

The Free Trade Area of the Americas and MERCOSUR-European Union Free Trade Processes: Can they Learn Something from Each Other?

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**THE FREE TRADE AREA OF THE AMERICAS
AND MERCOSUR-EUROPEAN UNION FREE TRADE PROCESSES:
CAN THEY LEARN SOMETHING FROM EACH OTHER? ***

Robert Devlin **

I. INTRODUCTION

In December 1995 the Ministers of Foreign Affairs of MERCOSUR and the EU subscribed to an Interregional Framework Cooperation Agreement to strengthen relations between the two regions, including "encouraging the increase and diversification of trade, preparing for subsequent gradual and reciprocal liberalization of trade and promoting conditions which are conducive to the establishment of the Interregional Association, taking into account, in conformity with WTO rules, the sensitivity of certain goods".

The initiative set the stage for a Joint Communiqué of Heads of State during the Latin American and Caribbean-EU Summit in Rio de Janeiro in June 1999 in which it was agreed to launch negotiations "aiming at bilateral, gradual, and reciprocal trade liberalization, without excluding any sector and in accordance with WTO rules" and that the interregional negotiations should "constitute a single undertaking...". It also was decided that a first meeting of the Cooperation Council -first established by the above-mentioned Framework Agreement- would meet in November 1999 to discuss proposals regarding the structure, methodology, and calendar of negotiations. A first meeting of the Biregional Negotiations Committee took place in Buenos Aires in April 2000 to set up the organization, calendar and substance of the negotiations.

Steps ahead of the MERCOSUR-EU (MEU) process has been the Free Trade Area of the Americas (FTAA) process. It was launched in the Miami Summit meeting of 34 Heads of State of the Western Hemisphere in December 1994 when leaders decided to create a FTAA "no later than 2005" and that "concrete progress toward the attainment of this objective will be made by the end of the century". The goal is to achieve a "balanced and comprehensive agreements".

FTAA Trade Ministers met for the first time in Denver in June 1995 and decided to systematically prepare for active negotiations. This meeting and subsequent ones in Cartagena (1996) and Belo Horizonte (1997) progressively established twelve Preparatory Working Groups with precise terms of reference in all the potential areas of a comprehensive free trade agreement.¹

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¹ Market Access; Customs Procedures and Rules of Origin; Investment; Technical Barriers; Sanitary and Phyto-Sanitary Measures; Subsidies, Anti-dumping and Countervail; Smaller Economies; Government Procurement; Intellectual Property; Services; Competition Policy and Dispute Settlement.

After reviewing the progress of the working groups in Cartagena and Belo Horizonte, Trade Ministers met in San Jose, Costa Rica in March 1998 and recommended that negotiations be launched at the May 1998 Hemispheric Heads of State Summit in Santiago, Chile. In Costa Rica Ministers also recommended the creation of nine Negotiating Groups, several Special Committees/Consultative Groups,² an internal management structure and the establishment of a temporary Administrative Secretariat in Miami to logistically support negotiations.³

Negotiations began in Miami in September 1998 in the newly inaugurated site of the Administrative Secretariat. The initial phase of negotiations was reviewed by Trade Ministers in Toronto in November 1999; in addition, a series of business facilitation measures were approved to comply with the Heads of State mandate for "concrete progress" by the year 2000.⁴ A second round of negotiations was initiated in January 1999. The FTAA process is currently in a phase which is, *inter alia* attempting to draft bracketed texts of the FTAA agreement, discussing the agreement's institutional architecture and considering new business facilitation measures.

The FTAA is undoubtedly the most ambitious collective economic initiative in the history of the Western Hemisphere. Moreover, to the surprise of many it has been enormously successful to date. Substantial progress since the December 1994 Summit has been due in part to forward looking, built-in disciplines and benchmarks at the technical level and visionary leadership at the political level (Devlin and Garay [1996]). Consequently, the process has plodded along quite steadily from its Preparatory Stage to the current phase of active and intense negotiations. Between September 1998 and September 1999 there were 170 negotiating meeting days in the Miami Secretariat. This year hardly a day goes by in Miami without one of the nine Negotiating Groups and Special Committees meeting in Miami; indeed, activity is such that an additional round of negotiations was recently added to the last quarter of 2000, which included for the first time parallel meetings and extended hours.

The FTAA process itself has already generated important positive externalities for the hemisphere and the multilateral system (Iglesias [1999]). It has provided a regular forum in which 34 countries' trade delegations have gotten to personally know each other better on a first name basis. This increasing personal *esprit des corps* not only has enhanced the FTAA process, but has also provided a new stage for resolving bilateral trade issues and undertaking new initiatives. Since the baseline for the FTAA is the WTO disciplines, FTAA meetings have been a learning laboratory for many delegations regarding the complex Uruguay Round obligations and other areas not yet contained therein (e.g., Competition Policy and mechanisms for communication with Civil Society). The Preparatory Stage also generated many comparative databases and

² Market Access (also includes customs procedures, rules of origin and technical barriers), Agriculture; Investment; Subsidies, Investment and Countervail; Government Procurement; Intellectual Property; Services; Competition Policy and Dispute Settlement. Additionally they formed a Consultative Group on Smaller Economies, a Committee of Government Representatives on the Participation of Civil Society and a Joint Government-Private Sector Committee of Experts on Electronic Commerce. The Chair of each group is fully rotated among the 34 countries every eighteen months.

³ In 2001 the Secretariat moves to Panama City and in 2003 to Mexico City.

⁴ The business facilitation measures included eight measures related to customs procedures and transparency measures related to systematic dissemination of trade-related information (Toronto Ministerial, 1999, Annexes 2 and 3). A target date of April 2001 was established for full implementation.

inventories on trade-related issues among the 34, increasing intergovernmental transparency in trade relations. Moreover, thanks to the release of most of this information to the public, this transparency has been transmitted to private markets as well. The launch of negotiations and the increasing perception of an advancing FTAA has also encouraged Latin American and Caribbean trade ministries to reevaluate their institutional capabilities, stimulating more intense interest in securing comprehensive technical assistance to modernize the ministries and their staff. Finally, a number of important business facilitation measures have been approved.

Independently of whether an FTAA is actually realized in 2005, it has steadily marched forward to date. This progress has been achieved despite the complexities of coordination among 34 countries with extremely different levels of economic development; trade links among them which range from very intense to modest or little at all; asymmetric vulnerability to external shocks and far from homogeneous commercial and geopolitical priorities, etc. The success raises the question about whether there are lessons for other ambitious transcontinental, or interregional, trade initiatives. More specifically, are there lessons for the just initiated MEU trade negotiations? Alternatively, are there possible lessons from the MEU approach for the FTAA process?

The purpose of this paper is to preliminarily address these questions. There are serious limitations to doing so, however. First, the FTAA process is relatively advanced with more than 5 years of intense work behind it, yet it is still very incomplete and it remains to be seen whether the ultimate objective of a free trade area (FTA) is achieved. Meanwhile, the MEU negotiations have just begun in earnest. Hence, the evaluation of the former is based on an advanced process with incomplete outcomes, while the evaluation of the latter is based on only very initial steps of a process. The economic and political contexts of the two negotiation processes are quite different as well.

The paper will be organized as follows. The next section will examine the emergence of a "new regionalism" in the 1990s and highlight the special role of initiatives such as the FTAA and MEU negotiations in this new context. That will be followed by an analysis of some of the similarities and differences perceived the two processes to date. A concluding section will examine whether the two processes offer -subject to the caveats mentioned above- lessons for each other.

II. THE NEW INTEGRATION OF THE 1990s

The 1990s witnessed many important structural transformations in the world economy and politics. One of the most distinguishing features of the decade was the emergence of a so-called "new regionalism" in developing countries which paralleled increasing globalization and the deepening of the multilateral system. There is no better example of this than in Latin America where more than twenty-five new regional integration arrangements were launched, ranging from bilateral and plurilateral free trade areas to customs unions with pretensions of becoming a common market (Table 1). Side by side with the new agreements was an explosion of intraregional trade. Indeed, intraregional Latin American exports grew nearly 50% faster than extraregional exports, driving the regional component up to a fifth of total exports towards the end of the decade (IDB [1999]).

Regionalism as such is not new in Latin America. Indeed, Latin America has a long history of attempts to integrate that goes back as far as independence. The earliest initiatives were largely political schemes aimed at some form of union. However, the early post-war period witnessed the emergence of grand economic schemes inspired by the successful Western European experience. These economic pacts ranged from free trade areas (LAFTA) to customs unions (the Andean region and Central America) with common market goals and community institutions.

What then is so new about the new regionalism? While there are many new dimensions (Devlin and Estevadeordal [2000]), two stand out for the purpose of this paper.

First, integration is always a policy tool, or means to an end, and that "end" has changed dramatically in the 1990s *vis-à-vis* the early post war years.

The "old" integration was motivated by a perceived need to rescue the faltering import substitution industrialization strategy that had its origins at the beginning of the century and which greatly consolidated itself during the Great Depression. In effect, the promotion of integration among Latin American countries was seen as a way to escape the efficiency constraints of small domestic markets in order to achieve the economies of scale that were necessary to deepen the import substitution industrialization process. The strategy was inward-looking with strong nationalistic overtones, reflecting the export pessimism of the times and fears of foreign dependence *cum* exploitative behavior of multinational firms. The import substitution strategy also was firmly stated, reflecting a degree of skepticism regarding the capacity of private markets and the local entrepreneurial elite (Devlin [1994]).⁵

The ambitious post-war integration initiatives of the late 1950s and 1960s quickly faltered, however, and fell far short of their objectives. Macroeconomic instability -partly related to the imbalances inherent in the inward looking import substitution model- combined with the strong national vocation for protection and military rivalry among authoritarian regimes, served to undermine attempts to open markets and keep them open even among a limited number of integration partners with similar objectives. In effect, the attempts at integration were undermined

⁵ It should be added that the general approach to development had much support in the early post-war development theory literature ranging from Prebisch to Nurske, Rosenstein-Rodan, Myrdal, Furtado, Singer, etc. See the collected volume by Argawala and Singh [1963] for examples of the prevailing literature.

by the dynamics of very economic model that the integration schemes were designed to rescue. In the crisis of the 1980s intraregional trade collapsed and the issue of integration became marginalized from the development policy debate.

The resurgence of integration and intraregional trade in the 1990s has taken place in an entirely new policy framework. A new consensus developed in the 1980s supporting a shift to democracy and more open, market-based economies. This started the so-called process of structural reform in Latin America. The new regional integration is an integral part of this structural reform process.

One of the key areas of the reforms was a dramatic reduction of tariff and non-tariff barriers, summarized by a fall in the region's average tariff level from well over 40% in the mid-1980s to just 12% in the early 1990s. The trade liberalization was meant to increase efficiency in the region's economies through import competition and access to cheaper and better inputs and technology. Regional integration has linked up to the reform process most obviously in the trade liberalization program. In effect, it is the third tier of a three tiered liberalization process (IDB [1996]).

The first is the unilateral liberalization just mentioned. The second tier was active participation in the Uruguay Round and adoption of its comprehensive commitments and disciplines. The third is regional integration.

Regional schemes have allowed countries to deepen liberalization beyond what could be achieved in spheres one and two. While the liberalization is preferential among a group of like-minded partners, it has been comprehensive and rapid, effectively lowering average protection and raising competition in the national economies (Devlin and Estevadeordal [2000]).

But regional integration's contribution to the reforms is more complex than the lowering of trade barriers. It provides reciprocal liberalization so that opening to imports is compensated by an opening for the country's exports. This usually improves the political receptiveness for trade liberalization and allows authorities to signal their continued commitment to liberalization when it may not be possible to move forward in tiers one and two. Good local experiences with a new trade scheme has tended to create confidence and interest in other initiatives; moreover, there is a cascading effect, as new agreements tend to be upgraded in terms of the comprehensiveness of disciplines (Devlin and Estevadeordal [2000]). A network of agreements also allows authorities to "lock-in" reforms since regional agreements are legally binding and usually more difficult to renege on than unilateral commitments.⁶

Regional agreements furthermore can aid productive transformation of the economy. The political splash of formal agreements, legally binding market access and preferences as well as affinities in language, culture and consumption among Latin American neighbors has triggered a special awareness in the private sector of the new export markets. The credibility of the integration initiative moreover is high because it is an integral part of the demonstrated commitment to openness manifest in the three tier approach to liberalization and the broader commitment to market based-reforms. This has stimulated new investments and been a source of diversification and efficiency gains: regional trade is much more intensive in manufactured exports and intra-industry trade than is the international market (Devlin and Ffrench-Davis [1999], pp. 261-290). The

⁶ These are part of the non-traditional effects outlined by Fernandez [1997].

agreements, especially when they involve large markets, also serve authorities as a beacon to attract foreign direct investment, with their access to capital, technology, know-how and export networks. MERCOSUR is a good example of this (ECLAC [1999]).

Finally, integration also has contributed to political reform as it has brought like-minded countries together in the defense of democracy. MERCOSUR in relation to developments in Paraguay is again a good example.

A second new dimension of regional integration is that with time it is becoming less strictly intraregional and more interregional in character. Beginning with NAFTA in 1994, Latin America has increasingly been disposed to link up with industrialized countries, something that would have been inconceivable as late as the mid-1980s. Not only has Mexico joined NAFTA, but Chile as well as Central America have expressed their interest in joining, as has Colombia more recently. Meanwhile, Chile has negotiated a NAFTA-like free trade area with Canada, while Costa Rica has begun to negotiate a similar arrangement. Chile, Mexico and Peru additionally are negotiating with industrialized countries of the Pacific Rim in the APEC process. Mexico has just agreed to a free trade area with the EU and is discussing one with Japan, while MERCOSUR and Chile are in the process of negotiating their own free trade arrangements with the EU. Finally, all Latin American countries are in advanced negotiations for a Free Trade Area of the Americas, which, of course, includes the US and Canada.

This special dimension of the new regionalism -developing countries integrating with industrialized countries- has been thoughtfully conceptualized by Ethier [1998]. He focuses on the following stylized facts of this dimension of the new regionalism:

- it typically involves one or more smaller and less developed economy linking up with large more developed economies;
- the smaller economies have made, or are making, significant unilateral reforms;
- the degree of trade liberalization in goods as such is relatively modest;
- the liberalization achieved is primarily undertaken by the smaller economy;⁷ and
- the agreement often involves comprehensive objectives and disciplines.

Ethier's conclusion is that the Vinerian approach (trade creation - trade diversion) to evaluating integration agreements is consequently less relevant today than in the early post-war period and that the costs and benefits must be evaluated in the broader context of their contribution to the structural reform and economic transformation processes. And for a series of reasons these non-traditional reform and transformation effects -which were outlined generally above- can be magnified in an integration agreement anchored by a large, credible developed economic area. This was certainly the experience of Mediterranean countries with Europe and increasingly is perceived as a fundamental tool of transformation in Mexico. It also might help to explain why developing countries are increasingly willing to enter into a framework of asymmetric liberalization with industrialized countries.

⁷ The asymmetric effects of liberalization also have redistributive effects in favor of the lower tariff region, or country.

III. THE FTAA AND MEU PROCESSES

There are important similarities and differences between the two processes.

a) Some Similarities

Many similarities exist and some of the more important ones are:

Politics

- Both trade initiatives emerged out of much broader political initiatives designed to comprehensively strengthen interregional relations. The FTAA was a central part of the much broader agenda of the Miami and Santiago Heads of State Summits (Tables 2 and 3). Meanwhile the MEU free trade process was an outgrowth of a broader MEU biregional agenda on political, cooperation and trade matters expressed in the 1995 Framework Agreement (Table 4). This was later complemented by the broad ranging priorities of action agreed to by Heads of State in the June 1999 Latin American and Caribbean-EU Summit in Rio where the launching of the MEU free trade negotiations was announced as part of the broader negotiation of an Interregional Association Agreement (Table 5).
- Giving birth to the free trade initiatives in both cases was a last minute drama, largely on account of a degree of ambivalence on the part of the developed country players. Indeed, weeks before the Miami Summit there were still serious doubts about a free trade initiative appearing on the Summit agenda due to manifest ambivalence in Washington (Hayes [1996]). Public signals in the EU on a MEU free trade negotiation also were mixed until days before the Rio Summit where the commencement of negotiations was finally announced.
- Both trade initiative are motivated in part by strategic geopolitical positioning in the face of the parallel forces of globalization and regionalism. For the US and many countries of Latin America and the Caribbean, the FTAA was an alternative to the "closed door" of NAFTA. Meanwhile, the MEU was in part the EU's strategic response to the launch of the FTAA negotiations. As for MERCOSUR, the MEU process offered the promise of increased leverage for its FTAA negotiations.

Economics

- The processes match developing countries in the process of structural reform with developed market economies *a la* Ethier's [1998] new regionalism.
- The developed economies in the processes are, in global terms, important trading partners for the developing countries of the agreement, but not visa-versa. The EU is MERCOSUR's most important extraregional trading partner, accounting for 28% of MERCOSUR's imports and 25% of its exports, while MERCOSUR accounts for only 2% of EU imports and 3% of its exports. Meanwhile, North America is by far the major extraregional trading partner of all Latin America, except MERCOSUR where it ranks somewhat behind the EU (IDB [1999]). Fifty percent (27% without Mexico) of Latin American exports go to the Northern market, while 43% (30%) of imports come from that market. Meanwhile, 16% (8%) of US exports

go South and 14% (6%) of its imports have their origin there. Similar relationships for the two regions hold for foreign investment (ECLAC [1999]).

- While the prospects for liberalization are asymmetric in the spirit of Ethier [1998], the developing countries in both cases have especially targeted market access objectives, aiming for more stable market access overall and better access in selective sectors where they have a comparative advantage, but face high levels of protection, such as agriculture. Meanwhile the developed countries focus their attention heavily on services and the so-called "new" trade-related disciplines. Hence, in the context of a single undertaking, the apparent economic tradeoffs for achieving an agreement in the FTAA and MEU processes are broadly similar and stark, indeed considerably more stark than a multilateral round where developing country priorities can and have been by-passed.
- Aspects of both negotiations are linked to developments in the WTO, most notably agriculture.

Principles

- Both trade processes are based on WTO consistency and mirror a WTO agenda, including so-called new issues, and even topics not on the WTO agenda such as competition policy.
- Both processes called for a comprehensive and balanced approach in the context of a single undertaking in which no sector is to be excluded from consideration.
- All decisions are by consensus in the two processes.
- There is a commitment to transparency with civil society.

Institutional

- There seems to be some similarity in the manner of managing the negotiations. The general mandate to negotiate comes from Heads of State. The negotiation processes are set in an architecture involving technical groups which are managed and directed by a Committee of higher level political representation that in turn interacts with a Ministerial level body.

In the FTAA the political green light and general mandate has been given by Heads of State. Trade Ministers provide political direction to trade negotiations and guide the overall process as well as approve its content and terms of reference. A Trade Negotiation Committee (TNC), made up of Vice Ministers of Trade, provides day to day oversight and management and proposes to Trade Ministers. The Negotiating Groups as well as Special Committees/Groups report to the TNC. So does the Director of the Administrative Secretariat.

In the MEU, the launch of negotiations was announced by Heads of State during the Rio Summit. The MEU Cooperation Council (composed of members of the Council of the EU -Foreign Ministers- and representatives of the European Commission and members of the MERCOSUR Common Market Council, and MERCOSUR Common Market Group) in their first meeting in November 1999 oversaw the establishment of a Biregional Negotiation Committee responsible for day to day executive management of the negotiations. The Committee in its first meeting had

the task of setting up the structure, methodology and calendar of negotiations. Said Committee established and oversees three Technical Groups and is charged with developing the specific content of the trade negotiating agenda, precise terms of reference for the work, calendars, further developments in structure, etc.⁸

- The processes have preprogrammed calendars with negotiation processes being supported by preparatory work.
- The preparatory and negotiation processes are paralleled by private sector fora which have formal channels of communication with the negotiation process.

In the case of the FTAA the private sector of the country hosting the periodic FTAA Trade Ministerials (5 to date) organize an extremely well-attended America Business Forum (ABF) just prior to each Ministerial. In the forum the private sector representatives of the countries in the hemisphere debate their expectations for an effective free trade agreement and transmit their consensus positions to Ministers in a special event at the beginning of the Ministerial. The fora moreover were a source for many of the business facilitation measures approved in Toronto in November 1999. The FTAA-oriented business community maintains links and proactively monitors developments through the Business Network for Hemispheric Integration (BNHI), a loosely organized, precariously financed, but reasonably effective, network of representatives from principal private sector business organizations in the Western Hemisphere.⁹

Meanwhile, paralleling the MEU process is the MERCOSUR-European Union Business Forum (MEBF), which among other things, organizes private sector working groups and meetings which make known their recommendations regarding the free trade negotiations. The MEBF has received feedback from the European Community and MERCOSUR representatives regarding their ideas for free trade between the two regions. It too, however, appears to be precociously financed.

b) Some Differences

Political

- Articulation with the Global Agenda

One of the major differences is the articulation of the trade negotiations with the broader political initiative from which they were born. The FTAA is probably the most advanced and coherently run initiative in a Western Hemisphere Summit process. The wide variety of components of this Summit process were tied together only as a loosely coordinated "federation" of initiatives with disparate types of support, commitment, measurability of objectives, accountability and

⁸ The MEU and FTAA Ministerial bodies seem to have different functions. In the FTAA Trade Ministers review and approve past and future work taking into account the recommendations of the TNC. The MEU ministerial body seems limited to being informed and making recommendations and proposals, but with full decision-making on negotiations being in the Biregional Negotiation Committee. See EU-MERCOSUR First Cooperation Council [1999] and Torrent [2000].

⁹ It should be also mentioned that the FTAA exploratory Committee on Electronic Commerce there actually are private sector representatives participating side by side with the official FTAA delegations.

management. With few exceptions, results up through May 1998 were quite disappointing for some observers (North-South Center [1998]).

Primary responsibility for the implementation of the Summit mandates falls to a Summit Implementation Review Group (SIRG) overseen by Foreign Ministers and with the OAS as a support secretariat. The SIRG meets several times a year to monitor progress in the Summit agenda. It is chaired by the country which is hosting an upcoming Summit plus two co-chairs: the country which was the previous host and the country which will be the next host. The SIRG reports to Ministers once a year. However, the day to day development of the different components of the agenda are quite decentralized, managed by different governments, ministries and agencies, often do not enjoy much, or any, interaction even where they are related topics, have varying degrees of financial and technical support, and are not tied together by any binding umbrella agreement other than the Summit mandate itself. Moreover, the FTAA process is relatively autonomous of the SIRG.¹⁰ While there have been important, and increasingly more effective efforts to tighten the SIRG's management of the Summit process, advances are still quite uneven among the Summit agenda items.

While the MEU's trade agenda is also a central element of a much broader political agenda, trade in the MEU appears to be a more fully integrated third leg of a three-legged horizontal agenda that is negotiated under a single umbrella Interregional Association Agreement with a unified and homogeneous management structure.

- Negotiating Authority

A main interest of the developing countries in the FTAA and MEU trade processes is the negotiation of stable, preferential market access to the US and European Union markets, respectively. The credibility of the trade negotiating positions of the latter rests in great part on the single voice of executive bodies: a Commission with supranational status and the Council of the EU (Ministerial level). Some observers like Torrent [2000], however, perceive potential complications arising for a single undertaking such as the MEU process. This is because of the incorporation of trade-related areas not under the Commission's and Council's mandates. Torrent argues that in such cases negotiations and ratification in these areas become a national responsibility, creating a plurilateral negotiation of 16: the Community and 15 member countries. According to Torrent, a single undertaking is further complicated in the context of a horizontal Interregional Association Agreement.

Meanwhile in the FTAA, the major market, the US, depends on the authorization of Fast Track authority by Congress for the credibility of its negotiation positions. The US government is currently negotiating the FTAA without Fast Track due to the Administration's repeated inability to mobilize support in Congress. Fortunately, during the first 6 years of the FTAA process the US's lack of Fast Track or similar authority, has not been a serious drawback, although it would undoubtedly become one if that authority is not achieved in 2001-2003.

¹⁰ Some areas of the Summit agenda are closely linked to the FTAA and will condition its success: capital markets development and liberalization, hemispheric infrastructure, energy cooperation, telecommunications and information infrastructure, science and technology, and tourism.

Economics

- Trade patterns

Hemispheric trade is relatively intensive in manufactured exports and intra-industry trade compared to the rest of the world. MEU trade is relatively intensive in commodities trade.

- Multilateral Policy Stances on Agricultural Subsidies

MERCOSUR joined other countries of the FTAA in Toronto to declare mutual interest in the objective of eliminating agricultural subsidies in the WTO multilateral negotiations. This predisposition is not manifest in the MEU process to date.

- Formation of Trade Hubs

The MEU negotiation also reflects a EU preference to develop its trade relations in the Western Hemisphere on a selective and subregional, or country, basis. This approach has the advantage of tailoring negotiations and outcomes to the specific reality of an interregional relationship, especially in the context of a horizontal Interregional Association Agreement. However, the outcome of trade negotiations on different fronts could make the EU a *de facto* "hub" in EU-Latin American free trade arrangements, which can have inefficiencies (Wonnacott and Wonnacott [1995], pp 107-118).

A similar approach might have emerged in the Western Hemisphere if the US had been able to pursue bilateral free trade areas in lieu of its inability to expand NAFTA. As it stands, an FTAA would eliminate the existing free trade hubs in the Hemisphere that can be found in Mexico and Chile by creating an umbrella agreement for 34 countries. However, the FTAA might lean more to a "one size fits all" approach, although probably with different transition periods.

Principles

- Deadlines

While apparently a source of important debate, Heads of State in Miami in the end agreed to the discipline of a deadline for finishing negotiations -2005- and providing for "concrete progress" by the year 2000. The MEU negotiation must be "concluded at the earliest possible date".

- Free Trade Area

The FTAA sets out the explicit goal of a WTO consistent free trade area. The MEU process curiously makes no explicit mention of a free trade area, although many assume, or hope, this will be the outcome.

- Sensitive Sectors

The FTAA and MEU processes include all sectors. However, the MEU process initiated itself with open recognition of the existence of, and need to attend, "sensitive" sectors and products in

line with WTO rules. Meanwhile, at the insistence of developing countries the FTAA has given special attention to agriculture by creating an Agriculture Negotiating Group.

- Sequencing

During the preparatory process, the FTAA phased in Working Groups between 1995 and 1997, which generated some sequencing in the discussions during this phase. Referring to footnote one, the first seven Groups were created in Denver, the next four in Cartagena, and the last in Belo Horizonte. In the FTAA negotiation phase there is no formal sequencing; each of the nine areas and subtopics must advance as best possible given their terms of reference. Of course, *de facto* sequencing will be a natural outcome of the negotiating process.

In the MEU process there has been an explicit decision to treat non-tariff barriers (NTBs) before tariffs in market access and other areas of negotiation. This is interesting since NTBs traditionally are a more contentious negotiating topic than tariffs.

- New Issues

The FTAA established two less than usual committees as an integral part of the trade initiative: a Committee of Government Representatives on the participation of Civil Society and a Joint Government-Private Sector Committee of Experts on Electronic Commerce. The first Committee has set up a mechanism to receive observations from civil society on the FTAA process and report results to Trade Ministers. In the first round of negotiations more than 150 submissions were received and a summary report was presented in the Toronto Ministerial. Meanwhile, the latter Committee, with delegations composed of official and private sector representatives, is examining the issue of electronic commerce and how it might be dealt with in the FTAA negotiations.

These new issues do not appear explicitly in the MEU Trade component, but may emerge in some form in the ambitious Cooperation component of the MEU Interregional Association Agreement negotiations.

Institutional

- Administration

With the launch of Negotiations the FTAA process established a temporary, formal Administrative Secretariat to provide logistical support in four core areas: conference services, documentation, interpretation and translation. The Secretariat has been set up initially in a hotel in Miami and is scheduled to move to a hotel in Panama City in February 2001 and Mexico from 2003 until the close of negotiations in 2005. The Secretariat's purely **logistical role** employs about 15 full-time people. It is financed by the governments of Miami and State of Florida, contributions from the local private sector, the Organization of American States (OAS), the U.N. Economic Commission for Latin America and the Caribbean (ECLAC), and especially the Inter-American Development Bank (IDB). The FTAA also established a secure sight on the Internet for the archiving and distribution to delegations of documents related to the negotiations.

Logistics in the MEU involve intergovernmental Coordinating Secretariats of the European Commission and the MERCOSUR President Pro-Tempore (rotates among the four members every six months).

- Technical Support and Financing

The MEU trade negotiation is financed and supported exclusively by the official delegations of the two parties. In contrast, the FTAA has enjoyed very significant financial and technical support from the OAS/IDB/ECLAC Tripartite Committee (TPC).¹¹ This was requested at the outset of the Miami Summit by the Heads of State and Ministers of the three organizations' member countries and has been reiterated in each major step of the FTAA process. The three institutions are officially observers, expected not to be protagonists in the process and to guard strict confidentiality in their work.

The nature of the Tripartite support has expanded progressively over the life of the FTAA process. Special Units¹² in the three organizations involving a total of about 30 professional staff have divided up the working groups, and later the negotiating groups, to provide them and their chairs with **collective** technical support for the 34 delegations involved.¹³ The three organizations of the TPC alternatively work as a single unit in the support of the Vice Ministerial TNC and its Chair. The TPC units have undertaken requested and mandated studies by the Groups and their Chairs, processed and organized submissions by delegations, built data bases and software, organized workshops and seminars, and brought in *ad-hoc* technical expertise when and where needed. The TPC has also supported logistics, providing meeting space and interpretation, translation, etc., in the Preparatory Phase as well as substantial finance and technical support for the set up and functioning of the Administrative Secretariat in Miami during the Negotiating Phase.

- Public Outreach

The FTAA process has established a collective and centralized FTAA Home Page on the Internet -administered by the TPC- to distribute information on the FTAA process, publicly release derestricted documents, studies, data bases, etc., and, as part of the FTAA business facilitation measures approved in the Toronto Ministerial, distribute hyperlinks to national, regional, and international sources of information in the nine negotiating areas of the FTAA.

- Technical Assistance

In view of the negotiation of an umbrella Interregional Association Agreement with Cooperation as one of the agreement's three legs, the MEU trade initiative appears to have the potential to have the EU's substantial foreign technical assistance program fully integrated into the process.

¹¹ The Committee has its origins in the Alliance of Progress of the 1960s. With the eventual deterioration of the Alliance, the Committee fell into disuse. It was revived in 1994. The chair of the Committee rotates every 6 months among the 3 institutions.

¹² The units which support the FTAA are the Washington, D.C. Office of ECLAC, the Trade Unit of the OAS and the Integration and Regional Programs Department of the IDB.

¹³ Technical assistance to individual countries is independent of the FTAA channeled through regular national programs of the individual institutions under their respective procedures.

The FTAA declarations and reports have repeated references to the need to make technical assistance available to the developing and especially the smaller economies. It has pursued some country level supply-demand exercises for technical assistance in the preparatory/negotiating groups and has a Consultative Group on the issue of smaller economies which has a mandate to examine the issue. The TPC has also prepared a data bank on sources of training. Nevertheless, the FTAA process has not developed a systematic way of channeling technical assistance to the countries that need it. The approach up to now has been somewhat piecemeal and based on developing more transparency regarding needs and supplies of technical assistance (a kind of market approach). This entire issue is an evolving one in the FTAA Consultative Group on Smaller Economies and the TNC.

- Business Facilitation

From the very outset of the Negotiation Phase the FTAA has given great attention to approving business facilitation measures as a manifestation of concrete progress by the year 2000. As mentioned earlier, a series of eighteen measures was approved in customs procedures and transparency. Moreover, in Toronto it was decided to make approval of business facilitation measures an ongoing activity of the negotiations. However, the issue was placed at the level of the TNC in order to avoid distracting the Negotiating Groups from their terms of reference. A new set of measures will be examined for approval in the next Ministerial in early 2001.

IV. CONCLUSIONS: WHAT CAN THE TWO TRADE PROCESSES LEARN FROM EACH OTHER?

As can be seen above there are important similarities in the two processes, but many differences as well. Many of the differences moreover reflect political cultures, institutional-political realities, strategic goals, resource constraints, the different stages of the negotiations (the FTAA is more advanced) and quite different overall contexts.

Probably neither process has much to learn from the other. Both processes as structured are in principle coherent with their objectives in trade, their stages of development and technically capable of achieving them as long as the effort is underpinned by sustained political commitment. Of course, the ultimate configuration of the agreement is the outcome of long and arduous negotiations which are far from completed. In any event, in observing where the two processes can learn from each other, there are ideas at the margin of a successful trade process, but might nevertheless be studied as a potential way to make a small contribution to a better process.

Perhaps one of the dimensions of the FTAA that could be interesting for the MEU process is the FTAA governments' joint call for collective technical and financial support of the negotiations by multilateral organizations for which all the governments are members directly or indirectly (in this case the OAS, IDB, and ECLAC in the context of their Tripartite Committee). This support -firmly neutral and non-intrusive- has eased the burden on financially strapped Trade Ministries -especially in Latin America and the Caribbean-. But most importantly, it has made for a more level playing field among the countries in terms of the generation, distribution and presentation of homogeneous technical inputs for the deliberations of all 34 countries in the negotiation groups/committees.

The TPC support of the set up of a temporary Administrative Secretariat also has afforded homogeneous logistical services in a negotiation where the chairs of all the Groups/Committees rotate among the 34 countries every eighteen months. This homogeneous support service is important since the new integration involves industrialized and developing countries where the technical and logistical resource capacities can be quite uneven.

Hence, the MEU might benefit from collective support provided by a multilateral or other type of organization(s); indeed one might expect receptiveness to a request of this nature since in the context of the new regionalism there is growing recognition that these types of agreements can be powerful tools of economic transformation.

Another feature of the FTAA which may be of interest is the ongoing attention to regularly approving business facilitation measures along the steps of the negotiation process. This provides concrete outputs along the long road to a free trade arrangement, which has merits in its own rights. But it also serves the purpose of keeping the private sector and general public engaged in the interim. The business facilitation agenda of the FTAA emerged after three years of a preparatory stage and was fed from early on by deliberations of the America Business Forum. The MEU process has the structure and contact with the private sector to pursue this line of work and may very well be contemplating it.

The FTAA has also benefited from pre-programmed Heads of State Summits, as it has regularly punctuated the process with political commitment at the very highest level. Removing any doubt

trade delegations might have about their country's commitment to the process. More regular MEU Heads of State Summits might serve the same purpose.

Finally, the establishment of the collective FTAA Home Page on the Internet has been a good public outreach mechanism to project the collective commitment and identity of the 34 governments in their important joint endeavor. Notwithstanding this innovative achievement, public outreach is nevertheless one of the weaker dimensions of the FTAA process.

As far as the MEU trade process is concerned, the insertion of the free trade objective into the negotiation of a formal umbrella Association Agreement is an interesting way to tie together the political, cooperation and commercial dimensions of a broad initiative to tighten interregional relations. Systematic access to technical assistance is a potential major feature of this arrangement. The attempt at negotiation of a horizontal interregional agreement must be watched closely, even though some observers seem to be pessimistic about its outcome (Torrent [2000]).

Broad interregional initiatives have become fashionable as witnessed by APEC, the Western Hemisphere Summit process and the Rio European Union-Latin American and Caribbean Summit. APEC has been relatively successful with its initiatives in the area of cooperation, but not so on the trade front (Feinberg [2000]). The Western Hemisphere Summit has been very successful so far on the trade component, but less clearly so on many other areas of Hemispheric agenda.

The EU approach appears to launch a big scale horizontal interregional initiative (Rio Summit) and follow this up with negotiation of geopolitically coherent, vertically integrated initiatives like the MEU Association Agreement. If successful, this could be suggestive for the Western Hemisphere's Summit process.

Perhaps that latter should follow up its hemispheric deliberations and guidelines with processes for negotiation of formal agreements on the non-trade Hemispheric agenda. This approach would use a unified management structure and program analogous to the FTAA and MEU processes, and better exploit the FTAA's specific existing organizational experience with the TPC's technical and financial support. It also could be a mechanism to more effectively allow communication among issues and organize technical assistance. The strategy alternatively might encourage that subregional agreements emerge out of the non-trade hemispheric deliberations; this would support development of existing subregional commitments which Heads of State recognized as a vital building block to Hemispheric prosperity and a successful FTAA.

Finally, as mentioned, in its initial years there was relatively little public awareness and interest in the FTAA process in government, business, academia and civil society more generally. This has improved somewhat but still is at modest levels and still mostly the domain of "insiders". A program like that being developed by Science-Po's MERCOSUR Chair could be an interesting way to develop interest, debate, and ideas that can contribute indirectly to on-going trade negotiations and the broader political and economic issues surrounding them.¹⁴

¹⁴ The MERCOSUR Chair has organized workshops bringing together the academic, private and public sectors of the EU and MERCOSUR to discuss the technical and political dimensions of free trade between the EU and MERCOSUR. The papers from the workshops are in. (Valladão *et. al.* [2000]).

TABLE 1
LATIN AMERICA AND CARIBBEAN
PREFERENTIAL RECIPROCAL AGREEMENTS IN THE 1990's

Agreement	Date
Caribbean Community (CARICOM) ¹	1989
Chile-Mexico ²	1991
Central American Common Market (CACM) ³	1990
CARICOM-Venezuela	1992
Chile-Venezuela	1993
North American Free Trade Agreement (NAFTA) ⁴	1992
Colombia-Chile	1993
Southern Cone Common Market (MERCOSUR)	1991
Costa Rica-Mexico	1994
Group of Three (G-3)	1994
Bolivia-Mexico	1994
Chile-Ecuador	1994
Andean Community ⁵	1988
Chile-MERCOSUR	1996
Bolivia-MERCOSUR	1996
Canada-Chile	1996
Mexico-Nicaragua	1997
CACM-Dominican Republic ⁶	1998
CARICOM-Dominican Republic ⁶	1998
CACM-Chile ⁶	1999
Mexico-European Union	2000
Mexico-Israel	2000
Mexico-Northern Triangle (El Salvador, Guatemala, Honduras)	2000

Selected Agreements Under Discussion

Regional

Free Trade Area of the Americas; Canada-Costa Rica; Mexico-Panama; CACM-Panama; Northern Triangle-Andean Community

Extraregional

MERCOSUR-European Union; Chile-European Union; Chile-South Korea; APEC, Mexico-Japan

- Notes: 1. CARICOM began its reform process in 1989 (Declaration of Grand Anse) and agreed to launch a harmonized CET in 1990.
2. The two countries substantially revised and upgraded this accord in an agreement that entered into force on August 1, 1999.
3. The Presidents agreed to re-activate the CACM in 1990 (Montelimar Summit) and opted to definitively pursue a customs union in 1993 (Protocol of Guatemala).
4. Preceded by a free trade area between the US and Canada in 1987.
5. In 1988, the Presidents agreed (in the Protocol of Quito) to amend the founding Charter of the Andean Group and alter the existing tariff reduction program. In 1996, the leaders officially agreed to change the Group's name to the Andean Community and reform certain existing institutional structures (Declaration of Trujillo).
6. Awaiting sufficient legislative approval.

Source: Integration, Trade and Hemispheric Issues Division of the Integration and Regional Programs Department, IDB.

TABLE 2
MIAMI SUMMIT: AREAS OF ACTION

Preserving Democracy

- Protecting Human Rights
- Invigorating Community Participation
- Promoting Cultural Values
- Combating Corruption
- Combating Illegal Drugs Crime
- Eliminating Threat of Terrorism
- Building Mutual Confidence

Economic Integration and Free Trade

- Free Trade of the Americas
- Capital Markets Development and Liberalization
- Hemispheric Infrastructure
- Energy Cooperation
- Telecommunications and Information Infrastructure
- Cooperation in Science and Technology
- Tourism

Eradicating Poverty

- Universal Access to Education
- Equitable Access to Basic Health Services
- Strengthening Role of Women in Society
- Encouraging Microenterprise and Small Business
- Creation of an Emerging Development Corps.

Sustainable Development

- Sustainable Energy Use
- Partnership for Biodiversity
- Partnership for Pollution Prevention

Source: Summit Declaration and Plan of Action.

TABLE 3
SANTIAGO SUMMIT: AREAS OF ACTION

Strengthening Education

Strengthening Democracy, Justice and Human Rights

- Democracy and Human Rights
- Civil Society
- Migrant Workers
- Strengthening Municipal and Regional Administration
- Combating Corruption
- Financing Electoral Campaigns
- Control of Illicit Drugs
- Combating Terrorism
- Security Among States
- Strengthening Justice Systems
- Modernizing Labor Matters

Economic Integration and Free Trade

- Free Trade of the Americas
- Modernizing and Integrating Financial Markets
- Science and Technology
- Energy Cooperation
- Climate Change
- Hemispheric Integration

Eradication of Poverty

- Development of Micro and SME's
- Property Registration
- Health Technologies
- Women
- Workers Rights
- Indigenous Populations
- Hunger and Malnutrition
- Sustainable Development

Source: Summit Declaration and Plan of Action.

TABLE 4
MERCOSUR-EU FRAMEWORK COOPERATION AGREEMENT, JUNE 1995
Areas

Trade

Dialogue on Trade and Economic Matters
Cooperation on Agri-food and Industrial Standards and Classification
Customs Matters
Statistical Matters
Intellectual Property

Economic Cooperation

Cooperation in Business
Promotion of Investment
Energy
Transport
Science and Technology
Telecommunications and Information Technology
Cooperation in Environmental Protection

Encouraging Integration

Institutional Cooperation

Other Areas of Cooperation

Training and Education
Information, Communications and Culture
Drug Trafficking
Other by Natural Agreement

Source: OAS, SICE.

TABLE 5
MERCOSUR-EU INTERREGIONAL ASSOCIATION AGREEMENT
Areas of Negotiation

Political Dialogue including:
Peace and Stability
Confidence and Security Building Measures
Protection of Human Rights, Democracy and Rule of Law
Sustainable Development
Action on Drug Traffic, Arms Traffic, Organized Crime and Terrorism
Cooperation
<i>Economic</i>
Industrial Cooperation
Technical Regulations and Conformity Assessment
Services
Investment Promotion
Macroeconomic Policy
Scientific and Technological Cooperation
Energy Cooperation
Transport
Telecommunications
Agriculture
Fisheries
Customs Procedures
Statistics
Environment
Consumer Protection
Data Protection
<i>Social and Cultural Cooperation</i>
Social Cooperation
Education and Training
Social Dialogue
Drugs and Organized Crime
Culture
<i>Financial and Technical</i>
Public Administration Modernization
Inter-institutional Cooperation
Cooperation on Regional Integration
<i>Trade</i>
Group 1 Market Access (broadly deferred)
Group 2 Services, Intellectual Property, Investment
Group 3 Government Procurement, Competition and Dispute Settlement

Source: Press Release, November 1999, Brussels.

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