclude then? In the short run, we should deal with growing policy externalities by developing global markets for policies. But we should not expect this to be a permanent solution, since these markets are likely to be inefficient. In the long run, the only way to deal with growing policy externalities is to change the world political structure. We move to this question next.

IV. A POLITICAL STRUCTURE FOR THE GLOBALIZED WORLD

This section deals with the long run, and asks about the optimal political structure for the globalized world. We now have a system of centralized jurisdictions, *i.e.* large states that often go beyond cultural and linguistic borders but clearly fall short of economic or market borders. These centralized jurisdictions concentrate all the political and decision-making power. In this section, we argue that this political structure is optimal only at low levels of globalization. As globalization advances the world should break these centralized jurisdictions move towards a new political structure based on a set of overlapping jurisdictions that are both smaller and larger than existing states.

We need governments to provide different public goods. For some of these goods, such as education and common justice, their optimal jurisdiction consists of geographical areas that share a common language and cultural heritage. We label these public goods as cultural goods. In theory, it is possible that a large jurisdiction that goes beyond cultural borders still has enough respect towards minorities to provide different systems of education and justice to the different cultural communities living within its borders. In practice, this is hardly the case. Historically, large jurisdictions have made a substantial effort to reduce cultural diversity within their borders and to promote a single language and a common cultural identity (which often coincides with that of the dominant cultural group within the state). There are many political economy motives that justify this behavior. But we shall not enter into them. For our purposes, we only note that achieving increased diversity in the provision of cultural public goods requires passing real power from current states to smaller jurisdictions that coincide with cultural borders.

For some other public goods, such as the provision of monetary policy and anti-trust legislation, their optimal jurisdictions consist of geographical areas that share common markets. We label these goods as economic goods. In theory, jurisdictions that share the same markets could cooperate and achieve the optimal provision of economic goods. In practice, and as we have argued above, this is not going to happen as it requires a global market for policies and this market is unlikely to work well. Achieving a better provision of economic goods requires passing real power from current states to larger jurisdictions that coincide with economic borders.

Why is it then that the world political structure consists of centralized jurisdictions that provide both cultural and economic goods simultaneously? Why is it that the world political structure does not consist of overlapping sets of jurisdictions some coinciding with cultural borders and the rest with economic borders?¹² The answer, of course, is that there are economies of scope in the provision of different public goods.¹³ After all, there are some fixed costs in the provision of public goods that can be shared such as coordinating revenue-raising or monitoring the implementation and use of public goods.

¹² Other public goods, such as the protection of the environment and the conservation of natural resources should be provided by jurisdictions whose borders coincide with geographical borders, rather than economic or cultural borders.

¹³ We say that there are economies of scope in the provision of public goods when it is cheaper having a single jurisdiction providing two public goods than having two jurisdictions one for each good.

If economies of scope in the provision of public goods are high and the distance between cultural and economic borders small, it is cost-effective to have a single jurisdiction provide both cultural and economic goods. This might have been the situation at early stages of globalization. As globalization deepened, the distance between the cultural and economic borders grew and so did the size of these centralized jurisdictions. Enjoying economies of scope required paying a growing cost in terms of reduced diversity in the provision of cultural goods and a few too many policy externalities.

At some point (we might already be there) globalization will make the distance between cultural and economic borders so large that economies of scope no longer justify the existence of centralized jurisdictions. At this point the world will have incentives to adopt a new political structure that better adapts to the globalized world. This means combining parts of existing jurisdictions into a single larger jurisdiction that hold effective power on the provision of economic goods. It also means breaking down existing jurisdictions that do not coincide with cultural borders into a set of smaller jurisdictions that hold effective power on the provision of cultural goods.

This simple theory explains the political tensions that globalization is creating. In particular, it is consistent with the observation that globalization is fueling two seemingly at odds trends. On the one hand, there is a growing tendency to create and reinforce large supranational entities that assemble various states. On the other hand, there is also an ongoing process of political fragmentation within many states. Both of these trends are rational responses to globalization.

V. CONCLUDING REMARKS

This paper started with the observation that globalization is changing economic borders quickly but changing political borders slowly if at all. We have argued that this mismatch between economic and political borders is a source of new policy externalities that vitiate governments' choice of economic policies. In the short run, the world's political structure is given and the only way to deal with this problem is by creating a global market for policies. This market, however, is not likely to work well. In the long run, we should change the world's political structure moving away from the current system of centralized jurisdictions towards a new system of overlapping jurisdictions that have both a larger and smaller geographical scope than existing states.

The analysis has been clearly normative, as we have focused mostly on the problems created by globalization and those solutions we think are best for the short and the long run. But we have not discussed the details of how to implement these solutions. This is not because we think that those are unimportant. To the contrary, we think that it is paramount to acquire a true understanding of the dangers and opportunities that might appear during the transition towards a new world's political structure. What are the sources of institutional inertia? Which groups are most likely to resist change? How can we align their incentives with those of the rest of society? What inefficiencies are likely to arise during the transition? How should we deal with them? Having good answers to these questions would help minimize the time and costs of acquiring a new political structure that allows the world to take full advantage of globalization.

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**SECOND SESSION: NATURAL RESOURCE ABUNDANCE AND ITS IMPACT
ON REGIONAL INTEGRATION: BLESSING OR CURSE?**

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NATURAL RESOURCE ABUNDANCE AND ITS IMPACT ON REGIONAL INTEGRATION: BLESSING OR CURSE?

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I. INTRODUCTION

The spatial allocation of natural resources between countries is unequal, correlating at best with the geographical size of countries. As an immobile factor of production, a spatially uneven allocation of resources between a group of countries may buck the trend toward the law of one price, and aggravate both the introduction of common policies, and the absorption of exogenous shocks in integration schemes.

While physical capital, and skilled and a growing number of unskilled workers become cross-border mobile, supporting price convergence between countries, the immobility of natural resources, and the exposure of their prices to high volatility can easily drive a wedge into the integration process of economies. The reasons for this are rooted in both the supply and demand sides: on the supply side, the greater the spatial disparity in resource availability, the less synchronized are price movements between countries; on the demand side, the greater the disparities in growth patterns between countries, the more demand patterns and demand elasticities will differ between countries. Levels of income may also trigger differences in demand for natural resources: poor countries will exhibit less demand for natural resources than richer countries. Furthermore, there are likely to be systematic differences in social time preference rates between resource-rich and resource-poor economies, the former being higher than the latter when resource revenues are used to accelerate the financing of capital formation outside the resource sector.

In political terms, natural resources may shape the perceptions of policy-makers. They are often looked upon as a natural and strategic capital stock that should be at the exclusive disposal of national governments, and should not be open to member countries in an integration scheme. Such conduct could be a curse for deep integration, which requires some asymmetric burden sharing between rich and poor countries, and perhaps even an intercountry redistribution of income. Yet it could also be a blessing if resource revenues enable the resource-abundant country to generously offer and finance any such redistribution, and take more risks in implementing long-term integration schedules.

Resource abundance and regional integration is a new issue. Many integration schemes in the developing world were founded in the 1960s, when resource prices were still on a flat long-term path. These schemes disintegrated, and even collapsed, in the 1970s, when the two oil-price

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shocks, and the subsequent rise in all major commodity prices accentuated the divergence between those that were commodity net importers and had to shoulder a rapidly rising import bill, and those that were net exporters. The opening of the terms-of-trade wedge within an integration scheme led many governments from net resource importing countries in South-South integration schemes to decide against further liberalization of intraregional trade, and to concentrate instead on earning revenues in extraregional trade. On the other hand, net resource exporters have often abruptly abandoned domestic policy reforms after enjoying resource windfall gains, and have thus injected further erratic volatility into integration schemes.

Today the issue is back on the agenda due to strong Asian growth-based demand, and certain constraints on supply. Resource abundance is a very relevant issue for Latin America, as Latin American suppliers of commodities see their terms of trade shifting against the manufacturing sector (due also to fierce competition from labor-abundant Asian suppliers) in favor of resource extraction.

We will first summarize the results from two papers presented at the Kiel Conference, dealing with the impact of globalization and regional integration on structural adjustment and poverty alleviation (Section II). While these papers remain rather specific, we add four observations on the role played by resource-rich countries in regional integration schemes; one of this is particularly relevant to the Latin American experience. The observations are meant to open up a broader discussion of the topic (Section III). Both the papers presented in Kiel and our four observations point to the importance of distinguishing between different types of resource abundance. Section IV, elaborating on the general nexus of resource endowment, export structure and economic development, draws on the distinction of groups of countries as characterized by different types of resource abundance. Section V asks a number of open-ended questions that could be integrated into a policy-oriented research agenda. Lastly, we propose to develop a policy memorandum outlining the various channels by which an integration scheme can be affected, due to the uneven allocation of resource abundance among member states (Section VI). We believe that such insights may help to rationalize perspectives for regional integration schemes in Latin America.

II. RESOURCE ABUNDANCE, GLOBALIZATION AND REGIONAL INTEGRATION: KIEL CONFERENCE RESULTS

The paper by Álvarez and Fuentes [2005] addresses the question of how a country specializing in primary goods can become an exporter of manufacturing goods. As outlined by the authors, many scholars and policy-makers have argued that developing economies should shift their patterns of specialization toward manufacturing goods in order to achieve higher economic growth, and a more equitable distribution of income. Edwards [1997], for example, has argued that a key challenge for Latin American policy-makers is to increase net exports of higher value-added manufactures. In the same vein, Gylfason [2004] claims that "an important challenge to policy-makers in many developing countries with abundant natural resources is to find ways to reduce their dependence on these resources, through successful diversification of economic activity". However, the World Bank [2001] presents a more optimistic view, arguing that what matters is not what goods countries produce, but how they produce them. Scandinavian countries, which have been able to grow based on their natural resource abundance have been responsible for most of this view. Bravo-Ortega and De Gregorio [2005] present both a theoretical model and empirical evidence regarding how economic growth and factor abundance are possible for economies with high levels of human capital.

Based on factor endowment-driven specialization, Álvarez and Fuentes study trade patterns along the development paths of a large sample of countries over the last four decades. Consistent with the idea that countries are located in different diversification cones, they found that net exports are a non-linear function of an economy's capital labor ratio. The pattern of gaining comparative advantages in manufacturing goods as a country develops depends not only on whether it is natural resource abundant or not, but also on what type of natural resource abundance it has. The equation estimated by Álvarez and Fuentes assumes that the relationship between net exports and capital per worker depends on the relative abundance of natural resources in each country. Based on regression results it is possible to trace the evolution of net exports as a function of capital per worker for all four aggregates. This shows how comparative advantages evolve as the country accumulates capital depending on factor abundance.

The group of mineral-abundant countries is characterized by a low capital labor ratio. Given this combination of capital scarcity and mineral abundance, manufacturing goods are decreasing. This is consistent with the idea that the mining sector is capital intensive, and absorbs the extra capital accumulated by the country. On the other hand, if the relative price of the mining good in each country is very high (Dutch disease hypothesis), this good is always produced. Thus when a country accumulates capital, it reduces net exports of all goods, and increases production of primary mineral commodities. This result has important implications for the trade structure of mineral-abundant countries. It is theoretically possible, and according to the empirical results it is also likely, that they could never reach the minimum threshold to become net exporters of more capital-intensive goods. They are thus trapped in long-term equilibrium of low capital labor ratio.

Hence, in contrast to countries with comparative advantages in forestry and agricultural products, mining countries are the least likely group to shift their specialization pattern toward manufacturing goods. On the other hand, when human capital is used instead of physical capital, mineral abundant countries move to a cone where they produce and export capital intensive manufactures.

The forest abundant countries will attain comparative advantages in machinery as they accumulate human capital.

The second paper by Nina and Andersen [2005] analyzes the impact of regional integration on the export pattern of Bolivia, a country belonging to the mineral-abundant group. As a first result, they demonstrate that regional integration has actually stimulated a diversion of trade away from traditional United States (US) and European Union (EU) markets toward countries of the Southern Common Market (MERCOSUR) and the Andean Community (CAN).

The paper presents econometric analyses of the impact of exports (by sector, and trade block) on individual labor incomes and household poverty status. The results show that higher exports generally tend to benefit workers in the exporting sectors. However, this result only holds true for export sectors exploiting some natural resource rents (mining, hydrocarbons, modern agriculture), and not for those that rely purely on low wages in order to be competitive (most manufacturing sectors). Imports typically have a negative effect on workers' salaries, with the exception of imports of capital goods, which do not compete with local production. This implies that the shift toward more regional trade in goods with a smaller natural resource rent component is unlikely to contribute to a reduction in poverty. For exports to help bring down poverty, they would have to focus on sectors that are labor intensive, and at the same time exploit some natural resource rents. Sectors that might meet these criteria are modern agriculture and tourism.

A gravity model estimated for Bolivia and its 66 trade partners revealed quite different effects of Bolivia's preferential trade agreements:

- Both regional integration schemes in which Bolivia is involved (CAN and MERCOSUR) showed highly significant and large positive effects on trade. Bilateral trade increased twelve times in the case of CAN, and three times in the case of MERCOSUR.
- The partial integration agreement with Mexico signed in 1995 also had a statistically significant positive effect on trade between Bolivia and Mexico, with trade between the two countries up 82%.
- The Andean Generalized System of Preferences granted by the EU to the CAN did not have a positive effect on trade either. The estimated coefficient is positive, but not statistically significant. The same holds for the partial integration agreement signed with Chile in 1993.
- In contrast, the Andean Trade Preference Act (ATPA) granted by the US appears to have had a negative effect on trade between Bolivia and the US, the coefficient suggesting that trade fell by 50% after the agreement was signed in 1991.

As a caveat one has to bear in mind that the estimated gravity model of trade has nothing to say about causality, but the results seem to be consistent with the hypothesis of diversion of trade away from US and EU markets toward CAN and MERCOSUR markets. Regional diversification has not gone hand in hand with equally large changes in the composition of trade. Before signing the series of integration agreements in 1992, Bolivian exports were dominated by primary goods, mainly destined for the EU, while MERCOSUR was relatively unimportant. By 2002, primary

goods are still the most important export category, but the destination is now almost exclusively MERCOSUR. Food, beverages and tobacco, which are labor intensive products, have also become very important, with CAN as the destination. In terms of the impact on poverty, one would expect labor-intensive export products to have the most beneficial effects. Thus, it is likely that exports to CAN and the US will reduce poverty more than exports to other blocs.

Trade integration not only promotes exports, however. Increased exports go hand in hand with increased imports. In 1992, these made up 68% of all imports, and came mostly from the EU and the US. By 2002, the import share of capital goods had fallen to 58%, and more importantly, these imports came primarily from MERCOSUR. Capital goods are essential for the Bolivian industry, and do not compete with local production, as Bolivia has virtually no capital goods industry. In contrast, natural resource-based products compete directly with Bolivian production, and the increase observed between 1992 and 2002 may thus have a detrimental effect on poverty. This is the downside of increased integration, and this problem is particularly relevant for Bolivia's links with MERCOSUR.

While both distant (US, EU) and nearby (MERCOSUR, CAN) trading partners have provided free access for thousands of Bolivian products, the effect on trade has been most favorable with regard to nearby markets. Indeed, it appears that regional integration processes have diverted trade away from US and EU markets to MERCOSUR and CAN markets. In addition, exports became only moderately more diversified, although a different demand structure in neighboring countries compared to EU and US markets might be assumed and overall trade in Bolivia, as a percentage of Gross Domestic Product (GDP), has not increased at all. Hence, the impact on poverty, a major concern in the case of Bolivia, is also not very strong. Even to the extent that manufacturing products now account for a larger share of exports, and primary goods for less, this change has an ambiguous effect on workers. The traditional export goods to Europe (minerals) had a high content of natural resource rents, which benefited workers. On the other hand, the manufacturing sector tends to use low wage levels in Bolivia as a competitive advantage; this tends not to benefit workers.

As pointed out by Nina and Andersen, nor does regional integration make a difference with respect to Foreign Direct Investment (FDI). It has been concentrated mainly in hydrocarbons in order to exploit the rapidly growing regional markets and in utilities, to exploit natural monopolies. Very little FDI has gone into manufacturing and agriculture, where most poor workers are concentrated. Very few people benefited from the rapidly growing salaries in the hydrocarbon sector and utilities, suggesting that FDI made no impact on either salaries or poverty at the aggregate level. For trade and FDI to have a beneficial effect on household incomes in Bolivia, it would have to concentrate on labor-intensive sectors that also exploit some natural resource rents. The Nina and Andersen paper suggests that natural resource rents extracted by highly capital-intensive technologies do not improve the income position of the poor masses, while labor-intensive activities without any rents will keep workers at minimum salaries. Modern agriculture and tourism are examples of sectors that exploit both.

Overall, the results from the two papers presented in Kiel point to the fact that there seem to be no definite answers with respect to the impact of integration -international or regional- on structural change in emerging market economies. It is therefore necessary to sort out the stylized observations on which we can rely and the research questions which we still have to ask.

III. STYLIZED OBSERVATIONS FROM POST-WAR EVIDENCE

Observation 1: Post-war evidence suggests that resource-rich countries have neither been driving forces for establishing regional integration schemes nor -once members of such schemes- do they push for deeper integration.

This is probably due to the fact that the integration schemes were not themselves major export markets for natural resources. Evidence for such benign neglect of regional integration by resource-rich countries exists especially for schemes between developing countries (South-South integration). Indonesia in the Association of South-East Asian Nations (ASEAN), Gabon in the Central African Economic Community, Nigeria in the Economic Community of West African States (ECOWAS) and Bolivia in the Andean Pact are examples of passive roles.¹ South Africa in Southern African Customs Union (SACU) seems to be a notable exception. Yet even here South Africa's dominance was basically determined by its economic size and income level relative to the other members, and not by its resource abundance, which was shared by the other members. In specific cases, however, resource abundance supported intra-regional trade links when neighboring countries participated as hosts in the processing of resources. Indonesian oil exports to Singapore where oil is refined are witness to this. Furthermore, occasionally member states participated in joint large-scale projects such as oil refineries, when processed goods had to satisfy the demand of the entire regional market. In the 1970s, for instance, an oil refinery in Gabon was partly financed from state budgets of the members of the Central African integration scheme (UDEAC - *Union Douanière et Economique de l'Afrique Centrale*). Yet, such projects were very vulnerable to inter-country disputes on location, shareholdership, profit allocation and management sourcing. The ill-fated example of so-called ASEAN industrial projects shows that ideas of allocating a small number of large-scale resource-based plants among the member states granting them a quasi-regional monopoly never materialized.

In integration schemes between industrialized countries (Norway in the European Economic Area, Canada in the United States-Canada Free Trade Agreement) as well as in South-North integration (Mexico in the North American Free Trade Agreement - NAFTA), experiences with resource-rich countries are confined to shallow schemes without common policies. Here, resource-rich countries have hesitated to deepen integration from simple free trade areas to schemes with common policies, or even turned down membership such as Norway in relation to the EU. Such reluctance seems to have been driven by the fear that part of their resource revenues would be channeled to other partner countries, or that they would have been required to be net donors in inter-country redistribution schemes, and thus be deprived of exclusive disposal over their resources. In some cases, resource-abundant countries in integration schemes even caused trade-policy disputes with their partner countries on restricting their resource exports -officially to protect the natural capital stock and the environment, but in fact in order to implicitly subsidize

¹ The Latin American experience deserves a special discussion (see observation 4), since all Latin American countries may be classified as resource-rich in absolute terms. Yet, in relative terms, resource abundance differs from country to country, as some countries (e.g. Brazil) are both resource-rich (relative to the world market), and industrializing (relative to the regional market); whereas others (e.g. Bolivia) are resource-rich relative to both the world and the regional market. Differences in relative resource abundance should be reflected in differences in the sectoral composition of intraregional and extra-regional exports. The "Bolivia type" is expected to show larger sectoral overlaps in intraregional and extra-regional exports than the "Brazil type".

their domestic processing industries. Here, the example is the temporary restriction of Indonesian timber and rattan exports which drove the emergence of sawmills and other downstream activities in Indonesia, and triggered adverse reactions in partner countries with competing industries.

Observation 2: Resource-rich poor countries in South-South integration schemes seem to have been the prime victims of the income-diverging trends predicted in the Heckscher-Ohlin framework.

Resource-rich poor countries often suffer from trade diversion in manufacturing not only because their production structure traditionally lags behind that of the industrial centers in the integration schemes, or because it is characterized by dualism; the main reason is that fluctuating world market prices often expose them to temporary Dutch disease shocks. Such shocks inject additional uncertainty into investment decisions, fuel currency overvaluation and resource rent appropriation, impede diversification efforts, and bias the production structure of the countries concerned toward the primary sector. To compensate for such biases, in the past the small industrial sector has often been strongly protected by tariff escalation between tariffs on finished goods and inputs, by fiscal incentives, and the whole set of protective tools including multiple exchange rates. Vested interests against being exposed to competition from more advanced partner countries in integration schemes are strong once such tariff escalation structures have been established. Examples that such interests can be broken, or that a neutral tariff structure can be enforced are rare, and refer to politically exceptional episodes, such as the post-1973 Pinochet era in Chile.

Observation 3: In general, resource-rich countries are world market-oriented. This is why integration schemes with basically only resource-rich economies such as the Gulf Cooperation Council are often ineffective.

Under such conditions, trade creation effects to the benefit of resource-rich countries on the export side are very small because intra-area tariffs imposed upon primary commodities usually do not constitute a major barrier to intra-area trade. Rising demand for resource products due to integration is thus determined by indirect income effects rather than direct price effects. This might change, once processing activities were to require access to sourcing markets, with some of them being in partner countries. With rising stages of processing, resources can be integrated into cross-border vertical value-added chains. Evidence for such developments exists in Southeast Asia, but they do not seem to have been triggered by common ASEAN integration policies, any more than by national policy reforms in individual countries. While being useful channels of market integration, such chains also transmit cross-border shocks and can threaten macroeconomic stability by contagion effects.

Observation 4: The role of resource abundance in Latin American integration varies between the inward-looking (old) type of regionalism in the 1970s and 80s, and the more outward-oriented (new) type of regionalism in the 1990s.

The Latin American experience of integration breaks into the early stage of a regional import substitution strategy and the later stage of a more neutral scheme between world market orientation

and regional preferences. The two periods have also been distinct with respect to macroeconomic policy reforms and conditions in commodity markets. While the first stage did not submit Latin America to deep reforms in virtually all policy fields, the second stage showed the most penetrating reforms in Latin American economic history. As concerns the commodity sector, the first stage was characterized by price volatility around a flat or even declining price trend (except for oil), while the second stage is accompanied still by price volatility, but by increasingly positive terms of trade trends for commodity producers due to buoyant world demand.

It is interesting to note that side conditions affecting Latin American integration on the commodity front have not encountered much interest in the policy-oriented literature on Latin American integration, not even in the authoritative 2002 Inter-American Development Bank (IDB) report *Beyond Borders* (IDB [2002]). There is little reference to anything other than unstable commodity prices (*ibid.* p. 32). It seems that the sophisticated relationship between resource abundance and neighborhood relations (a somewhat broader term than integration) should also include socio-economic aspects such as the allocation and enforcement of property rights on natural resources under given ownership conditions in Latin American countries, as well as the division of labor between the state and private sectors in collecting and spending revenues from resource extraction. These conditions seem to differ between agricultural (private sector) and mineral commodities (state sector), for instance, and between strategic large-scale resources (state sector) and the non-strategic small-scale commodities (private sector).

In the first stage of integration in Latin America, the commodity dominance of the entire region relative to the outside world seems to have been a driving force to diversify the production structure toward manufacturing. Yet, because of widespread export pessimism and fears of structural dependency, such diversification occurred behind high tariff walls against the rest of the world. This strategy plainly failed, not least because of distributional conflicts between the very poor pure resource-abundant countries suffering from trade diversion on the one hand, and on the other hand, partner countries whose industries benefited from access privileges inside Latin America, while remaining commodity exporters on world markets.

The new stage of regional integration seems to be drawing a much more differentiated picture, and the jury is still out concerning the role of resource abundance as either the stumbling block or stepping stone for regional integration. Side conditions have changed since the first stage. Commodities are well demanded inside and outside Latin America. Ownership structures have changed in favor of foreign participation through FDI. In Latin America, North-South integration including North America is no longer anathema, albeit still controversial. Non-Latin America-originating influence in regional integration may increase the attractiveness of the commodities sector with a view to gaining access to ownership over Latin American commodities, or at least securing access to them. More generally, it is the division of labor between state control and private sector involvement in the commodity sector that is at stake.

IV. THE IMPACT OF NATURAL RESOURCE ENDOWMENT TYPES ON GROWTH AND REGIONAL TRADE INTEGRATION (RTI)

A. Resource Endowment Impact on Growth and RTI

Intra-regional trade growth is first explained by the dynamism of trade partners. If GDP growth is high, then trade growth is also high. Therefore, if within one region, growth is higher than in the rest of the world then, *ceteris paribus*, trade will grow faster in the region than in the rest of the world.

Looking now at the relationship between resource abundance and growth, we distinguish three types of resources: minerals, energy and agriculture as opposed to manufacturing. We then calculate a simple index of specialization as the share of each group of products in each country's total exports. For poor countries exports of resources are of major importance, as they earn foreign exchange to finance necessary imports.

The following analysis has been made for the 1993-2003 period. We exclude European transition economies, for they went through a deep recession after the fall of the Berlin wall and, on average, have been catching up very rapidly since 1993. We also make the usual distinction between developing countries and developed countries based on their levels of GDP per capita: Korea (US\$ 8,200 in 1993) has been considered as a developing country while Taiwan (US\$ 10,700) was classified as a developed country at the start of the period.

Data analysis shows there is a strong correlation between the type of international specialization and growth. For each type of specialization, we select the first 16 countries with the highest index from among a total of 96 countries and regions worldwide.

A simple comparison between specialization structure and growth per capita as a proxy of productivity improvement (see Table 1 and Appendix 1 for details) reveals that the group of countries showing the strongest specialization in manufacturing reached the highest unweighted average annual GDP per capita growth over the 1993-2003 period (2.9%), followed by countries specializing in agriculture (1.5%), then by those specializing in minerals (1.47%), and finally by oil-rich countries with the lowest average growth (0.76%).

TABLE 1
ANNUAL GROWTH OF GDP PER CAPITA BY EXPORT SPECIALIZATION

Dominant Specialization	Average Annual Growth of Real GDP Per Capita 1993-2005*	Range of Export Specialization
Energy	0.76%	From 98% of total exports in Algeria to 32% Rest of Africa
Minerals	1.47%	From 21% Papua New Guinea to 2% Argentina
Agriculture	1.65%	From 54% Paraguay to 12% Egypt
Manufacturing	2.90%	From 93% Korea to 57% Israel

Note: * Unweighted averages.

Source: CHELEM/CEPII.

In partial conclusion, we can infer from these data that countries specializing in manufacturing tend to have higher growth than resource-abundant countries, and therefore have higher growth in external trade as we will see below.

B. How might Resource-oriented Specialization Impact on Growth and RTI?

Considering that trade in manufacturing products at constant prices grew on average almost twice as fast as growth in GDP (precisely 1.87 times as fast over the 1950-2004 period), while trade in other products tended to grow somewhat more slowly (1.55 times for minerals and energy), and considerably more slowly for agricultural products (0.6 times), it can be concluded that integration into international markets has been achieved faster for countries specializing in manufactures than for those exporting commodities.

Dependency on resource exports varies according to the type of commodity. It is very high for energy exporters, ranging from more than 93% of total exports in the case of Algeria to 32% for the sixteenth country in the sample (referred to here as the Rest of Africa) as against a maximum of 21% for Papua New Guinea and a minimum of 2% in Argentina for minerals, and 54% and 12% for specialized agricultural products.

There are also large differences in growth volatility as shown by the standard deviation in GDP growth as applied to the different categories of countries (Table 2).

TABLE 2
GROWTH VOLATILITY MEASUREMENT

Dominant Specialization (see Table 1)	GDP Growth Rates Standard Deviation (1993-2003)
Energy	6.6
Minerals	5.2
Agriculture	4.2
Manufacturing	3.6
Memo Item: Developed Countries	2.5

Source: CHELEM/CEPII.

Manufacturing specialization coincides with a high diversity of products (which reduces volatility), the high number of producers and intensive competition, which puts a brake on price hikes.

Another important factor inherent in commodity specialization is the concentration of resource rent in the hands of a limited number of people. This turns control of the rent into both a source of political power and corruption.

Leite and Weidman ([1999] p. 1) tend to support the view that "natural resource abundance creates opportunity for rent-seeking behavior and is an important factor in determining a country's level of corruption. The extent of corruption depends on natural resource abundance,

government policies, and the concentration of bureaucratic power". Corruption contributes to an increase in the opportunity costs of investment, thereby reducing the propensity to invest. These effects are considerably larger for the poorest economies, notably African countries.

C. Does Resource-oriented Specialization Hamper the Development of Manufacturing Industries?

During the 1993-2003 period, emerging countries increased their share in global manufacturing trade by more than 12 percentage points, where 1 percentage point represents US\$53 billion in 2003. This occurred largely at the expense of developed countries, mainly Japan and the US. Gains and losses within Asia were basically balanced by developing and developed exporters of manufactured products: losses for developed countries (down 6.54%) almost exactly match the gains by manufactures-oriented developing countries (6.66%). More precisely, Chinese gains of 4.72% match Japanese losses of 5%. This balance on the export side does not exist on the import side, where Chinese imports increased much more slowly (a US\$200 billion increase in imports as against US\$328 billion in exports). In addition, almost all developing countries in Asia are classified as manufacturing exporters, with the exception of Indonesia, which is also the only Asian country to record a fall in its share in global manufacturing exports.

The richer countries in each region generally lose, while the poorer countries generally gain. In the case of the Americas, the decline in the US and Canada's share in world exports are only partially balanced by an increase in Latin America's share. If we exclude Mexico from the group of winners, then the Latin American gains in world trade shares are only 0.09% -almost negligible. What is worse is the fact that Brazil, as the largest Latin American economy, has lost ground in global manufacturing trade, down 0.13% over the period. We will see below details on Brazil's specialization dynamic.

TABLE 3
MAJOR CHANGES IN MANUFACTURING TRADE SHARES 1993-2003
In percentage points

	Europe-Africa	Asia	America	Total
Winners	4.21	6.66	1.15	12.02
Losers	-2.71	-6.54	-3.74	-12.99
Net gain/loss	1.50	0.12	-2.59	-0.97
<i>of which:</i>				
Ireland	0.74	China 4.72	Mexico 1.06	6.52
Italy	-0.76	Japan -5.00	USA -3.15	-8.91

Note: data by region do not take into account unknown destinations.

Source: CHELEM/CEPII.

The Europe/Africa region calls for a differentiated interpretation (Table 4). Diversity within the continent is a very important factor. There are no real dominant countries as there are in Asia and America. Among developed countries, there are two winners, Ireland and Spain, both attracting

large amounts of FDI. Transition economies have also been a major cause of change within the region. The prospect of their integration into the EU has attracted investment from Western European companies, foremost among which is Germany.

Another interesting and somewhat unexpected development is that, given strong global demand for natural resources, African countries have been making progress in manufacturing exports. This progress has largely been shared between a number of countries.

TABLE 4
MAJOR CHANGES IN EUROPEAN AND AFRICAN TRADE SHARES 1993-2003

In percentage points

European market shares				
	Developed	Transition	Africa	Total
Winners	1.37	2.37	0.46	4.20
Losers	-2.61	-0.06	-0.03	-2.70
Net gain/loss	-1.24	2.31	0.43	1.50

Source: CHELEM/CEPII.

The story we would like to draw from the changes in trade patterns is that the progress in manufacturing trade enjoyed by developing countries is substantial, and widely shared by many countries over the 1993-2003 period.

So why is it that, during this period, Latin American countries seem to have lagged behind all other regions of the world?

A few data on Brazilian trade specialization patterns might go some way to accounting for this. We use an index to measure revealed comparative advantage (see Appendix 2) and to analyze the results, from the most aggregated level to the product group level.

The most important transformation in Brazilian comparative advantage affects agricultural goods and food products, where there has been a substantial increase from 0.9% of GDP in 1993 to 2.5% of GDP in 2003. On the other hand, the comparative advantage of manufacturing products has fallen from about -0.1% of GDP to close to -2%.

In addition:

- In agricultural and food products, the major increase in revealed comparative advantage is in the group of animal food products (up 0.6%). Other major increases are in meat and fish products, followed by sugar.
- In manufacturing products, the decline in comparative advantages has been sharpest for chemical products (down 1.6) and electrical machinery.

- In the chemical products group, fertilizers, drugs, basic organic products and paints recorded the steepest falls.
- Among mechanical products, there is a decline in computers, electronic components, electrical apparatus, but progress in the automotive industry except for automotive components.
- For other industries such as steel, leather, paper and wood products, Brazil has a constantly strong showing.

The present trend in Brazilian specialization is in the opposite direction to that of China and other Asian countries, possibly as a consequence of Asian competitiveness. It may also explain Brazil's interest in agriculture in multilateral trade negotiations, and MERCOSUR negotiations with the EU, rather than in hemispheric negotiations (in the scope of the FTAA).

D. Does Resource-oriented Specialization Work against the Regionalization of Trade Patterns?

The degree of regional integration through trade depends on the regional partners' type of specialization:

- Specialization in manufacturing industries, even in the same sectors, offers opportunities for product differentiation, and can lead to trade expansion;
- On the other hand, if regional partners specialize in similar primary industries, they will have few opportunities for two-way trade: oil producers, for example, have few, if any, opportunities to exchange products.

Product specialization, in fact, leads to different partnerships. By examining the Latin American data between 1993 and 2003 (excluding Mexico, given its rapid integration in NAFTA), we can use our customary distinction between mineral, energy, agribusiness and manufacturing products (see Appendix 4). The following trade patterns emerge:

Minerals

- Asia was the main destination for Latin America's mineral exports, its share in the region's total mineral exports rising from 32% in 1993 to 43% in 2003;
- Second came Europe/Africa, whose share declined from 31% to 25%;
- Intra-regional trade accounted for only 2%.

Energy

- NAFTA countries were the dominant destination but were in decline, with shares falling from 59% to 48%;
- Intra-regional trade rose from 28% to 34%;
- The EU came third, rising from 9% to 11%.

Agribusiness

- Europe/Africa was by far the most important destination, and remained so during the period, with a share of between 51% and 48% (but the EU alone declined from 40% to 33%);
- Asia was the second largest partner, its share rising from 11% to 18%.

Manufacturing

- NAFTA was the primary destination, increasing its share from 32% to 40%;
- Intra-regional trade accounted for 33% in 1993, but fell to 27% in 2003;
- Europe/Africa came third with 20%, and remained at that level;
- Asia was a relatively small and declining destination, with its share falling from 14% to 11%.

In conclusion, we can see that the destination of Latin American exports varies greatly according to sectoral specialization: NAFTA countries are important for energy and manufactures exports; Europe is a major market for agribusiness products; while Asia is the main importer of Latin American mineral resources.

V. TOWARD A POLICY-ORIENTED RESEARCH AGENDA: MAJOR OUTSTANDING ISSUES

1. Natural resources are not homogenous. As shown in the previous section, and in the paper by Álvarez and Fuentes, a distinction surely has to be drawn between oil-exporting countries, mineral ore producers and agro resource-based economies. The criteria for this distinction are the processing potential, the degree of dualism, the spread between intra-regional and extra-regional demand, and the degree of exposure to exogenous shocks. An empirical analysis of regional integration could consist of mapping major resource price booms and busts in Latin America (and other regions), and of measuring the level of contagion that resource-rich economies caused in partner countries. Once such volatilities have triggered policy responses -such as the introduction of trade barriers or changes in exchange rate policies- in order to decouple from adverse price shocks, the analysis should be extended to these policy measures.
2. It is well known that regional integration schemes are vulnerable to inefficiencies and conflict if the sectoral structures of intra-area and extra-area trade differs greatly. Such differences are often proxies for excessive segmentation between regional and world markets. Given the similarity of intra-area and extra-area trade patterns in resource-rich countries (witness the case of Bolivia in the paper by Nina and Andersen), is there any evidence that these countries have in the past helped to blur such differences, or have mitigated discrimination against non-member countries? If so, how was this accomplished?
3. Due to strong Asian demand for commodities, terms of trade signals tend to shift supply patterns of commodity-rich but industrializing economies into the commodity 'corner' of the Leamer triangle. While the demand-driven origin of price booms is a new phenomenon, terms of trade signals for economies to become more resource-based are not new (as in the 1970s). Could a return to the periods of resource price booms enlighten us as to their fallout where regional integration is concerned? Are there policy messages stating that regional integration should respond to such world price signals by deepening integration in order to achieve a critical mass for incentives stimulating structural change to non-traditional goods (manufacturing), which a single country cannot achieve on its own?
4. In some schemes, resource-rich economies with limited options to industrialize are on the high-income scale, while for different reasons being dependent on absorbing resources from partner countries. Such reasons may be geographical in origin (for instance, landlockedness and access to transit routes), or they may arise from general policy (border conflicts, or minimizing cross-border negative externalities from jointly absorbing mobile environmental resources). In these cases, the coherence of integration schemes could be strengthened if resource rents would be used to finance internal fiscal redistribution schemes in favor of poorer member states. Experiences for such policies are confined to the early stages of African regional integration schemes (solidarity funds in West and Central Africa, internal taxes in East Africa, customs revenue sharing in the Southern Africa customs union). Should such cross-border externalities also exist in Latin America, policy research could identify them as past stumbling blocks, and perhaps propose compensation mechanisms based on sharing resource rents.

5. Resource-rich economies are often characterized by strong income disparities between regions within the economy if regions have uneven access to natural resources. Such disparities may also prevent regional integration from exploiting its full potential if the government has to compromise on the issue because of domestic disparities. This raises the question of whether this is a relevant issue in Latin American integration schemes. Does the spatial scope of these disparities constrain both the volume and structure of cross-border trade and factor flows, and can strategies of pro-poor growth be extended from the national to the regional level? Can any spillover effects in an integrated region be identified which would be overlooked by an isolated resource-abundant country?
6. Resource-abundant countries may face idiosyncratic business cycles decoupled from those of their more industrialized partner countries. Cycle synchronization as a prerequisite for deepening integration may thus be hampered. Likewise, exchange rate regimes may be different with perhaps a higher preference for exchange rate targeting in resource-rich economies. Such discrepancies may negatively impact upon the design and implementation of common trade policies as also witnessed in Latin American integration schemes. Which buffer mechanisms are available to contain and reduce such discrepancies?
7. Resource extraction often absorbs environmental capacities from partner countries, or demands inputs like energy that can only be supplied by joint projects (dams in border areas, for instance), which themselves are resource-absorbing. Does the history of Latin American integration schemes suggest that agreements on partner countries' joint resource management have been effective? If not, why not?

VI. CONCLUSION: TOWARD A POLICY MEMORANDUM

Resource abundance today is a major asset in forming regional coalitions, and may encourage specific countries to take the driving seat in regional integration once they are prepared to co-shoulder some of the partner countries' burdens. Recent endeavors by Venezuela underline the relevance of this assumption. This is why the link between regional integration and resource abundance is critical, in particular for a resource-rich region like Latin America. Given this importance, the analysis in Section I should preferably be condensed into a memorandum of best-practice recommendations summarizing the lessons to be drawn from answering the different questions.

APPENDIX 1

CLASSIFICATION OF DEVELOPING COUNTRIES BY IMPORTANCE OF MAIN EXPORT SECTORS, 2004 (Shares, in percentages of total exports)

	Minerals	Energy	Agriculture	Manufactures	Growth 1993-2005
Others Asia/Oceania	20.76	7.12	5.42	48.67	1.27
Chile	15.50	2.15	14.32	45.74	3.17
Peru	14.71	7.78	7.51	31.55	1.99
Bolivia	12.18	34.34	7.75	15.34	1.31
Brazil	6.37	4.90	12.74	55.94	1.05
Morocco	5.84	2.68	7.84	68.85	1.38
LDCs in Africa	5.34	56.76	13.42	13.87	1.60
South African Union	5.08	8.39	5.35	59.04	1.85
Others Africa	4.73	31.81	24.19	23.53	0.92
Other in the Americas	4.36	18.10	10.05	51.01	2.01
India	3.63	5.57	6.49	59.94	4.29
Indonesia	3.52	25.19	5.63	55.34	1.90
Non-OPEC Middle East	2.58	66.50	7.19	18.34	0.73
Egypt	2.09	38.92	12.15	35.35	2.35
Gabon	1.90	85.14	7.66	4.79	0.20
Argentina	1.71	18.00	19.20	28.87	--
<i>Average growth</i>					<i>1.47</i>

Source: CHELEM/CEPII Database.

	Minerals	Energy	Agriculture	Manufactures	Growth 1993-2005
Algeria	0.30	97.90	0.10	1.57	1.59
Nigeria	0.19	97.32	0.21	2.19	0.80
Libya	0.05	95.59	0.08	4.15	0.60
Brunei/Dar Es Salaam	0.07	93.98	0.03	5.89	-0.63
Saudi Arabia	0.23	86.93	0.14	11.99	-0.99
Gabon	1.90	85.14	7.66	4.79	0.20
Venezuela	1.29	81.80	0.24	15.56	-1.81
Others Gulf	0.64	79.62	0.85	14.12	2.49
Non-OPEC Middle East	2.58	66.50	7.19	18.34	0.73
LDCs in Africa	5.34	56.76	13.42	13.87	1.60
Cameroon	0.11	49.23	34.55	10.73	1.74
Ecuador	0.07	42.49	29.85	9.74	--
Egypt	2.09	38.92	12.15	35.35	2.35
Colombia	0.42	37.18	15.41	34.27	1.30
Bolivia	12.18	34.34	7.75	15.34	1.31
Others Africa	4.73	31.81	24.19	23.53	0.92
<i>Average growth</i>					<i>0.76</i>

Source: CHELEM/CEPII Database.

	Minerals	Energy	Agriculture	Manufactures	Growth 1993-2005
Paraguay	0.35	8.91	54.42	11.57	-1.33
Ivory Coast	0.15	10.97	47.38	20.75	-0.40
Kenya	1.56	19.26	40.83	25.88	0.60
Cameroon	0.11	49.23	34.55	10.73	1.74
Ecuador	0.07	42.49	29.85	9.74	--
Latvia	1.00	2.45	27.36	61.10	5.52
LDCs in Africa	0.78	21.22	26.90	38.79	4.88
Uruguay	0.24	1.62	25.39	34.70	1.60
Other Africa	4.73	31.81	24.19	23.53	0.92
Argentina	1.71	18.00	19.20	28.87	--
Colombia	0.42	37.18	15.41	34.27	1.30
Chile	15.50	2.15	14.32	45.74	3.17
LDCs in Africa	5.34	56.76	13.42	13.87	1.60
Sri Lanka	0.36	0.05	12.94	72.49	3.39
Brazil	6.37	4.90	12.74	55.94	1.05
Egypt	2.09	38.92	12.15	35.35	2.35
<i>Average growth</i>					1.65

Source: CHELEM-CEPII Database.

	Minerals	Energy	Agriculture	Manufactures	Growth 1993-2005
South Korea	0.18	3.56	0.26	93.10	4.20
Bangladesh	0.04	0.48	1.62	92.02	3.18
Philippines	0.67	1.31	1.91	91.68	1.84
China	0.38	2.51	2.05	91.24	7.88
Cambodia/Laos	0.27	0.08	7.76	86.47	3.86
Pakistan	0.28	2.48	8.26	85.76	1.21
Turkey	1.04	2.07	5.60	83.15	1.92
Mexico	0.55	10.93	3.00	82.34	1.55
Tunisia	1.50	8.51	1.94	81.87	3.36
Malaysia	0.15	9.00	2.74	80.10	2.89
Thailand	0.50	2.65	6.85	74.13	2.03
Sri Lanka	0.36	0.05	12.94	72.49	3.39
Morocco	5.84	2.68	7.84	68.85	1.38
India	3.63	5.57	6.49	59.94	4.29
South African Union	5.08	8.39	5.35	59.04	1.85
Israel	0.83	0.43	2.41	57.12	1.50
<i>Average growth</i>					2.90

Source: CHELEM/CEPII Database.

APPENDIX 2

REVEALED COMPARATIVE ADVANTAGE

The comparative advantage indicator answers the question: "What are the strong points and the weak points in an economy's trade?"

Instead of relative export structures, as in the classic Balassa method (1965), the analytical indicator used here is based on the share of the total trade balance, and takes into account the size of each country's market. For country i and product k , the balance is first calculated in relation to Gross Domestic Product (GDP) at current exchange rate Y , giving (in thousandths):

$$y_{ik} = 1000 * \frac{X_{ik} - M_{ik}}{Y_i}$$

The contribution of product k to the trade balance in relation to GDP is defined by:

$$f_{ik} = y_{ik} - g_{ik} * y_i.$$

where:

$$g_{ik} = \frac{X_{ik} + M_{ik}}{X_i + M_i} \text{ and } y_i = 1000 * \frac{X_i - M_i}{Y_i}$$

In addition, it is necessary to eliminate the influence of any changes not specific to the country in question, but resulting from the development of the importance of the product in world trade. In relation to a base year (r) the flows X and M in the other years (n) are adjusted by multiplying them all by:

$$e_k^n = \frac{W_k^r}{W_{\cdot}^r} : \frac{W_k^n}{W_{\cdot}^n}$$

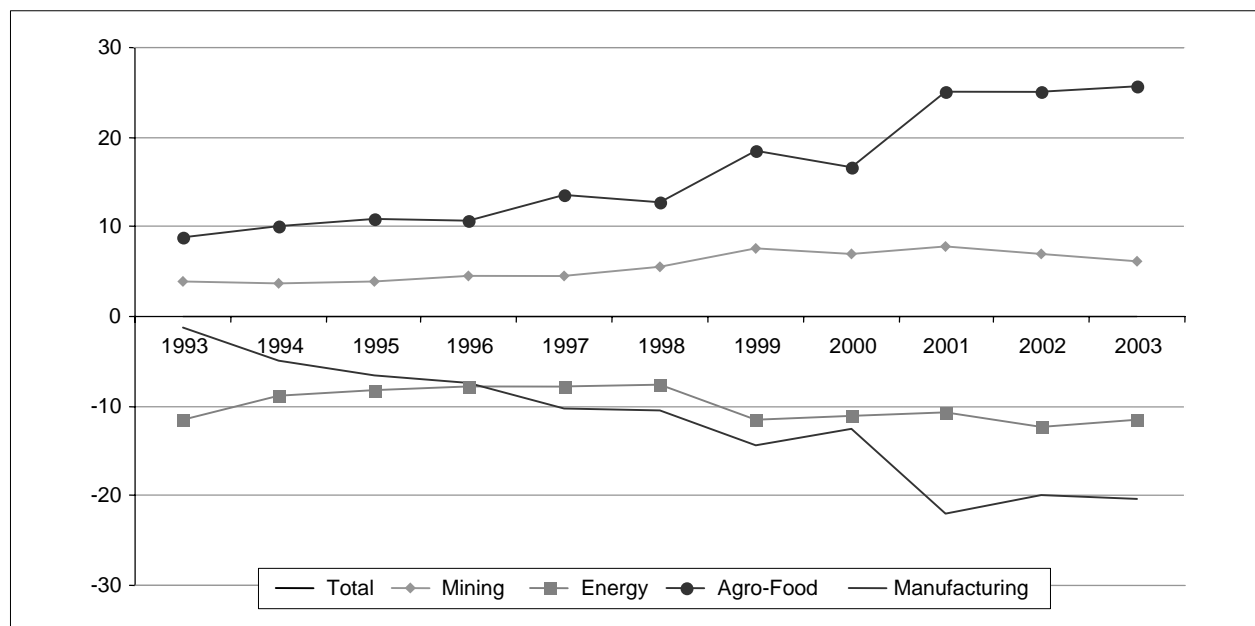
The comparative advantage indicator f' is therefore calculated using global weighting for the base year (r). For this year it is identical to the relative contribution f . For the other years (n), the more world trade in product k diverges from the average tendency for all merchandise, the greater the difference.

Comparative advantages are calculated for individual products at the most detailed level of the CHELEM sectoral classification. The advantage by chain or stage of production is then calculated by addition.

A value of RCA greater than 1 indicates that the participation of a country's export of a specific product is higher than the participation of this product in world trade. It reflects a higher specialization in the export of the product compared to the world average. It is important to note, when interpreting this indicator, that it has an element of endogeneity, as it is affected by restrictions/preferences among trading partners, and by changes in these, which can lead to changes in the indicator's value.

APPENDIX 3

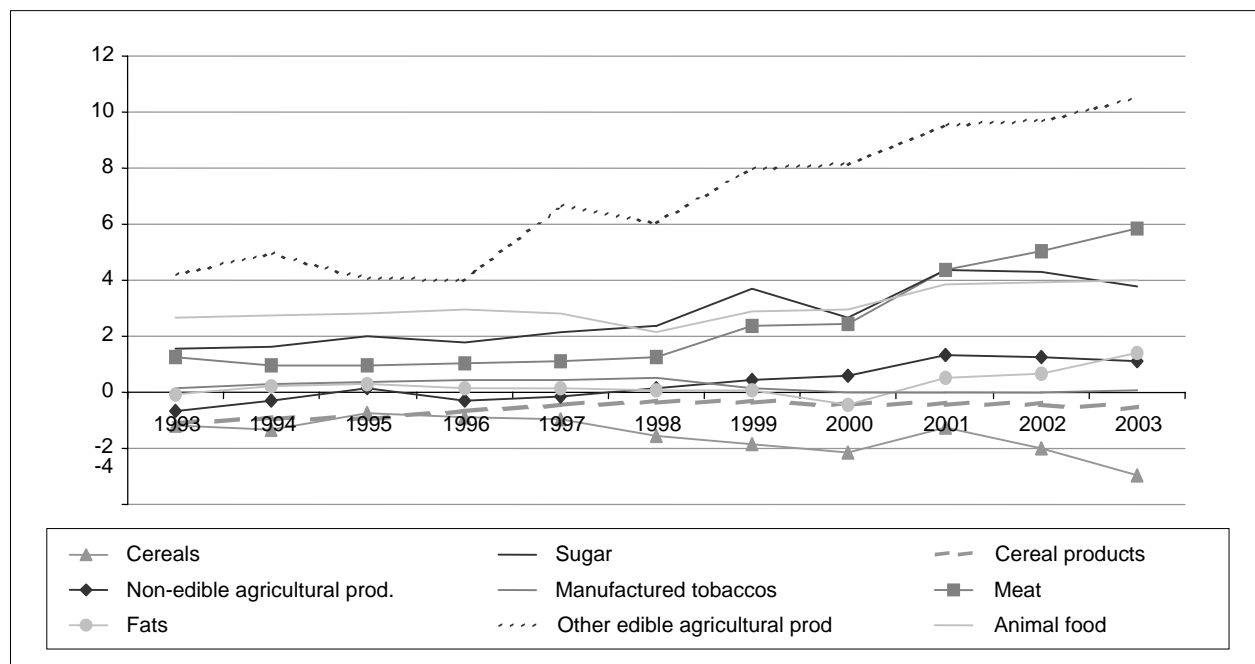
GRAPH 3A
BRAZIL: REVEALED COMPARATIVE ADVANTAGE OF SELECTED SECTORS, 1993-2003



Note: See Appendix 2 for definition and explanatory notes.

Source: CHELEM-CEPII Database.

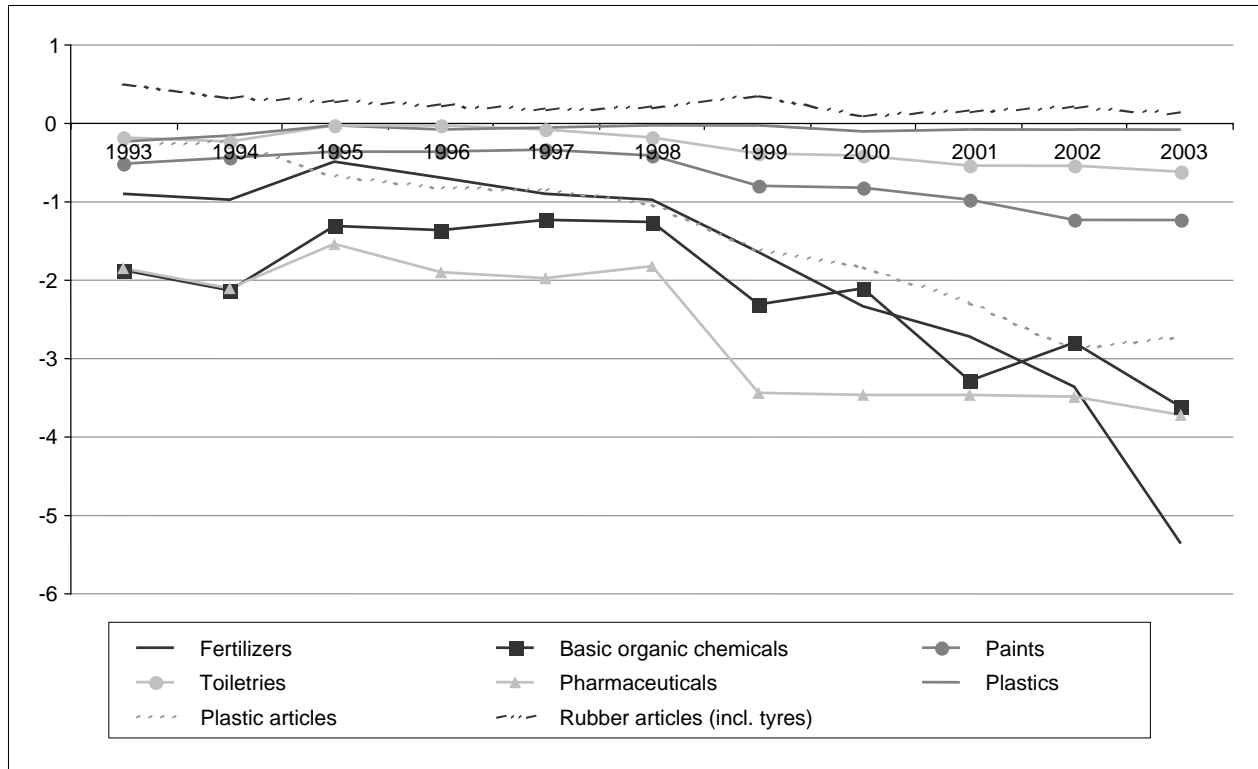
GRAPH 3B
BRAZIL: REVEALED COMPARATIVE ADVANTAGE IN THE AGRO-FOOD SECTOR, 1993-2003



Note: See Appendix 2 for definition and explanatory notes.

Source: CHELEM-CEPII Database.

GRAPH 3C
BRAZIL: REVEALED COMPARATIVE ADVANTAGE OF CHEMICAL PRODUCTS, 1993-2003



Note: See Appendix 2 for definition and explanatory notes.

Source: CHELEM-CEPII Database.

APPENDIX 4

GEOGRAPHICAL DISTRIBUTION OF LATIN AMERICAN EXPORTS, BY MAIN REGIONS AND FOR SELECTED SECTORS, 1993-2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Minerals											
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NAFTA	15.7	15.6	14.6	17.1	16.0	17.4	17.3	17.0	16.9	15.8	13.8
Asia Oceania	31.1	30.7	31.3	32.2	30.8	29.1	33.6	35.2	38.0	38.7	43.1
European Union	31.1	31.4	30.7	28.6	31.8	31.4	29.5	26.7	25.7	26.8	24.8
Europe-Africa	42.1	42.4	41.0	38.6	42.7	43.3	41.0	39.7	36.9	37.5	35.0
Intra-Latin America*	10.0	10.8	10.7	9.9	8.5	7.7	7.8	7.8	8.0	7.9	7.9
Energy											
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NAFTA	59.4	56.7	55.3	59.7	57.9	56.2	58.5	59.0	55.5	54.8	47.6
Asia Oceania	2.9	2.3	1.8	1.5	1.6	1.3	1.4	1.8	2.7	3.4	3.2
European Union	7.8	7.5	8.6	7.5	6.0	7.3	5.3	5.1	6.2	6.8	9.2
Europe-Africa	8.7	8.1	9.3	8.3	6.9	8.5	5.9	5.5	7.2	8.8	10.6
Intra-Latin America*	27.8	31.4	32.5	29.3	31.3	33.4	29.7	30.4	31.5	30.3	34.3
Agro-Food											
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NAFTA	21.4	20.0	17.5	18.8	19.5	19.4	21.1	21.3	19.4	20.1	19.4
Asia Oceania	11.4	14.1	15.4	15.3	15.3	12.6	14.0	15.0	15.8	15.7	17.7
European Union	40.2	40.4	37.2	36.0	35.2	34.4	35.7	33.2	32.3	33.0	33.2
Europe-Africa	50.6	49.5	48.6	47.2	46.6	46.3	46.9	44.2	46.3	47.7	47.5
Intra-Latin America*	15.5	16.1	18.2	18.4	18.0	21.2	17.7	18.7	18.1	15.9	14.7
Manufacturing											
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NAFTA	32.3	32.1	28.5	30.1	30.4	33.2	39.1	39.2	40.1	43.0	40.2
Asia Oceania	14.8	14.5	15.3	14.5	12.3	7.7	8.7	8.6	7.5	9.2	11.4
European Union	16.9	15.8	18.5	16.8	15.3	16.7	17.1	17.2	16.2	16.1	17.0
Europe-Africa	20.1	19.3	21.9	20.2	18.3	19.7	19.7	20.1	19.2	19.5	20.8
Intra-Latin America*	32.7	34.0	34.3	35.0	38.9	39.2	32.3	31.9	33.0	28.0	27.3

Notes: Based on Chelem-CEPII Nomenclature.

* Latin America without Mexico.

Source: CHELEM-CEPII Database.

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INTER-AMERICAN DEVELOPMENT BANK

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INTEGRATION AND REGIONAL PROGRAMS DEPARTMENT
INSTITUTE FOR THE INTEGRATION OF LATIN AMERICA AND THE CARIBBEAN

**THIRD SESSION: THE DEVELOPMENT OF TRADE DISPUTE
SETTLEMENTS IN THE CONTEXT OF THE "SPAGHETTI
BOWL" OF TRADE AGREEMENTS: AN ISSUES PAPER**

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THE DEVELOPMENT OF TRADE DISPUTE SETTLEMENTS IN THE CONTEXT OF THE "SPAGHETTI BOWL" OF TRADE AGREEMENTS: AN ISSUES PAPER

Jacques Ziller*

I. INTRODUCTION

This paper has been first presented as an outline for discussion at the 2006 Conference of the Euro-Latin Study Network on Integration and Trade (ELSNIT) in São Paulo,¹ and has been completed on the basis of these discussions. The author wants to thank especially Ana T. Caetano, Veirano Advogados, São Paulo, Pedro Pedrossian, *Departamento de Comercio Exterior de la Federación* and Antonio Ortíz Mena, Director, Division of International Studies, *Centro de Investigación y Docencia Económicas* (CIDE), Mexico, for their very useful criticisms and comments. This draft had been conceived on the basis of the papers presented at the 2005 Conference of ELSNIT in Kiel² within the track on "Institutional Dimensions of Integration and Trade" (Bianculli [2005]; Delich [2005]; Levy Faur and Jordana [2005]; Nava Dominguez [2005]; Unzurrunzaga Valle [2005] and Mori [2005]), as well as on the basis of the discussants' comments³ and the general discussion that took place during the session. The paper does not endeavor to be a survey of the papers presented in Kiel, which are available on the Internet.⁴ It represents the views of a European professor of European and Comparative Law, interested in the interdisciplinary dimensions of regional integration, about the issues of trade dispute settlement (DS) in the context of the "spaghetti bowl" of trade and regional integration agreements (RIAs). This issue emerged as particularly topical out of a number of papers presented in Kiel and the discussions at the conference, and is also based on the author's own knowledge about the issues of DS mechanisms in other contexts than Latin-America. The author of the paper has long been involved in academic as well as policy oriented research and training on regional integration in Europe, but he is not a specialist in Latin America. This paper therefore represents an outsider's ideas about a specific set of issues that have emerged out of academic discussions as being particularly relevant to policy making in the area of trade and regional integration in Latin America, and which need further research in Latin America both in view of deepening knowledge and fostering practical solutions by the involved actors.

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¹ Integration and Trade in the Americas: Economic, Political and Institutional Challenges - April 7, 2006 - *Fundação Getúlio Vargas, São Paulo, Brazil*.

² Third Conference of the ELSNIT - Kiel, October 21-22, 2005.

³ Commentators were Michael W. Bauer, University of Konstanz, Germany; Marta Haines-Ferrari, British Institute of International and Comparative Law, London; Valentina Delich, University of Buenos Aires and FLACSO, Argentina; Beatriz Nava Dominguez, *Freie Universität*, Berlin, Germany; Marcelo de Paiva Abreu, Pontifical Catholic University of Rio de Janeiro.

⁴ <http://www.iadb.org/europe/index.php?get=3,61>

These reflections are not intended as having immediate prescriptive value, for which a better knowledge of both the different countries of Latin America and the ongoing and former experiences of regional integration in the Americas would be indispensable. They are mainly presented in order to stress the need for discussions between decision makers and academics, and for policy-relevant research to be further developed as well in the framework of ELSNIT as more broadly of INTAL and in all research centers which specialize in regional integration and trade, especially in Latin America and the Caribbean (LAC).

This paper is not primarily written for lawyers, but mainly for economists, social scientists and policy-makers, and does not therefore go into detailed legal discussion of treaty provisions, case law and national statutory or regulatory provisions - even if the author hopes that his reflections might also generate some useful exchanges between lawyers (both practicing lawyers and academics).

Section II summarizes the context: growing judicialisation of DS within the "spaghetti bowl" of trade and regional agreements in Latin America, recalling the notion of "spaghetti bowl" as the intertwining of regional, inter-regional and global agreements and points to the recent "judicialisation" of trade relations with a special attention to the cases of MERCOSUR, CAN and the MERCOSUR/Chile agreements. Section III addresses the question "why should DS mechanisms be available in the framework of trade and regional integration?" by looking at DS as alternative or complementary means to high level political commitments, as tools for providing for the effectiveness of trade and regional agreements, for better drafting of trade and regional agreements and for depoliticizing trade conflicts. Section IV aims at analyzing which DS mechanisms are relevant in order to understand the issues and draft realistic mechanisms, by looking at the mechanisms available to Latin American countries, as well as by taking into account the main issue of the transposability of models, like *e.g.* the role of courts in European integration. Section V tries to present a non-exhaustive list of the fundamental elements of effective DS mechanisms, such as the independence of arbiters/judges etc., the robustness of mechanisms, the issue of access for the interested parties, and the guarantees of enforcement. As a conclusion, section VI points to specific "spaghetti bowl" issues that need further research.

II. THE CONTEXT: GROWING JUDICIALIZATION OF DISPUTE SETTLEMENT WITHIN THE "SPAGHETTI BOWL" OF TRADE AND REGIONAL AGREEMENTS IN LATIN AMERICA

A. The "Spaghetti Bowl": the Intertwining of Regional, Inter-regional and Global Agreements

The image of a "spaghetti bowl" has been coined in order to underline the challenges which result from having differing rules in more than 20 existing regional pacts in Latin America and the Caribbean (Devlin and French Davis [1998]) among which MERCOSUR, the Andean Community (CAN: Bolivia, Colombia, Ecuador, Peru, and Venezuela), the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA: Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the United States of America), the Latin American Integration Association (ALADI: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela) and the North American Free Trade Agreement (NAFTA: Canada, Mexico and the United States of America).

Most typical of the "spaghetti bowl" are probably DR-CAFTA and ALADI, which serve as umbrellas for bilateral agreements establishing preferences among participating countries. Each of the bilateral agreements which come under these "umbrellas" include a core of common provisions, but none of them are entirely identical in content: they do not apply the same levels of trade liberalization to the same products and do not have entirely identical procedural provisions.

Latin American countries are furthermore parties to inter-regional agreements, as the agreements between Chile or Mexico and the European Union (EU), or the future MERCOSUR-EU agreement, and at a global level they are members of the World Trade Organization (WTO). This increases the "spaghetti bowl" dimension of their trade relationships.

The mere fact that this "spaghetti bowl" situation is particularly complex is not sufficient as a characterization. More importantly, the "spaghetti bowl" situation creates burdens on businesses and public administrations of the relevant countries -especially on trading firms and customs agencies- due to the high number of divergent provisions that are applicable to the import or export of the same product. It furthermore increases the difficulties of establishing causalities between specific provisions and the development of trade and integration. This in turn may lead to the development of poorly adapted legal provision in trade agreements and regional agreements.

As the reasons which have led to this "spaghetti bowl" situation have not disappeared, but are on the contrary being consolidated -be it only due to the growing number of countries and businesses involved in international trade- economists, lawyers and social scientists have to deepen their analyses in order to understand these effects and propose adapted remedies.

B. The Recent "Judicialization" of Trade Relations in Latin America

There is a clear contrast in the role of judicial decision-making between the European experience and other experiences in trade liberalization and regional integration.

In the framework of European Integration, the settlement of trade disputes has been devolved to the European Court of Justice (ECJ) with the entry into force of the Treaties establishing the European Communities (21 July 1952 for the European Coal and Steel Community (ECSC) and 1958 for the European Economic Community (EEC) and the European Community of Atomic Energy (ECAE-Euratom). This has quickly led to a very important quantity of court decisions. While already in the early fifties no less than thirty or forty cases were decided each year, from 1963 onwards there were more than one hundred, and nowadays, about three to four hundred cases are being presented every year to the ECJ and Court of First Instance (CFI)⁵ (still more than two hundred cases a year if one dismisses staff disputes).

The case law of the ECJ and the CFI has become a very important source of law for the regulation of trade issues since the early sixties. Although other benchmark decisions could be presented, it suffices to quote the very famous *Van Gend & Loos* case of 1963.⁶ The practical issue at stake is contained in a nutshell in the second question put to the ECJ by the *Tariefcommissie*, a Netherlands administrative tribunal having final jurisdiction in revenue cases: "*whether the application of an import duty of 8% to the import into the Netherlands [...] of urea formaldehyde originating in the Federal Republic of Germany represented an unlawful increase within the meaning of article 12 of the EEC treaty or whether it was in this case a reasonable alteration of the duty applicable before 1 March 1960, an alteration which, although amounting to an increase from the arithmetical point of view, is nevertheless not to be regarded as prohibited under the terms of article 12*" (emphasis added by the author). The technical nature of the question is very typical of trade and RIA and a similar issue could probably be found in almost all texts falling into the category of "spaghetti bowl" agreements. Therefore, the *Van Gend & Loos* case is clearly relevant for other regions besides the EU even though it is more than forty years old.

The first question put to the ECJ by the *Tariefcommissie* was an issue of principle, to which the case owes its reputation, namely "*whether article 12 of the EEC treaty has direct application within the territory of a member state, in other words, whether nationals of such a state can, on the basis of the article in question, lay claim to individual rights which the courts must protect*". This is a totally different issue, which is only relevant in the context of a system where individuals -i.e. businesses like the international transport firm *Van Gend en Loos*, as well as physical persons- may directly resort to courts in order to support their claims. Therefore this aspect of the *Van Gend en Loos* case should not be quoted in the framework of trade and integration in Latin America without going into more far-reaching questions about the type of trade or integration agreement which is being set up.

Differently from the European case, the settlement of disputes, within the framework of trade and Regional Integration Agreements (RIAs) in the Latin American region and more broadly in the framework of agreements covering the whole of Americas, as well as globally at in the framework of General Agreement on Tariffs and Trade (GATT), has for long been either fully ineffective, or

⁵ The CFI was established on the basis of the Single European Act, which entered into force on 1 July 1987.

⁶ Judgment of the Court of 5 February 1963. -*NV Algemene Transport- en Expeditie Onderneming van Gend & Loos v. Netherlands Inland Revenue Administration*, Case 26-62, European Court reports, French, edition 1963 Page 3, English special edition Page 1, Portuguese special edition Page 205, Spanish special edition Page 333.

limited to political or at best technical negotiations. Only in the last decade, *i.e.* starting in the mid nineties, have trade disputes been more and more submitted to judicial or para-judicial mechanisms.

In the case of GATT, it is with the creation of the WTO by the Marrakech agreement of 1994, which includes a specific procedure for resolving trade disputes under the Dispute Settlement Understanding (DSU) that such a development occurred. Since then, the number of decisions of quasi-judicial WTO panels and of the Appellate body are growing, and a real case-law of the latter has been developing, generating hundreds of articles and books of specialized legal literature.⁷

The cases of MERCOSUR, Andean Community and the MERCOSUR/Chile Agreements

The rise of judicial settlement in the framework of trade and integration agreements in Latin America has been studied in depth by Valentina Delich, who comes to the following conclusions (Delich [2005] p. 2):

"As important as concessions and disciplines agreed in RIAs, is the institutional mechanism that would be available for solving conflicts arising out of the new obligations. Although for different reasons, it is a principal issue both between partners with equivalent market power as between those that have asymmetrical action capacity. Indeed, between symmetric countries the DS mechanism is important in order to prevent an escalation of retaliation measures. In contrast, between asymmetric countries, the DS system works as a guarantee to the weak that the stronger could, eventually, be pushed to comply with its obligations.

The adjudication of trade differences through a rule-oriented system of DS is a novelty in the Southern Cone. Not so much because of the lack of such a kind of mechanism (the Andean Community of Nations (ACN), for instance, has a Permanent Court of Justice since 1979) but because governments had heavily relied on diplomatic negotiations. Governments' reluctance to bring trade partners into a rule-oriented DS system has been explained by their perception that the root of the problems were economic crises, which made further liberalization unsustainable. Rulings were not seen as helpful to the integration process but, on the contrary, as adding fuel to the flames. By the end of the nineties, however, there was a noticeable shift toward more litigation among and by South American countries. The main suggestion is that there is a novel trend towards the use of rule-oriented DS mechanisms ("judicialization" of trade relations) among and by South American countries as a result of two factors: first, the deepness and anchorage of the trade reform; second, a "de-dramatization" of suing a political partner combined with a learning process of how to use rule-oriented DS systems".

In the specific case of MERCOSUR, conflicts started to be managed using the rule-oriented aspect of the MERCOSUR/WTO DS system in 1998 (Delich [2005] p. 5), as appears from Delich's table summarizing MERCOSUR conflicts from 1995 on, including the conflicts that ended up in rulings (Delich [2005] p. 5).

⁷ For a clear synthesis presented in a way that is particularly relevant to Latin America (Unzurrunzaga Valle [2005] pp. 3-4).

TABLE 1
MERCOSUR: CONTEXT, CONFLICTS AND RESPONSES, 1995-2002

Context	Sectors in Conflict	Responses
1995-1998		
Divergent response to the Mexican crisis	Automotive	Unilateral automotive regime (Br)
Asymmetries in the economic cycle	Textiles	Incorporation of new items in the common external tariff (CET) exception list (Br)
	Dairy	Request of cash payment for some imports (Br)
	Wheat	Unilateral reduction of the CET for some products (Arg)
	Rice	Increase of 3% in the CET (Arg and Br)
		Re-use of the draw back and temporary admission regimes (Arg and Br)
1998-2002		
Devaluation of the Brazilian currency (1999) while Arg maintained the convertibility law (fixed exchange regime)	Pork (Subsidies)	Price undertakings (six in force as at Dec. 2001)
	Dairy	Use of the ALADI safeguard (Arg)
	Wheat	Anti-dumping (AD) duties (Arg)
Argentine recession	Textile	Sanitary barriers (on rice) (Br)
Electoral processes	Steel	Rulings (Tribunal Arbitrals)
	Rice	Licenses (in favor Arg)
	Chicken	Chicken (won by Br)
	Non incorporation into the domestic legal systems of MERCOSUR's norms	Pork (won by Br)
		Textiles (won by Br)
		Incorporation of norms (won by Arg)

A similar kind of development occurred within the framework of the MERCOSUR-Chile agreement (Delich [2005] p. 6):

"Most of the conflicts were brought to the Administration Commission, where problems of market access were negotiated and new commitments established (and formally included in "Protocols" annexed to the Agreement). Until now, four issues have been brought to the rule-oriented DS system of the WTO. One concerns vegetable oils: it was brought by Argentina first to the DS system of the MERCOSUR-Chile Agreement but given Chile's reluctance to comply with its non binding experts' recommendation, the case was submitted at the WTO. The WTO ruled in favor of Argentina but until the writing of this article, Argentina is not satisfied with the Chilean implementation of the ruling. The second was brought by Chile to the WTO and involved the Argentine safeguard over preserved peaches. The safeguard was imposed on the basis of GATT Article XIX. The third case is still on consultations (with Argentina on a definite safeguard imposed on fructose), and a fourth case was Chile against Uruguay on taxes on tobacco that reached a mutually agreed solution.

TABLE 2
MERCOSUR- CHILE: CONTEXT, SECTOR CONFLICTS AND RESPONSES, 1996-2002

Context	Sector in Conflicts	Responses
Asian financial crisis (1997)	Agricultural commodities	Safeguard (Arg.)
Arrest of General Pinochet in the UK (1998)	Chemicals and petrochemicals	Re-negotiation of commitments (38 Protocols)
Brazilian devaluation (1999)	Footwear	Rulings (not binding) at the MERCOSUR level: Vegetable oils
Argentine crisis (2001)	Vegetable oil	Rulings: Vegetable oils (WTO, won by Arg)
Resurgence of cow foot and mouth disease in the region	Preserved peaches	Preserved peaches (WTO, won by Ch)
	Nails and screws (custom valuation procedure)	Taxes on Tobacco (WTO, mutually agreed solution)
	Meat and cattle	
	Pork	
	Poultry	
	Automotive	
	Textiles	
	Fruits	

The case of the CAN is even more striking (Delich [2005] pp. 7-8):

"Again, as in the MERCOSUR experience, when facing a trade conflict, countries replied first through the re-negotiation of commitments. Then, and after 1995, countries proceeded to set up antidumping and safeguards measures if private parties could reach prices undertakings agreements, and only by the end of the nineties, they started using the rule-oriented part of the DS system (the Permanent Court in the case of the CAN, arbitral tribunals in the case of MERCOSUR)".

TABLE 3
CAN: CONTEXT, CONFLICTS AND RESPONSES, 1995-2002

Context	Sectors in Conflict	Responses
1995-1998		
Different trade liberalization rhythm	Agricultural commodities	Incorporation of new items in the SAFP (Andean Price Band System)
Armed conflict between Ecuador and Peru (1995)	Automotive	Antidumping Measures
Diplomatic crisis between USA and Colombia	Col-Ven	Countervailing duties (CVDs)
Divergent responses to the Asian financial crisis (1997)	Slide fasteners (Ven)	Safeguards
	Crown corks (Ven)	Co-operative dialogue between trade ministers every three months
	Stoppers (Ven)	Temporary retirement of Peru from the Agreement due to problems with the CET
	Polyester fibers (Ven)	
	Syringes (Ven)	
	Flat-rolled iron (Ven)	
	Iron and Steel products (Col)	
	Stainless steel sinks and washbasins (Col)	
	Electric motors (Col)	
	(Phenol-alcohol (Col)	
	Rice (Col)	
	Col-Ec	
	Polypropylene sacks	
	Veneer and plywood sheets	
1998-2002		
External Shocks	Col-Ven	Safeguard (oilseeds, milk and vegetable oil)
Russian crisis	Transport (non compliance with a ruling)	Exchange Control (Ven)
Brazilian crisis	Meat	Exchange Safeguard (Peru)
Political domestic instability (Ven and Peru)	Eggs	Import Licenses (glassware and diapers)
Economic recession (Ven)	Potatoes	Import Quota (Sugar)
Dolarization of the economy (Ec)	Milk	Additional 2% custom tax (Ven)
Presidential elections 1998-99 (Col-Ec-Ven)	Vegetable oils	Additional 2%-5% custom tax (Ec)
	Sugar	Good will offices of the General Secretariat
	Liquor	WTO Rulings: Ec/Peru vs. Col (Export Processing Zones)
	Contraband cigarettes	CAN Court Rulings: 86
	Glassware	
	Diapers	
	Milk	
	Vegetable Oil	
	Export Processing Zones	
	Ec-Peru	
	Onions	
	Textiles	
	Bananas	
	Col-Ec	
	Rice	
	Sugar	
	Fruits	

Synthesis

As a synthesis about the use of DS systems among South American countries in the last decade, Delich notes (Delich [2005] p. 15):

"To recapitulate: several factors have been driving conflicts to the available rule-oriented DS systems. Among them,

- locked-in substantive trade liberalization;
- South American governments' legitimization of third party adjudication of disputes between "partners";
- domestic private sector incorporation of DS mechanisms as a tool for disputing/defending markets; and
- a (successful) learning process on how to use DS systems".

TABLE 4
USE OF DISPUTE SETTLEMENT SYSTEMS AMONG SOUTH AMERICAN COUNTRIES
(Delich [2005] p. 10)

	Number of Consultations/ Claims 1995-1997	Number of Consultations/ Claims 1998-2003	Rulings 1995-1997	Rulings 1998-2003
MERCOSUR	283	201	0	9
Andean Community of Nations (CAN)	N/A	N/A	6	86
World Trade Organization (WTO)	0	6	0	3

Interestingly she also underlines the importance of the WTO in the learning process of Latin American countries (Delich [2005] p. 15):

"Let us shortly note that the last point (the successful learning process) has all to do with the WTO. Even if the creation of the WTO was not a determinant of liberalization, it became more intrusive in domestic politics through the adoption of disciplines and regulatory commitments. WTO rules had a less visible but larger impact: they have set up the language of the trade conversation and established the rules of the game. Southern cone countries had to learn how to speak in GATT and how to take advantage of the basic WTO set of tools. And in respect to the WTO DS system, in fact, MERCOSUR countries have been first claimants and defendants at the WTO (1995 and 1996) than in the MERCOSUR' organs. That the learning was successful can be appraised in the number of successful cases the Southern Cone countries have raised among them, and with the developed countries (Peru vs. the EU, Brazil in several cases, etc)".

III. WHY SHOULD DISPUTE SETTLEMENT MECHANISMS BE AVAILABLE IN THE FRAMEWORK OF TRADE AND REGIONAL INTEGRATION? DISPUTE SETTLEMENT AS ALTERNATIVE OR COMPLEMENTARY MEANS TO HIGH LEVEL POLITICAL COMMITMENTS

This section will try to explore the reasons why judicial or para-judicial DS mechanisms should be made available and should be used in the framework of trade and RIAs, amongst others providing for the effectiveness of these agreements, for a better drafting of agreements and for depoliticizing trade conflicts.

A. Providing for the Effectiveness of Trade and RIAs

DS mechanisms are one of the important tools which may ensure the effectiveness of trade and RIAs. They should be a component of these agreements, in order to, amongst other:

- a) *Ensure the application of the agreements, in a continuous and predictable way.* The application of trade and RIAs obviously relies first of all on the interested parties, *i.e.* the relevant governments and their customs agencies and departments in charge of foreign trade on one side, and the trading firms and exporting or importing firms on the other. It is in their interest to avoid disputes, but this is not a good enough incentive on its own, as each of these players is also submitted to pressures and incentives which might result in inaction at best, and in adverse action at worst. The existence of a well-functioning DS mechanism helps solving technical issues in those cases where it is the complexity of these issues which impedes trade, but it also does more. If the trade agreement contains too many obscure or contradicting clauses, the jurisprudence of the relevant bodies gives the necessary guidance to specialists to make the entire agreement's consequences more predictable. If the necessary means are provided for access of the relevant players to the dispute resolution mechanism, the existence of the latter becomes a deterrent to actions that try to by-pass compliance with the agreement's provisions, and thus reinforces the incentives in favor of the development of trade.
- b) *Enable realistic incremental adaptations and improvements of the trade and RIAs.* The absence of a satisfactory DS mechanism often leads to the renegotiation of agreements as a consequence of non-compliance by some or all of the participating countries. Negotiation may well start and develop in good faith in order to solve the technical difficulties which are identified as the origin of non-compliance. But negotiations remain rarely limited to a single technical point, several different questions may be linked into a package deal which becomes hostage of a political agenda, resulting in compromises which may seem satisfactory to their negotiators, but which create new technical difficulties or often do not even resolve those which had been the cause of non-compliance. DS mechanisms are usually aimed at a case-by-case solution, which is better suited to incremental adaptation.
- c) *Provide a framework for the analysis of the real effects of trade and RIAs.* The effects of trade and RIAs can only be understood during their implementation phase. There may be foreseen and unforeseen beneficial effects, as well as unforeseen negative and even perverse

effects. Statistical and economic analyses may show more or less straight correlations between the entry into force of the relevant clauses and trade expansion. An empirical examination of causalities is needed in order to confirm the relevance of these correlations. DS mechanism -if sufficiently developed- may have an interesting side effect, *i.e.* they provide for a real size database of detailed cases, which can be used in order to understand how the clauses of trade or RIAs really function.

- d) *Increase confidence in regional agreements.* Good DS mechanisms rely upon a higher degree of transparency, neutrality and independence in decision-making than diplomatic negotiation, and are therefore able to generate confidence of those actors, which have not been involved in the negotiation of the relevant agreements. If well designed, they may also contribute to counterbalance asymmetries between participating countries. Furthermore, by fostering compliance these mechanisms contribute to making the agreements work instead of remaining documents without real effects.

Stressing that these effects are linked to well designed and accessible dispute resolution mechanisms shows that their presence in a trade or regional integration agreement is not a solution *per se*, but needs much work and involvement of all actors interested in the development of trade.

B. Better Drafting of Trade and Regional Agreements

Most trade and RIAs are extremely long and complex documents, because they attempt to foresee all possible situations and the solutions that should prevail. This is to some extent due to the combination of mutual diffidence of the interested governments and to their will to safeguard their perceived national interests. It is also the result of the existence of epistemic communities of trade specialists who have a natural tendency to go ever further in the details of negotiations.⁸

Good and effective DS mechanisms are a fundamental tool, which may provide a system of interpretation of the common intentions of parties that is not biased by a country's perceived interests. They enable the drafters of agreements to limit themselves to more general principles, avoiding going into details. This in turn enables governments to more easily reach the

⁸ See the very interesting research hypothesis developed by Jordana and Levi-Faur [2005]. As they observe on p.2 of the paper: "Global problems and their solutions are often conceived of as falling within the domain of politics, politicians, advocacy groups, business interests and as a conflict between the rich and the poor (Rodrick, 1999; Gilpin, 2000, 2001). Problems of international trade liberalization are similar in this respect. Scholars are quick, and most probably right, to identify a wide range of 'negative political' obstacles to the further promotion of international trade liberalization (Bauer, Pool and Dexter, 1963; Milner, 1988; Rogowski, 1989; Grossman and Helpman, 1995). The study of how ideas (Goldstein, 1994), agendas, informal rules, and negotiation procedures influence trade policy outcomes has been recently included in this discussion (Crump and Zartman, 2003; Davis, 2004). Yet the solutions to global problems -which include issues of international trade- often depend on professionals (or knowledge actors), an increasingly prominent class of global policy actors. We too often take it for granted that global problems are framed and defined by professionals, get recognized by professional groups and are solved with a strong input from professionals. When problems are poorly defined and solutions are slow to emerge, this might also be a measure of professional involvement, this time probably indicating professional failure or sluggishness. In short, professionals matter and they matter in global governance in general and in international trade matters in particular".

compromises necessary to conclude an agreement, instead of generating ex-ante litigation on mere hypothetical situations.

A good example of this is given by the provisions of the Treaty of Rome establishing the European Economic Community (EEC) of 1957, which only foresaw the prohibition of tariff and non-tariff barriers and of taxes or measures "of equivalent effect", without going into further details.

Treaty Establishing the EEC signed in Rome, 27 March 1957, entered into force 1 January 1958 (emphasis added):

Article 9 (now Article 23 EC Treaty):

1. The Community shall be based upon a customs union which shall cover all trade in goods and which shall involve the *prohibition between Member States of customs duties on imports and exports and of all charges having equivalent effect*, and the adoption of a common customs tariff in their relations with third countries.
2. The provisions of Article 25 and of Chapter 2 of this Title shall apply to products originating in Member States and to products coming from third countries which are in free circulation in Member States.

Article 30 (now Article 28)

Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.

Article 34 (now Article 29)

Quantitative restrictions on exports, and all measures having equivalent effect, shall be prohibited between Member States.

Article 36 (now Article 30)

The provisions of Articles 28 and 29 *shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of* public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. ***Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.***

This drafting is a masterpiece of synthesis that could never have been accepted by the relevant European governments without a proper mechanism to deal with all the difficulties and ambiguities embedded in this formulation. The notions of "measures of equivalent effect" to customs duties and quantitative restrictions were essential to the effectiveness of the customs union, as was the prohibition of "disguised restriction on trade". These concepts have been and continue being developed in detail by the ECJ, without any change in the formulation of the Treaty since its entry into force on 1 January 1958. The clumsiness of more recent provisions of the EC-EU treaties remarkably correlate with a far less important role of the ECJ, due to the diffidence of some governments for a mechanism which they feel being too much out of their control, but do contribute to the demonstration of the relevance of good dispute resolution mechanisms to good drafting. Suffice it to compare the clauses on the Area of Freedom, Security of Justice of the EU Treaty as amended by the Treaty of Amsterdam in 1997 and of Nice in 2000 with the clauses written in 1957 (Appendix 1).

As it clearly appears from the EU experience there is no miracle solution: relying almost entirely upon a DS mechanism for the further development of a set of rules in regional integration is both conditioned by and instrumental to mutual confidence as well as to a government's own confidence in the solidity of its positions.

C. Depoliticizing Trade Conflicts

If trade and RIAs do not foresee a satisfactory DS mechanism, or if they rely on negotiation at the highest level for the solution to disputes, non-compliance to the agreement -even if due to purely technical reasons which are not in contradiction with the good will of governments- may degenerate in a political conflict, or be used as a pretext for litigations which are based on other reasons. On the other hand, good and effective DS mechanisms have the advantage that the political authorities can always claim that they are not at the root of the solution, if some interests are getting hurt. Usually after some time it becomes clear that there is no permanent pattern of "winner" or "loser", and that all countries have an equal chance to win their litigations. This phenomenon is particularly evidenced in both the framework of the European Community since four decades and of the WTO since one decade, and seems also evidenced in the recent experience of Latin America, as evidenced by Delich [2005].

Without a good DS mechanism there is also a perverse effect of good relationships between neighboring countries, the governments of which may be tempted to "sacrifice" some of their businesses or other interests for the sake of maintaining a good inter-governmental relationship. Here again the experience of the European Community is revealing: in almost fifty years, with thousands of relevant cases decided by the ECJ, only two or three cases have been brought to court by one member state against another. The abundant case law of the ECJ is entirely due to the fact that cases may be brought to it directly by an independent institution, the European Commission, and indirectly by the parties involved in a case where the interpretation and application of the Treaties and derived legislation are at stake, through the mechanism of questions addressed by national courts to the ECJ for preliminary ruling.

IV. WHICH DISPUTE SETTLEMENT MECHANISMS ARE RELEVANT IN ORDER TO UNDERSTAND THE ISSUES AND DRAFT REALISTIC MECHANISMS?

There exist a large variety of dispute resolution mechanisms throughout the world, both in the field of trade relations and in other fields, which may give inspiration to drafters of trade and RIAs. A selection amongst those mechanisms may be done following two criteria: an objective one, *i.e.* the possibility for actors of Latin American countries to resort to existing mechanisms, and a more subjective one, which depends on a series of appreciations of the economic, social and legal environments at stake, *i.e.* through the transposability of models of DS.

A. Dispute Settlement Mechanisms available to Latin American Countries

In a number of cases, rather than "reinventing the wheel" in each agreement, it is possible -and already being practiced- to refer to existing mechanisms in the framework of global or regional agreements. Finding out the advantages and disadvantages of those solutions for Latin America would require further research, as illustrated especially by the papers presented in the 2005 Kiel Conference of ELSNIT on The "judicialization" of trade relations in South America. Its implications for regional institutional building" (Delich [2005]), and on "Trade disputes settlement in the European Union Association Agreements with Mexico and Chile" (Unzurrunzaga [2005]), as well as to a certain extent the paper on "Trade Liberalization and Co-operation: Is the EU Approach towards Latin America Working Well?" (Mori [2005]). What can be done immediately is point to those existing mechanisms which are open to Latin American countries to solve some of their bilateral disputes, alternatively to, or in the absence of specific regional mechanisms created for these countries. Each case-linked issue would need closer scrutiny in order to find out whether:

- i. the text which creates a DS mechanism makes it applicable for the relevant countries and for the relevant type of dispute;
- ii. possible bilateral or multilateral agreements to which the relevant countries are parties do not exclude the possibility to use other dispute resolution mechanisms.⁹

A basic distinction has to be drawn between global mechanisms, on one side and regional mechanisms on the other, because their availability differs, as well as the financial and prestige costs attached to their use.

Global mechanisms (WTO, ICSID)

While the WTO mechanism's existence is well known,¹⁰ a sufficient understanding of its functioning and of its effects (taking into account the asymmetries between the countries involved in its

⁹ In the framework of the EU, it is strictly forbidden to member states to resort to judicial mechanisms other than the ECJ if the dispute is on a matter which belongs to the EC Treaty. See for instance the very recent Judgment of the Court of Justice of 30 May 2006 in Case C-459/03, *Commission of the European Communities v. Ireland*: by bringing proceedings against the United Kingdom within the framework of the Convention on the Law of the Sea, Ireland has breached community law.

¹⁰ A useful description, especially for the purpose of disputes in Latin America, is given in Unzurrunzaga, see bibliography.

settlements) would be needed in order to recommend its use in the framework of regional or bilateral agreements.

According to practitioners, a disadvantage of the WTO mechanism is that it is considered as quite expensive, not for formal reasons, but due to the fact that law firms and other experts dealing with WTO issues tend to charge extremely high fees. A second disadvantage is that using the WTO mechanisms might end up in applying a case law which has been developed in a different context than the regional Latin American one; this however would depend on the nature of the case.

As opposed to these disadvantages, practitioners point to the high professionalism of the WTO system as well as to the fact that solving disputes in its framework contributes to lower the political impact of the final decisions, for two reasons:

- i. the decision is taken by an institution which, not being linked to the region, is considered as neutral and independent even by non-specialists and,
- ii. a high number of other countries have been defeated in their disputes submitted to the WTO, most of the time non-Latin American, *e.g.* the USA and the EU, and this means that a defeat is not considered as harmful to the government's image as would be a defeat in a specific Latin-American forum.

In a more specific framework, but highly relevant to trade and integration, the settlement of investment disputes in the framework of International Centre for the Settlement of Investment Disputes (ICSID)¹¹ is becoming a major element of international trade, and is highly relevant to Latin America. Its functioning is to a great extent based upon clauses in bilateral or regional agreements foreseeing the devolution of investment disputes to ICSID.

ICSID might have the reputation of being a mechanism which decides at the detriment of Latin American governments, if one takes into account the number of cases opposing Argentina to foreign investors which have been submitted to it in the recent years. However, it has to be noted that it's open to investors of all contracting parties and that the number of south-south and even south-north investments is growing.

ICSID is not only interesting as a dispute resolution mechanism for cases involving foreign investments. Its success -as demonstrated by the growing number of cases solved in this framework- shows that the mechanism could also serve as an inspiration to the setting up of dispute resolution systems at the regional level, and/or for other specific types of disputes.

¹¹ Established by the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States (Washington Convention), done at Washington, 18 March 1965, entered into force, 14 October 1966. For more information on ICSID Convention, Regulations and Rules, the List of contracting states, Panels of Arbitrators and Conciliators and case law, see <http://www.worldbank.org/icsid>.

Regional mechanisms

As already mentioned, the papers of Delich and Unzurrunzaga [2005], presented at the Kiel conference of ELSNIT provide with good examples of studies of existing regional DS mechanisms. They also include the case of NAFTA as an interesting regional mechanism open to NAFTA countries, which are also parties to the GATT/WTO. Further research of this kind would be highly useful.

A special mention has to be made about the fact that in a number of cases, as examined in these papers, government which are parties to a dispute and want to submit it to judicial or quasi-judicial resolution have indeed the choice between mechanisms inserted in bilateral or multilateral agreements which are specifically Latin-American on the one side, or inter-regional or global on the other side.

B. Dispute Settlement Mechanisms as Transposable Models

The Role of Courts in European Integration

The experience of the European Communities, while difficult to transpose due to a number of specificities of the European experience, is highly relevant as an example of effective judicial DS in a regional framework.¹² It should be studied in order not only to understand the mechanisms which are being used, but also the reasons for their effectiveness and their shortcomings, which might be useful in setting up DS mechanisms in Latin-America.

Others

There might be very specific DS mechanisms in global or regional agreements in sectors that at first glance have nothing to do with trade, but which might be very relevant upon further analysis. The availability of UN institutions and their limitations is one specific factor to be taken into account.

¹² For further developments on integration through law in the European framework, on its relevance to trade and integration in Latin America and the Caribbean and on the limits of this relevance (Ziller [2005] pp. 42-51).

V. WHAT ARE THE FUNDAMENTAL ELEMENTS OF EFFECTIVE DISPUTE SETTLEMENT MECHANISMS?

The following section is by no means exhaustive. Discussions at the São Paulo conference have however shown that the following checklist might be useful for specialists as well for non-specialists in order to further examine the qualities and problems of existing or planned mechanisms.¹³ The following list is neither ranked nor in order of importance. The four points mentioned here are to be considered as fundamental elements in the sense that they are all needed to guarantee that a dispute resolution mechanism has the potential to be useful. Their use will however depend upon a number of other factors linked to the nature and number of interested parties, the economic, social and political environment; their lack of effectiveness in some cases should therefore not be attributed to the system itself without further reflection.

A. Independence of Arbiters/Judges, etc.

The independence of arbiters/judges etc. is considered as a main feature of DS mechanisms, but it is also one of the main reasons why governments tend to dislike those mechanisms.

Rather than going into the technicalities of the conditions of independence, which vary very much according to the size of the relevant countries, the relative wealth of the possible experts, and more than all the number of persons available to serve on the relevant boards, the questions which should be discussed are:

- i. Independence from whom: governments, businesses, interests? There are no miracle mechanisms which ensure overall independence and therefore choices have to be made which condition the type of mechanisms that are available.
- ii. What are the elements of the environment that have to be taken into account in designing the scheme that should guarantee independence? These elements include economic and social structures of the relevant countries, availability of alternative career patterns to potential members of the panels etc.
- iii. How to ensure the accountability of arbiters/judges while guaranteeing their independence? The issue of accountability is particularly important, as there is always a high degree of tension between independence and accountability, which easily leads to sacrificing one of these aspects to the detriment of the other.
- iv. What are the links between the independence of international arbiters/judges and the independence of judges in national systems? Whereas the three previous issues are very

¹³ The papers by Delich and Unzurrunzaga, which have already been quoted here (see bibliography), are a good example of attempts to discuss these qualities and problems, and present also interesting new insights as well as the repetition of well known arguments and sometimes even proposals which some practitioners might consider as somewhat naïve. There is no universal and permanent truth about qualities and problems linked to different dispute resolution mechanisms.

much explored in a large number of countries and different settings, and while the experience with courts as well as with independent regulatory agencies is able to give interesting relevant solutions, the question of the impact of the independence of judges in the national systems upon the effectiveness of international dispute resolution mechanisms is far less explored. It is however a key element of transposability of the mechanisms and should therefore be given more attention. Research in specific sectors and countries could give a better understanding of the exact influence of this issue.

B. Robust Mechanisms

The effectiveness of DS mechanisms probably relies more on their robustness than on their sophistication. What are the features that ensure robustness, *i.e.* the capacity to resist crises as well as to function effectively in the context of an increasing demand on DS mechanisms?

This, to the author's knowledge, is a rather undeveloped field of research, for the very simple reason that studies on DS mechanisms tend to be done by lawyers, who naturally are attracted by the sophistication of the mechanisms and whose interest in outcome concentrates on the quality of legal reasoning and legal solutions brought by the system, or by sociologists who might be more interested in overall effectiveness, but who often lack the training to evaluate the sophistication *vs.* robustness issue.

C. Access for the Interested Parties

Access for the interested parties (businesses, individuals, governments, third parties) is one of the major issues of effective DS.

The success of the European Community's system is obviously due to the fact that DS relies upon action by interested parties, as shown by the origin of most cases (import-export businesses, transport firms, etc.). As mentioned earlier, it is because those actors have had access to the ECJ that the latter has been able to play the role it had been assigned in interpreting the EC Treaty. The mechanism related to preliminary rulings and the questions being considered are of particular importance in this respect.

Treaty Establishing the EEC, Signed in Rome, 27 March 1957, entered into force 1 January 1958 Article 234 (*ex Article 177*) (*emphasis added*).

The Court of Justice shall have jurisdiction to give preliminary rulings concerning:

- a) the *interpretation* of this Treaty;
- b) the *validity* and interpretation of acts of the institutions of the Community and of the ECB;
- c) the interpretation of the statutes of bodies established by an act of the Council, where those statutes so provide.

Where *such a question is raised before any court or tribunal of a Member State, that court or tribunal **may***, if it considers that a decision on the question is necessary to enable it to give judgment, *request the Court of Justice to give a ruling thereon.*

Where any such question is raised in a case pending before a *court or tribunal of a Member State against whose decisions there is no judicial remedy under national law, that court or tribunal **shall** bring the matter before the Court of Justice.*

As already mentioned, this mechanism has allowed private parties to have access to the ECJ, and to submit to it the cases generated by either a lack of goodwill in applying the treaty clauses or due to the problems of interpretation. It is not suggested here that the mechanism itself is easily transposable. On the contrary, its success is directly dependent on the qualities of the relevant national courts and tribunals. This is amply demonstrated by the fact that the number of questions originating from very specialized tribunals -whose jurisdiction is especially relevant to trade issues and other cases linked to the free movement of goods and services, as well as labor and more recently capital- is relatively higher than those originating from more generalist courts.¹⁴ What is worthwhile thinking about is the fact that this mechanism has been designed taking into account the very specific features of both the relevant matter (*e.g.* creating a customs union and a common market) and the heterogeneity of possible courts (hence the notion of court of tribunal, and the distinction between facultative and mandatory questions). The same reasoning may well lead to designing very different mechanisms, but the way of presenting the issues remains relevant even when the context changes.

Another interesting example is that of the mechanisms set up in order to guarantee access to the WTO system. There are a good number of studies on the mechanism set out by the United States of America (Section 301 of the U.S. Trade Act 1974) and the European Community (Trade Barriers Regulation 1994).¹⁵ More study on their equivalents in Latin America, as for instance the *Comisión Nacional de Distorsiones de Precios* in Chile should be undertaken. These mechanisms are crucial in order to overcome the traditional problems linked to the discretion of government decisions when it comes to endorsing claims at international level, in the framework of the so-called "diplomatic protection", a device of international law by which states initiate negotiations or disputes in the name of their citizens or firms (Ziller [2005]).

D. Guarantees of Enforcement

While a lot of skepticism is often generated by judicial or quasi-judicial DS mechanisms, due to the scarcity of enforcement tools at the international level, a serious discussion of the incentives and sanctions which are available in the framework of international trade sometimes leads to more optimistic views.

The link between enforcement of legislation and court decisions in the national framework and the enforcement of international DS awards or decisions is a major element, as shown again by the success of the European Community in this field. It is not the authority of the ECJ which explains why on the whole its decisions are being observed, but the fact that the system of preliminary rulings empowers private parties to trade issues to bring their claims to national courts, which are independent and which benefit of the relevant national means of enforcement. The ECJ only has the power of good argumentation in order to convince national courts to follow its interpretation of the treaties, but leaves it to the national courts and tribunals to decide upon the consequences. Clearly such a system cannot work in a context where decisions of national

¹⁴ There is no recent study about this type of phenomenon, which is nevertheless known to commentators of ECJ Case law. For a now partly outdated study, see Weiler [1985].

¹⁵ For an excellent recent study of the EU system, see Shaffer [2006].

courts lack effectiveness and where enforcement of court decisions is a general problem. Here again it does not mean that the European experience totally lacks relevance: the reasoning leading to the link between the ECJ and national courts is worthwhile examining, as it may lead to designing other mechanisms which link the decisions of an international dispute resolution mechanisms to bodies or institutions which are endowed with some kind of means to generate incentives for good compliance.

VI. SPECIFIC SPAGHETTI BOWL ISSUES: FORUM SHOPPING, CONFUSION OR REGULATORY COMPETITION?

A number of issues about DS mechanisms are specific to the "spaghetti bowl context" and would probably need further research in order to get some answers.

As mentioned earlier exogenous DS systems like WTO panels or ICSID may have different advantages or drawbacks than those set up in the framework of regional trade agreements. Further discussion and research about these advantages is probably needed, as demonstrated by the study of Unzurrunzaga [2005] on "Trade disputes settlements in the European Union Association Agreements with Mexico and Chile". Suffice it to quote the table the author has drawn up, showing the options available in the limited framework of these two agreements.

Competent Forum: Options of the Parties to resort to the particular DS mechanism of the Agreement or to the one of the WTO.

Subjects	EC-Mexico	EC-Chile
Trade liberalization	Agreement	WTO or Agreement
Merchandise trade	Agreement	WTO or Agreement
Government procurement	Agreement	WTO or Agreement
Antidumping measures and countervailing measures	WTO	WTO
Norms, codes and conformity evaluation procedures established in the Agreement on the WTO's technical barriers to trade	WTO	WTO or Agreement
Sanitary and Phytosanitary measures	WTO	WTO or Agreement
Difficulties on balance of payments matters	WTO	WTO or Agreement
Customs Unions and Free Trade Zones	WTO	WTO or Agreement
Matters of intellectual property rights	Excluded from agreement	WTO or Agreement
Competition	Agreement	Excluded from any DS procedure

Such studies may give a number of answers to the following questions about competition and complementarities of the different DS mechanisms:

- i. To what extent is forum shopping to be feared or welcomed?
- ii. What are the risks of confusion due to the multiplication of mechanisms?
- iii. Are there risks of contradicting awards and how can they be overcome?
- iv. Etc.

APPENDIX 1

Provisions of the EU Treaty on Cooperation in the Fields of Police and Judicial Cooperation in Criminal Matters

Article 29 (ex Article K.1)

Without prejudice to the powers of the European Community, the Union's objective shall be to provide citizens with a high level of safety within an area of freedom, security and justice by developing common action among the Member States in the fields of police and judicial cooperation in criminal matters and by preventing and combating racism and xenophobia.

That objective shall be achieved by preventing and combating crime, organized or otherwise, in particular terrorism, trafficking in persons and offences against children, illicit drug trafficking and illicit arms trafficking, corruption and fraud, through:

- closer cooperation between police forces, customs authorities and other competent authorities in the Member States, both directly and through the European Police Office (Europol), in accordance with the provisions of Articles 30 and 32;
- closer cooperation between judicial and other competent authorities of the Member States, including cooperation through the European Judicial Cooperation Unit ("Eurojust"), in accordance with the provisions of Articles 31 and 32;
- approximation, where necessary, of rules on criminal matters in the Member States, in accordance with the provisions of Article 31(e).

Article 30 (ex Article K.2)

1. Common action in the field of police cooperation shall include:

- a) operational cooperation between the competent authorities, including the police, customs and other specialized law enforcement services of the Member States in relation to the prevention, detection and investigation of criminal offences;
- b) the collection, storage, processing, analysis and exchange of relevant information, including information held by law enforcement services on reports on suspicious financial transactions, in particular through Europol, subject to appropriate provisions on the protection of personal data;
- c) cooperation and joint initiatives in training, the exchange of liaison officers, secondments, the use of equipment, and forensic research;
- d) the common evaluation of particular investigative techniques in relation to the detection of serious forms of organized crime.

2. The Council shall promote cooperation through Europol and shall in particular, within a period of five years after the date of entry into force of the Treaty of Amsterdam:

- a) enable Europol to facilitate and support the preparation, and to encourage the coordination and carrying out, of specific investigative actions by the competent authorities of the Member States, including operational actions of joint teams comprising representatives of Europol in a support capacity;
- b) adopt measures allowing Europol to ask the competent authorities of the Member States to conduct and coordinate their investigations in specific cases and to develop specific expertise, which may be put at the disposal of Member States to assist them in investigating cases of organized crime;
- c) promote liaison arrangements between prosecuting/investigating officials specializing in the fight against organized crime in close cooperation with Europol;
- d) establish a research, documentation and statistical network on cross-border crime.

Article 31 (ex Article K.3)

1. Common action on judicial cooperation in criminal matters shall include:

- a) facilitating and accelerating cooperation between competent ministries and judicial or equivalent authorities of the Member States, including, where appropriate, cooperation through Eurojust, in relation to proceedings and the enforcement of decisions;
- b) facilitating extradition between Member States;
- c) ensuring compatibility in rules applicable in the Member States, as may be necessary to improve such cooperation;
- d) preventing conflicts of jurisdiction between Member States;
- e) progressively adopting measures establishing minimum rules relating to the constituent elements of criminal acts and to penalties in the fields of organized crime, terrorism and illicit drug trafficking.

2. The Council shall encourage cooperation through Eurojust by:

- a) enabling Eurojust to facilitate proper coordination between Member States' national prosecuting authorities;
- b) promoting support by Eurojust for criminal investigations in cases of serious cross-border crime, particularly in the case of organized crime, taking account, in particular, of analyses carried out by Europol;

- c) facilitating close cooperation between Eurojust and the European Judicial Network, particularly, in order to facilitate the execution of letters rogatory and the implementation of extradition requests.

Article 32 (ex Article K.4)

The Council shall lay down the conditions and limitations under which the competent authorities referred to in Articles 30 and 31 may operate in the territory of another Member State in liaison and in agreement with the authorities of that State.

Article 33 (ex Article K.5)

This Title shall not affect the exercise of the responsibilities incumbent upon Member States with regard to the maintenance of law and order and the safeguarding of internal security.

Article 34 (ex Article K.6)

1. In the areas referred to in this Title, Member States shall inform and consult one another within the Council with a view to coordinating their action. To that end, they shall establish collaboration between the relevant departments of their administrations.

2. The Council shall take measures and promote cooperation, using the appropriate form and procedures as set out in this Title, contributing to the pursuit of the objectives of the Union. To that end, acting unanimously on the initiative of any Member State or of the Commission, the Council may:

- a) adopt common positions defining the approach of the Union to a particular matter;
- b) adopt framework decisions for the purpose of approximation of the laws and regulations of the Member States. Framework decisions shall be binding upon the Member States as to the result to be achieved but shall leave to the national authorities the choice of form and methods. They shall not entail direct effect;
- c) adopt decisions for any other purpose consistent with the objectives of this Title, excluding any approximation of the laws and regulations of the Member States. These decisions shall be binding and shall not entail direct effect; the Council, acting by a qualified majority, shall adopt measures necessary to implement those decisions at the level of the Union;
- d) establish conventions which it shall recommend to the Member States for adoption in accordance with their respective constitutional requirements. Member States shall begin the procedures applicable within a time limit to be set by the Council. Unless they provide otherwise, conventions shall, once adopted by at least half of the Member States, enter into force for those Member States. Measures implementing conventions shall be adopted within the Council by a majority of two-thirds of the Contracting Parties.

3. Where the Council is required to act by a qualified majority, the votes of its members shall be weighted as laid down in Article 205(2) of the Treaty establishing the European Community, and for their adoption acts of the Council shall require at least 62 votes in favor, cast by at least 10 members.

4. For procedural questions, the Council shall act by a majority of its members.

Article 35 (ex Article K.7)

1. The Court of Justice of the European Communities shall have jurisdiction, subject to the conditions laid down in this Article, to give preliminary rulings on the validity and interpretation of framework decisions and decisions, on the interpretation of conventions established under this Title and on the validity and interpretation of the measures implementing them.

2. By a declaration made at the time of signature of the Treaty of Amsterdam or at any time thereafter, any Member State shall be able to accept the jurisdiction of the Court of Justice to give preliminary rulings as specified in paragraph 1.

3. A Member State making a declaration pursuant to paragraph 2 shall specify that either:

- a) any court or tribunal of that State against whose decisions there is no judicial remedy under national law may request the Court of Justice to give a preliminary ruling on a question raised in a case pending before it and concerning the validity or interpretation of an act referred to in paragraph 1 if that court or tribunal considers that a decision on the question is necessary to enable it to give judgment, or
- b) any court or tribunal of that State may request the Court of Justice to give a preliminary ruling on a question raised in a case pending before it and concerning the validity or interpretation of an act referred to in paragraph 1 if that court or tribunal considers that a decision on the question is necessary to enable it to give judgment.

4. Any Member State, whether or not it has made a declaration pursuant to paragraph 2, shall be entitled to submit statements of case or written observations to the Court in cases which arise under paragraph 1.

5. The Court of Justice shall have no jurisdiction to review the validity or proportionality of operations carried out by the police or other law enforcement services of a Member State or the exercise of the responsibilities incumbent upon Member States with regard to the maintenance of law and order and the safeguarding of internal security.

6. The Court of Justice shall have jurisdiction to review the legality of framework decisions and decisions in actions brought by a Member State or the Commission on grounds of lack of competence, infringement of an essential procedural requirement, infringement of this Treaty or of any rule of law relating to its application, or misuse of powers. The

proceedings provided for in this paragraph shall be instituted within two months of the publication of the measure.

7. The Court of Justice shall have jurisdiction to rule on any dispute between Member States regarding the interpretation or the application of acts adopted under Article 34(2) whenever such dispute cannot be settled by the Council within six months of its being referred to the Council by one of its members. The Court shall also have jurisdiction to rule on any dispute between Member States and the Commission regarding the interpretation or the application of conventions established under Article 34(2)(d).

Article 36 (ex Article K.8)

1. A Coordinating Committee shall be set up consisting of senior officials. In addition to its coordinating role, it shall be the task of the Committee to:

- give opinions for the attention of the Council, either at the Council's request or on its own initiative;
- contribute, without prejudice to Article 207 of the Treaty establishing the European Community, to the preparation of the Council's discussions in the areas referred to in Article 29.

2. The Commission shall be fully associated with the work in the areas referred to in this Title.

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APPENDIX

AGENDAS

KIEL. October 21-22, 2005

SÃO PAULO. April 7, 2006

INTER-AMERICAN DEVELOPMENT BANK
OFFICE IN EUROPE
INTEGRATION AND REGIONAL PROGRAMS DEPARTMENT
INSTITUTE FOR THE INTEGRATION OF LATIN AMERICA AND THE CARIBBEAN

**THIRD ANNUAL CONFERENCE OF THE
EURO-LATIN STUDY NETWORK ON INTEGRATION AND TRADE (ELSNIT)
KIEL, OCTOBER 21-22, 2005**

DÜSTERNBROOKER WEG 120
D-24105 KIEL/GERMANY

**CO-ORGANIZED WITH THE KIEL INSTITUTE FOR WORLD ECONOMICS (IFW)
AND IN COOPERATION WITH
THE CENTER FOR RESEARCH IN INTERNATIONAL ECONOMICS (CREI),
THE CENTRE D'ETUDES PROSPECTIVES ET D'INFORMATIONS INTERNATIONALES (CEPII)
AND THE ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES (RSC)**

Preliminary Agenda

Friday, October 21

8:30 - 9:00	REGISTRATION
9:00 - 9:30	WELCOMING REMARKS Dennis Snower , President, Kiel Institute for World Economics, IFW Ricardo Santiago , Representative in Europe, IDB
9:30 - 10: 45	OPENING SESSION
(9:30 - 10:15)	Keynote lecture Jean Pisani-Ferry , Director, Brussels European and Global Economic Laboratory (BRUEGEL)
(10:15 - 10:45)	Open Discussion
10:45 - 11:15	COFFEE BREAK

Parallel Sessions

11:15 - 13:05	Session I: MACROECONOMIC DIMENSIONS OF INTEGRATION AND TRADE Coordinated by Jaume Ventura , CREI and Omar Licandro , EUI	Session II: ECONOMIC POLICY DIMENSIONS OF INTEGRATION AND TRADE Coordinated by Rolf J. Langhammer , Rainer Schweickert, IfW and Michel Fouquin , CEPPI	Session III: INSTITUTIONAL DIMENSIONS OF INTEGRATION AND TRADE Coordinated by Jacques Ziller , IUE
(11:15 - 11:55)	Philip Sauré , Universitat Pompeu Fabra, Barcelona "How to use subsidies to sustain Trade Agreements" <i>Comments: Alejandro Cunat, University of Essex, LSE and CEPR</i>	Roberto Alvarez , UCLA Anderson School of Management, California, USA and J. Rodrigo Fuentes , Central Bank of Chile "Path of Development, Specialization, and Natural Resources Abundance" <i>Comments: Alicia García Herrero, Bank of Spain</i>	Valentina Delich , University of Buenos Aires and FLACSO, Argentina "The 'judicialization' of trade relations in South America. Its implications for regional institutional building" <i>Comments: Marta Ferrari-Haines, British Institute of International and Comparative Law</i>
(11:55 - 12:10)	Open Discussion	Open Discussion	Open Discussion
(12:10 - 12:50)	Maurice Kugler , University of Southampton and Hillel Rapoport , Bar-Ilan University "Skilled Emigration, Business Networks and Foreign Direct Investment" <i>Comments: Carlos Urrutia, Instituto Tecnológico Autônomo de México (ITAM)</i>	Osvaldo Nina and Lykke E. Andersen , Grupo Integral, La Paz, Bolivia "Regional Integration and Poverty: A case study of Bolivia" <i>Comments: Melanie Grosse, University of Goettingen, Germany</i>	Maria Ester Unzuurrungaza Valle, Universidad Nacional Autónoma de México "Trade disputes settlement in the European Union Association Agreements with Mexico and Chile" <i>Comments: Marta Ferrari-Haines, British Institute of International and Comparative Law</i>
(12:50 - 13:05)	Open Discussion	Open Discussion	Open Discussion
13:05 - 14:45	LUNCH		

(14:45 - 15:25)	Paolo Epifani , University of Parma, Italy and Gino Gancia , CREI and Universitat Pompeu Fabra, Barcelona, Spain	Samuel Freije , Universidad de las Américas, Puebla, Mexico and Luis Felipe López-Clava , Instituto Tecnológico y de Estudios Superiores de Monterrey, Campus Ciudad de México and Cristina Rodríguez , National Human Development Report Office, UNDP, Mexico	Andrea Carla Bianculli , Universitat Pompeu Fabra, Barcelona, Spain
	"Globalization and the Size of Governments"	"Changes in Urban Wage Inequality in Mexico Before and After NAFTA"	"Social agendas within New Regionalism initiatives. A Comparative approach to the Free Trade Area of the Americas and the European Union-MERCOSUR process"
	<i>Comments: Michele Ruta, RSCAS, European University Institute, Florence, Italy</i>	<i>Comments: Soledad Zignago, CEPII, France</i>	<i>Comments: Valentina Delich, University of Buenos Aires and FLACSO, Argentina</i>
(15:25 - 15:40)	Open Discussion	Open Discussion	Open Discussion
(15:40 - 16:20)	Claudio Bravo-Ortega , Universidad de Chile and Julian di Giovanni , International Monetary Fund, Washington, DC	Marcela Eslava , Universidad de Los Andes, Bogota, Colombia and John Haltiwanger , University of Maryland, College Park, USA and Adriana Kugler , University of Houston, Texas, USA and Maurice Kugler , University of Southampton, UK	Beatriz Nava-Domínguez , Freie Universität, Berlin, Germany
	"The Impact of Trade Costs and the Commonality of Trade on Real Exchange Rate Volatility"	"Plant Survival and Trade Liberalization: The Effects of Efficiency, Mark-ups and Demand"	"NAFTA and Southern Mexico: Integration and the role of national and local institutions in the development of lagging regions"
	<i>Comments: Gino Gancia, CREI and Universitat Pompeu Fabra, Barcelona, Spain*</i>	<i>Comments: Ralf Martin, Center for Ec Performance, LSE, in London.</i>	<i>Comments: Michael W. Bauer, University of Konstanz, Germany</i>
(16:20 - 16:35)	Open Discussion	Open Discussion	Open Discussion
16:35 - 16:55	COFFEE BREAK	COFFEE BREAK	COFFEE BREAK

(16:55 - 17:35)	Michele Ruta , RSCAS, European University Institute, Florence, Italy	Sascha O. Becker , Ifo Institute and University of Munich, Germany and Karolina Ekholm , Stockholm School of Economics, Sweden	David Levi-Faur and Jacint Jordana , Universitat Pompeu Fabra, Barcelona, Spain
	"Political Integration, Special Interests and Growth "	"Location Choice and Employment Decisions: A Comparison of German and Swedish Multinationals"	"Professional networks and global governance: The institutionalization of the foreign trade professional as a case study"
	<i>Comments: Uwe Sunde, Institute for the Study of Labor, Bonn, Germany</i>	<i>Comments: Gerald Willmann, Institut für Weltwirtschaft, Kiel</i>	<i>Comments: Beatriz Nava Domínguez, Freie Universität, Berlin, Germany</i>
(17:35 - 17:50)	Open Discussion	Open Discussion	Open Discussion
17:50 - 18:10	Final Remarks by Jaume Ventura and Omar Licandro	Final Remarks by Rolf J. Langhammer and Michel Fouquin	Final Remarks by Jacques Ziller
20:30	DINNER		

Saturday, October 22

09:00 -13:00	Plenary Session SESSION I: MACROECONOMIC DIMENSIONS OF INTEGRATION AND TRADE Coordinated by Jaume Ventura, CREI and Omar Licandro, IUE
(09:00 - 09:40)	Marc J. Melitz , Harvard University, Cambridge, USA and Gianmarco I.P. Ottaviano , University of Bologna "Market Size, Trade and Productivity" <i>Comments: Marcel Vaillant, Director, Economics Department, University of Uruguay</i>
(09:40 - 09:55)	Open Discussion SESSION II: ECONOMIC POLICY DIMENSIONS OF INTEGRATION AND TRADE Coordinated by Rolf J. Langhammer, IfW and Michel Fouquin, CEPII.
(09:55 - 10:35)	Richard Baldwin and Daria Taglioni , Graduate Institute of International Studies, Geneva "Positive OCA criteria: Microfoundations for the Rose effect" <i>Comments: Patricia Alvarez, International Economics Department, German Institute for Economic Research</i>
(10:35 - 10:50)	Open Discussion
10:50 - 11:10	Coffee Break SESSION III: INSTITUTIONAL DIMENSIONS OF INTEGRATION AND TRADE Coordinated by Professor Jacques Ziller , IUE
(11:10 - 11:50)	Antonella Mori , <i>Università Bocconi, Milan, Italy</i> "Trade Liberalisation and Co-operation: Is the EU Approach towards Latin America Working Well?" <i>Comments: Marcelo De Paiva Abreu, Pontifical Catholic University of Rio de Janeiro</i>
(11:50 - 12:05)	Open Discussion
12:05 - 12:45	Final Remarks by Sessions Coordinators and Antoni Esteve , Principal Trade Economist, Integration and Regional Programs Department, IDB
12:45 - 13:00	CLOSING REMARKS: Ricardo Carciofi, Director , Institute for the Integration of Latin America and the Caribbean, IDB

THIRD ANNUAL CONFERENCE OF THE EURO-LATIN STUDY

NETWORK ON INTEGRATION AND TRADE (ELSNIT)

KIEL, OCTOBER 21-22, 2006

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INTER-AMERICAN DEVELOPMENT BANK

OFFICE IN EUROPE

INTEGRATION AND REGIONAL PROGRAMS DEPARTMENT

INSTITUTE FOR THE INTEGRATION OF LATIN AMERICA AND THE CARIBBEAN

**INTEGRATION AND TRADE IN THE AMERICAS:
ECONOMIC, POLITICAL AND INSTITUTIONAL CHALLENGES**

São Paulo, Brazil, 7 April 2006

Agenda

Friday, April 7th

8:30 - 9:00	REGISTRATION
9:00 - 9:15	OPENING REMARKS Ricardo Santiago , Inter-American Development Bank Representative, Office in Europe (SOE) Yoshiaki Nakano , Professor and Dean of São Paulo School of Economics, Fundação Getulio Vargas (FGV) Rubens Barbosa , President, Foreign Trade Board, Federação das Indústrias do São Paulo (FIESP)
9:15 - 10:45	SESSION I. INTERACTION BETWEEN ECONOMIC AND POLITICAL INTEGRATION FACILITATORS AND INTRODUCTORY PAPER BY: Jaume Ventura , Professor, Center for Research in International Economics (CREI), Barcelona, Spain Omar Licandro , Professor, Robert Schuman Centre for Advanced Studies (RSC) of the European University Institute MODERATOR: Antoni Esteveadeordal , Principal Advisor, Integration and Regional Programs Department, IDB DISCUSSANTS: Fernando Lorenzo , Macroeconomics Chief Advisor, Ministry of Economics, Uruguay Alberto Trejos , Professor of Economy, INCAE, Costa Rica Open Discussion
10:45 - 11:00	COFFEE BREAK

11:00 - 12:30	<p>SESSION II. COUNTRIES WITH NATURAL RESOURCE ABUNDANCY AND REGIONAL INTEGRATION</p> <p>FACILITATOR AND INTRODUCTORY PAPER BY:</p> <p>Michel Fouquin, Deputy Director, Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), Paris, France</p> <p>MODERATOR: Maria Lúcia L. M. Pádua Lima, Fundação Getulio Vargas (FGV)</p> <p>DISCUSSANTS:</p> <p>Sidney Nakahodo - ICONE, São Paulo</p> <p>Paulo S. Gala - FGV-SP</p> <p>Open Discussion</p>
12:30 - 13:15	Key Note Speech: TOMAS ZANOTTO - Director, FIESP
13:15 - 15:00	LUNCH OFFERED BY FIESP (BY INVITATION ONLY)
15:00 - 16:30	<p>SESSION III. TRADE DISPUTE SETTLEMENTS IN THE CONTEXT OF THE "SPAGHETTI BOWL" OF REGIONAL TRADE AGREEMENTS</p> <p>FACILITATOR AND INTRODUCTORY PAPER BY: Jacques Ziller, Professor, European University Institute, Florence, Italy</p> <p>MODERATOR: Antonio Garbelini jr. - Siqueira Castro Advogados</p> <p>DISCUSSANTS: Ana T. Caetano, Veirano Advogados</p> <p>Pedro Pedrossian, Departamento de Comercio Exterior de la Federación</p> <p>Antonio Ortíz Mena, Director, Division of International Studies, CIDE, Mexico</p> <p>Open Discussion</p>
16:30 - 16:45	COFFEE BREAK
16:45 - 18:15	<p>ROUND TABLE</p> <p>MODERATOR: Ricardo Carciofi, Director, Institute for the Integration of Latin America and the Caribbean, IDB</p> <p>DISCUSSANTS:</p> <p>Rubens Barbosa, President, Foreign Trade Board, FIESP</p> <p>Fabio Villares de Oliveira - Diretor do Instituto de Estudos Econômicos e Internacionais</p> <p>Renato Flores - FGV - RJ</p>
18:15	<p>CLOSING REMARKS</p> <p>Maria Lucia Padua Lima, - FGV</p> <p>Nohra Rey de Marulanda, Manager, Integration and Regional Programs department, IDB</p> <p>Rubens Barbosa, President, Foreign Trade Board, FIESP</p>
18:45	COCKTAIL OFFERED BY FGV - LOCAL: BOULEVARD SAFRA - TÉRREO

**THIRD ANNUAL CONFERENCE OF THE EURO-LATIN STUDY
NETWORK ON INTEGRATION AND TRADE (ELSNIT)**

SÃO PAULO, BRAZIL, 7 APRIL 2006

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