

# CAPITULOS

## Integration: Now or Never



Sistema Económico  
Latinoamericano  
Latin American  
Economic System  
Sistema Económico  
Latino-Americano  
Système Economique  
Latinoaméricain



# 61

JANUARY  
APRIL  
2001

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Latinoamericano

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Latin American  
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**Integration: Now or Never**

**61**

JANUARY  
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Ever since they became independent states, the countries of Latin America and the Caribbean have attempted to achieve economic and political integration, yet today this continues to be an idea, a goal to strive for. Some positive steps, such as the different sub-regional integration arrangements, have been taken in that direction. These efforts have achieved an institutional development that strengthens and consolidates their very existence. Nevertheless, because of today's reality, determined by the apparently inexorable onset of globalization, our region must re-evaluate how to pursue best that old integrationist ideal.

As Ambassador Otto Boye, SELA's Permanent Secretary, points out in his article, the time has come to "take firm decisions or risk losing for ever the opportunity to do so". This is precisely the central subject discussed in this issue of CAPITULOS. The current international context in which the region must undertake such decision-making regarding integration is one of the aspects analyzed here. Others are the strides made in that direction, particularly in the trade and institutional area; the tasks to be undertaken, mainly in the political, social and cultural area and, finally, the need to develop common positions and to progress towards a common destiny in order to exercise some influence over the globalization process.

The insertion of Latin America and the Caribbean in the globalization process was analyzed at the III International Meeting of Economists on Globalization and Development Problems held in Havana, Cuba, at the beginning of the year. We have included here a summary of the ideas discussed at that meeting, as well as some of the presentations delivered by participating experts, amongst them, Robert Solow, winner of the 1987 Nobel Prize for Economics.

The other two subjects analyzed in this issue of CAPITULOS are also of current concern. One is the issue of dollarization –a policy some countries of the region have begun to implement to different degrees– and the political implications it entails. The other refers to the WTO Ministerial Meeting held in Seattle at the end of last year and the lessons that can be derived from it in view of the next WTO meeting scheduled for November of this year, in Doha, Qatar.

**Integration: Now or Never**

*Ever since he assumed office as SELA's Permanent Secretary in 1999, Ambassador Otto Boye has been calling attention, in all possible fora, on one of the major challenges faced by Latin America and the Caribbean: integration. He has argued that two centuries after this idea was proclaimed and following many speeches, studies and some experience on this matter, and in view of the conditions imposed by globalization, the time has come to take decisive action or we will lose for ever the opportunity to do so.*

**Integración: ahora o nunca**

*Desde que asumió en diciembre de 1999 el cargo como Secretario Permanente del SELA, el Embajador Otto Boye ha venido llamando la atención, en todas las tribunas donde le ha sido posible, sobre uno de los mayores desafíos que enfrenta América Latina y el Caribe, como lo es la integración. Sostiene que después de dos siglos de haber sido proclamada esta idea y de haberse acumulado discursos, estudios y algunas experiencias en la materia, ha llegado el momento, dadas las condiciones que impone la globalización, en que se deban tomar decisiones perentorias o se habrá perdido para siempre la oportunidad de hacerlo.*

**Intégration: maintenant ou jamais**

*Depuis qu'il a assumé ses fonctions de Secrétaire permanent du SELA en décembre 1999, S.E. M. Otto Boye n'a cessé d'attirer l'attention, à toutes les tribunes où cela lui a été possible, sur l'un des principaux défis qui se posent à l'Amérique latine et aux Caraïbes: l'intégration. Soulignant que cette idée a été proclamée il y a deux siècles et que les discours, les études et certaines expériences en la matière n'ont cessé de s'accumuler depuis lors, il estime que, compte tenu des conditions imposées par la globalisation, l'heure est venue des décisions urgentes sous peine de perdre à jamais toute possibilité d'y parvenir.*

**Integração: agora ou nunca**

*Desde que assumiu o cargo de Secretário Permanente do SELA, em dezembro de 1999, o embaixador Otto Boye tem destacado em todas as tribunas possíveis um dos maiores desafios que a América Latina e o Caribe enfrentam: a integração. Afirma que após dois séculos do surgimento desta idéia e de inúmeros discursos, estudos e algumas experiências na matéria, chegou o momento, de acordo com as condições impostas pela globalização, de tomar decisões peremptórias senão se perderá para sempre a oportunidade de fazê-lo.*

# Integration: Now or Never

⇒ **Otto Boye**

*SELA's Permanent Secretary*

*Speech delivered during the III International Economists' Meeting on Globalization and Development Problems held in Havana, Cuba, between January 29 and February 2, 2001.*

This is the second time I address this forum where many aspects of the complex world we live in are discussed and explained. I now come before you after one year at the helm of the Latin American Economic System (SELA), and countless meetings and dialogues with experts and those responsible for the destiny of our peoples. I have listened and learned a lot. I have thus gained a rather clear picture of the different currents and energies that flow at the surface and in the depths of our existence.

I have been able to pin point some substantive issues that I would like to discuss on this occasion for which I am grateful. They refer to globalization, the so-called "single model" and the integration of Latin America and the Caribbean.

## **I. Globalization**

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To begin with, let us consider globalization. It is true that we feel it upon our skin; it is also true that we fear it, but we are beginning to observe it with greater awareness and are prepared to do something to avoid reaping just the worst of its fruits. This is my initial perception and it harbors hope.

At any rate, let us begin by acknowledging that we have not fully understood the globalization phenomenon. We fall easily into the trap of using the term to refer to different issues, thus creating confusion and misunderstandings. On the one hand, we have the reality of globalization, which could be defined as important issues that transcend national boundaries and create new relations and interdependencies among nations. This reality has multiple causes that have been underlined, with greater or lesser emphasis, by different analysts and observers.

Technological progress, particularly in transportation and



communications, the needs created by growing national economies, migration, the effects of economic activity on the environment and shared geographical areas and competition are some of these issues.

On the other hand, we have the actions that accompany globalization tendencies. The new tendencies created by globalization give rise to developments that affect national societies and their interrelations. The way in which we face such developments has also been labeled 'globalization', causing some misunderstanding.

In order to deal with the consequences of globalization, or channel them, different conventional or legal norms have been adopted. Perhaps the ones with more far reaching effects for all nations of the planet, and therefore the most troublesome, are those created by institutions such as the World Trade Organizations (WTO). This is a mechanism that aspires to channel and even tame the consequences of globalization.

Some have adopted a deterministic approach regarding globalization. They accept it simply as an unchangeable occurrence. Thus, they just dauntingly observe the increase in unemployment and the marginalization of several productive sectors, and even of whole economies and regions, resulting from the new forms of production.

When globalization reached such dimensions that it was impossible to deny its existence, some hailed it as an inevitable development, a result of mankind's progress regarding which all one can do is adapt to it. Globalization was seen as some sort of invisible hand with a global reach that would lead us all to modernity and harmony. If anything needed to be done it was to dismantle the remnants of the past that opposed this tendency, such as state regulations and all behavior that did not favor globalization and particularly the laws of the market.

Ironically enough, those first supporters of globalization were the ones who established norms and institutions that would insure its development, as if they were not sure of the proclaimed inevitability of the process.

With time it became apparent that the new tendencies were not just beneficial but could also be pernicious. In fact, to the least, they caused secondary effects that could negatively affect social and international relations and the life of vast sectors of the world population. These effects were felt not just in the economy but also in society, politics and culture. Those who understood the implications of these negative aspects opposed unrestrained globalization and suggested the adoption of measures to stop or channel it.

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*The new tendencies created by globalization give rise to developments that affect national societies and their interrelations.*

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Today there is a consensus that globalization has positive and negative effects and that we need to channel both in order to take advantage of the benefits and lessen the negative aspects. This is why there is hope.

However, we still face one considerable problem: how and towards what are we going to regulate or channel globalization and who is going to do it? It is clear that in order to deal with a world phenomenon we need worldwide rules and regulations. The difficulty lies in defining the ways in which these will be drawn and established.

If we believe that globalization is indeed a world problem that in one way or another affects all of mankind and all geographical and social areas, then it is clear that all different actors must participate in an active and effective way in order to take into account all individual positions and avoid marginalization and inequality. Thus, the different regions, nations and societies of the planet should share in the regulation and exploitation of a world phenomenon. This means that all must participate and that the needs of each must be considered.

However, if we passively accept the current distribution of power then globalization will be regulated and channeled by those who have done so until now. Under the general name of "reforms" they have allowed and accepted all that is in their interest, as in the case of cultural hegemony, and have created new codes of conduct regarding areas in which they believe they can gain new advantages, such as investment, intellectual property and governability.

## **II. The So-called "Single Model"**

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This leads us to a second issue, the so-called single model that currently prevails throughout the planet. The argument that has been advanced to prevent a critical revision of the ways we have reacted to globalization, at the international level, and the rules associated with it is that there is only one single model to follow when dealing with international, national and global issues and this is the model prevailing in most countries of the world. Obviously, such model reflects the current distribution of power and decision making capacity.

Fortunately, there are more criticisms of the single model than what is outwardly apparent, and not just within developing countries or among those who have suffered from the marginalization it has occasionally implied. Important sectors within industrialized countries, think –tanks and organizations with a certain amount of power in the current decision– making process–

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We still face one considerable problem: how and towards what are we going to regulate or channel globalization and who is going to do it?

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Integration is one of the few ways Latin America and the Caribbean can gain access to and participate in the design and establishment of the new behaviors and norms that must accompany the globalization process.

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es have also began to voice their criticism. This too is a hopeful development, even if it has not yet translated into new policies.

In this regard, we must sound an alarm bell. The single model, which originally referred to merely economic issues and prudence in the management of public finances, today covers ever-wider areas. A few international financial organizations have appropriated justice, education and universal values and are attempting to impose them as pre-requisites to participating in the supposedly idyllic world of globalization and modernity. They are required as conditions to enter such world and are held as benefits generously granted. In so doing, such organizations choose to forget that these benefits will only be real if they result from a country's own thinking and decision-making process, if they are obtained through conviction rather than by force.

### III. The Challenge of Integration

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The third issue I would like to refer to is Latin American and Caribbean integration, not only because this is SELA's main concern, but also because given the scenario I have briefly outlined so far, integration is one of the few ways Latin America and the Caribbean can gain access to and participate in the design and establishment of the new behaviors and norms that must accompany the globalization process.

In this presentation's title I have introduced the challenge of integration "now or never". After one year of work at SELA this is my main conclusion. Almost two centuries after we proclaimed this ideal, and after countless speeches and writings on integration, we have reached a point that requires peremptory decisions. Either we take concrete and decisive steps to progress towards a real and effective integration or we will lose forever the opportunity to do so.

This is a conclusion borne of the reality we face. Harsh byproducts of globalization, such as the transnationalization of production, investment and financing processes; the decreasing importance of national policies and currencies in international economic relations; the homogenization of culture; the growing gap between developed and developing countries regarding income levels and possibilities of growth, competition and modernization, have an overpowering momentum and require opportune answers if we wish to take advantage of globalization's positive aspects and to avoid its negative sides. The actions that have so far been adopted have been developed and implemented with a limited and, at times, irrelevant, participation by our region. Specific norms, such as those of the WTO, the IMF

programs and World Bank loans, are presented to us as deeds in whose formulation the region's points of view are barely considered. We are, at best, observers or silent guests. Most often than not we find out about policies and decisions with worldwide implications through press communiqués issued by the exclusive group of the world's major developed economies.

While it is true that this way of proceeding has been criticized even in developed countries, thereby halting the consolidation of an international set of rules designed to meet the requirements of the so-called single model, it is also true that our countries have not played an active role in this and that we have not been able to develop our own constructive proposals.

The presence of Latin America and the Caribbean, which in the past had acquired some significance, has diminished not only at the global level. Within our hemisphere we have the FTAA. This project is making silent strides even though it has not been debated or considered by our countries' public opinion. Thus, if we do not correct this situation one day we will awake from our siesta to discover that the FTAA is a reality that will profoundly affect our lives in the near future.

The internal logic of FTAA negotiations implies that if we enter such negotiations separated and uncoordinated our interests will be affected. We will be but weak fragments of ourselves. As a result, we will have to face an international scenario and a world and hemispheric set of rules foreign to our realities and ourselves.

This clearly points to the need to create a truly Latin American and Caribbean political and economic area through the integration of the region. The scenario we have outlined makes this an urgent task. Faced with the establishment in the near future of a world and hemispheric set of rules that will condition our capacity for action, we must develop our own specific capacities or we will be unable to do so in the future. The possibility to implement the idea of integration will be forever outside our reach.

Even though this is a strategic project that will unfold in the medium and long term, decisions must be made shortly. If we allow each one's immediate interests and rivalries to lead us, our countries will adopt different courses of action and thus the incidence of Latin America and the Caribbean on regional and world events will be increasingly weaker. What is worst, we will be increasingly unable to face our own problems independently.

We have made progress, let us acknowledge it, in the strengthening of sub-regional economic integration agreements. During the last decade we have injected new life into traditional integration agreements. We have created MERCOSUR, the

largest and most promising of such arrangements. Recently we agreed on the establishment, before the end of the year, of a South American free trade area, a fundamental step towards the economic integration of the region. However, we must now acknowledge that sub-regional areas, and even the South American one, which is the largest, are not enough to participate fully, with our own identity, in the world scenario.

Nor are trade and purely economic agreements enough to reassert such identity. We need a common approach regarding our objectives and projects. For this, we must engage in an open and franc dialogue regarding the course of action to be followed by all Latin American and Caribbean countries. We may have diverging opinions but we must not hide them from each other since joint action is the only way we can avoid falling into the anonymity that awaits us in a global world designed without our participation.

The conclusion that Latin American and Caribbean integration is a task that must be undertaken now or never is neither hopeful nor disappointing. It is stimulating. It spurs us to immediate action and forces us to face the unwelcome alternative of giving up. We are at the threshold of a point of no return. If we cross it, we will disintegrate, as we are currently, dangerously doing. No speech, no matter how eloquent and passionate, will change the fact that we will be unable to be the makers of our own destiny. This is the harsh reality we cannot hide from. This is why it is now or never.

Until now, barring a few exceptions, we have not been the makers of our own history. We have looked to the past instead of gazing into the future. We have been waiting for circumstances to present themselves in order for us to enter the world scenario. We have postponed the encounter with ourselves.

Today such postponements are no longer possible. Faced with the reality of globalization, either we react in a positive manner or we are absorbed. Probably the concept of the end of history is far fetched, yet not so the notion of the end of Latin America and the Caribbean's presence in history, should we continue with the passive and divisive attitude that has defined us in recent years.

As Latin Americans and Caribbeans we share a common past, culture, situation and history. But these are not the main factors that spur us to joint action. We are, above all, united by the need to face the future, to face by ourselves the problems that affect us and to solve our difficulties and needs according to our own criteria.

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*Sub-regional areas and even the South American one, which is the largest, are not enough to participate fully, with our own identity, in the world scenario.*

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To face directly the problems of integration, without subterfuge or promises of short term benefits, is not just the honest and straight forward way to acknowledge our possibilities, it is also the only alternative we have left to join the globalization process and avoid the marginalization, inequality and poverty that awaits those who are unable to acknowledge and face the new reality of our times.

It is SELA's responsibility to point out this challenge and urge all Latin Americans and Caribbeans to join efforts to come up with answers to today's circumstances, beginning with a dialogue and with coordinated efforts to strengthen integration so as to affirm our own identity of our times.

This is not mere rhetoric. The new type of international relations and the dynamics of globalization oblige us to face the challenge stated in the title of this speech: Integration, now or never.

**Integration and Institutionalality**

*In this article the author examines the link between institutional development and integration in order to identify some positive aspects that may enrich the debate on this issue and improve the different integration arrangements in our region. To this end, he analyzes first Europe's experience in this field and the lessons Latin America and the Caribbean may draw from it. Secondly, the author reviews our region's major integration arrangements (CAN, MERCOSUR, CARICOM, SICA). One of the major conclusions he presents is that the greater the institutional development the wider the scope and depth of integration.*

**Integración e institucionalidad**

*En el siguiente artículo se intenta hacer una aproximación al estudio de la relación entre el desarrollo institucional y el avance de la integración, con el objeto de identificar algunos aspectos positivos que ayuden a enriquecer el debate sobre este tema y a mejorar los distintos ámbitos de la integración en nuestra región. Para ello se hace, en primer lugar, un análisis de lo que ha sido la experiencia europea y las lecciones que América Latina y el Caribe pudiera tomar de ella, y en segundo lugar se examinan los más importantes esquemas integracionistas de nuestra región (CAN, MERCOSUR, CARICOM, SICA). Una de sus principales conclusiones es que a mayor desarrollo institucional, es mayor el alcance, amplitud y profundidad de la integración.*

**Intégration ou institutionnalité**

*L'article ci-après se propose d'étudier le rapport entre développement institutionnel et progrès de l'intégration afin d'en identifier certains aspects positifs contribuant à enrichir le débat sur la question et à améliorer les différents volets de l'intégration dans notre région. A l'analyse de l'expérience européenne et des leçons que pourraient en tirer l'Amérique latine et les Caraïbes succède l'examen des principales expériences intégrationnistes de notre région (CAN, MERCOSUR, CARICOM, SICA) menant à la conclusion que plus le développement institutionnel est important, plus l'intégration gagne en portée, en ampleur et en profondeur.*

**Integração e Institucionalidade**

*Neste artigo tenta-se fazer uma aproximação ao estudo da relação entre o desenvolvimento institucional e o avanço da integração, no sentido de identificar alguns aspectos positivos que enriqueçam o debate sobre este tema e melhorem os diversos âmbitos da integração na nossa região. Nesse sentido efetua-se, inicialmente, uma análise do que tem sido a experiência europeia e as lições que a América Latina e o Caribe possam aprender da mesma. Em segundo lugar se examinam as mais importantes experiências integracionistas da nossa região (CAN, MERCOSUL, CARICOM, SICA). Uma das principais conclusões é que quanto maior for o desenvolvimento institucional maior será o alcance, a amplitude e a profundidade da integração.*

# Integration and Institutionalization

→ **Gerardo Noto**

*International Relations Expert.*

## I. Introduction

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The relationship between institutional development and integration has always been of particular importance for regional integration arrangements. It has represented a key issue also in Latin America and the Caribbean, and more so during recent years due to the strides made at the sub-regional level, which have spurred the creation of new institutions and the reform and further development of existing ones. Given the new challenges faced by Latin American and Caribbean integration, the importance of this relationship has come to the fore once again.

However, what are the fundamental issues of the relationship between institutions and regional integration? Is more institutional development necessarily better for integration? Is it advisable to continue establishing supra-national institutions that determine the future of integration? Or, on the contrary, is it better to let intergovernmental bodies be the ones to adopt binding decisions? Is the European Union's institutional model the most adequate structure? How have the European Union's organizational model and its several institutional reforms affected the different regional integration arrangements in Latin America?

Beyond any theoretical consideration regarding integration's institutionalization, after more than forty years of experience in diverse regional and sub-regional arrangements our region has learned a number of practical lessons that are most useful to evaluate the functionality of different institutional structures in the light of our own political, social, economic and cultural characteristics. Therefore, it is of crucial importance to continue studying the effects the different institutional structures have had on the development of the varied sub-regional integration arrangements in our region. It is particularly important to analyze the institutional developments that took place during the nineties, a decade that witnessed significant integration progress,

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*After more than forty years of experience in diverse regional and sub-regional arrangements our region has learned a number of practical lessons.*

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particularly at the sub-regional level. The strides made in this direction have been accompanied by organizational reforms and modifications, the allocation of new responsibilities, the creation of new inter-governmental institutional links, which, in some cases, have “community” characteristics.

The relationship between institutional development and integration strides is something difficult to measure. In this paper integration’s progress is viewed from a two-fold perspective. On the one hand, economic issues—normally the only variable taken into account when evaluating integration’s progress or retrogression—are considered. These include trade and investment flows between member countries. On the other, in an attempt to gauge integration’s “vastness” or “depth”, a set of areas is examined in which specific processes occur and policies aimed at increasing trade and relations between countries in the field of labor, science, education, culture, among others, are implemented.

## **I. Lessons Learned from the European Union's Institutional Development**

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The evolution of European integration is a lengthy and gradual progress towards greater integration between its member countries that unfolds side-by-side, though not simultaneous to, a gradual increase in the number of European Union members. During this lengthy evolution, a complex process of construction and reform of several institutions has taken place, nourishing the trend towards integration and neutralizing tendencies opposed to the strategic goal that has defined Europe’s history since the second half of the XX century.

European integration’s first organizations, the European Coal and Steel Community (ECSC, 1951), the European Economic Community (EEC, 1957) and the European Atomic Energy Community (EURATOM, 1957), were led by a Council of government representatives and a Commission of officials who did not represent any government but the interests of the Community as a whole. In 1967 the executive bodies merged to create the European Commission and the Council of Ministers. Thus the Commission, which was the Community’s body, was strengthened. Taking full advantage of its power to propose action within the decision making process, it eventually became the driving force behind the process of European integration.

Towards the end of the seventies the establishment of independent financial resources for the Community and the strengthening of Parliament’s budgetary power consolidated the integration process. Gradually an independent income producing

system was established by which the Community would receive the customs income from trade with third countries, agricultural imports and a percentage of the value added tax in member countries. It is important to point out that the community's institutions' autonomous financial capacity played a key role in the progress of the integration process since it allowed them to play a dynamic role and stimulated the European Commission's power to propose initiatives.

During the seventies the meeting of heads of state and government played an increasingly important role. In December 1974 member countries agreed that the European Council, which until that time had been meeting only at the ministerial level, would hold regular annual meetings. The role of the European Parliament also grew as it was granted greater power over the budget and direct parliamentary elections were agreed upon. These were held for the first time in June 1979.

During the eighties the process to deepen integration and create the European Union was launched. During the second half of the decade, under the presidency of Jacques Delors in the Commission, the European Single Act was signed (1986) with a view to perfecting the single market by the year 1992.

With the fall of the Berlin Wall in November 1989, the disintegration of Eastern Europe's communist bloc and German reunification the European Community faced new challenges and pressures to expand.

Beginning in the nineties, the process of institutional reform that led to the creation of the European Union intensified. In December 1990 the European Council, meeting in Rome, convened two intergovernmental meetings, one on economic and monetary union and the other on political union. These led to the European Union Treaty, which was signed in Maastricht in February 1992. Upon completion by the member states of the ratification process, which required referenda in several countries, the European Union was established on November 1, 1993.

The European Union Treaty expanded the areas for integration to include defense and foreign policy, which were previously the exclusive concern of national authorities. Also, new institutions, such as the Regions' Committee, were established.

During the nineties considerable strides were made in the economic and monetary union process and in the mechanisms for the establishment of the single currency. On January 1, 1999 the euro was introduced and became the official currency of Germany, Austria, Belgium, Finland, France, Holland, Ireland, Italy, Luxemburg, Portugal and Spain.

The evolution of European integration demonstrates how the

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*The European Community's institutions' autonomous financial capacity played a key role in the progress of the integration proces.*

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gradual and step-by-step development of the process made it possible to perfect institutional structures and mechanisms strengthening, at the same time, the areas of integration and expanding the geographical boundaries by incorporating new members.

## II. On Latin America and the Caribbean

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A fifty-year process such as that of European integration is of such magnitude and complexity that it is difficult to assess its totality or even its more relevant aspects. Here we will only attempt to identify some issues that may allow us to continue strengthening our own integration process in the region and learn some specific lessons in this regard.

In the first place, as obvious as it may seem, the European integration process has been lengthy, it has unfolded along different stages and the ambitious achievements obtained during the last years may not be fully grasped without understanding its antecedents and the milestones achieved along the process, including the periods of stagnation. This does not mean that monetary union must be viewed as an objective unattainable by any other integration effort. However, it does mean that as regards, for example, the process of economic and monetary union, we must look back thirty years to find the first effort in this direction, the adoption of the Werner Plan, and consider the numerous stumbling blocs encountered along the way.

Another aspect that must be pointed out is the fact that the Community's institutions were financially autonomous, something we do not find in our region. Obviously this fact alone does not explain the dynamic role played by the European Commission, but it does appear as an indispensable element to exercise that kind of dynamism.

A third aspect that must be considered is the European process' institutional and organizational growth. The strides made in the development of institutions are apparent throughout the different stages of the Community's development: the creation of the customs union, the first expansion and consolidation, the incorporation of relatively less developed countries and the acknowledgment of differences between regions and, finally, the creation of the European Union. The process of institutional development touched upon the Union's norms and the functioning of its bodies (an example is Parliament's greater role or the growing importance of the European Court of Justice's dictates regarding community law) or led to the establishment of new fora (such as the European Council and the leadership role

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*The evolution of European integration demonstrates how the gradual and step-by-step development of the process made it possible to perfect institutional structures and mechanisms.*

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played by the heads of state and government in their periodic meetings, or the Region's Committee).<sup>1</sup>

Another issue that is relevant to our concerns is the relationship between institutional development and bureaucracy. This debate has permanently informed the evolution of the European integration process. It is related to the European Union's institutional complexity and is of foremost concern within our region when organizational developments are discussed. This issue has a negative side related to an excess of bureaucracy, but its counterpart is the institutions' growing organizational capacity, which allows for joint action to stimulate the integration process. During its long existence, the European Commission has provided perhaps the best and worse examples of this double tendency, but one cannot separate the European Union's success from the dynamic role played by the Commission.

There is no doubt that the European experience can teach us many more lessons. For our region European integration has always been a model to follow or disregard. On the one hand, many institutions that were born of the European experience have adopted different functions. Other organizational bodies have developed autonomously in our region. Therefore, in order to continue with our comparative analysis, we will now examine the institutional evolution of different sub-regional integration arrangements in Latin America and the Caribbean.

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### **III. Institutional Development and Integration in Latin America and the Caribbean**

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#### **1. The Andean Community of Nations**

The Andean Group, which recently adopted the name of Andean Community of Nations, is the integration arrangement with the most institutional development in Latin America and the Caribbean. Its evolution throughout more than thirty years has been marked by the creation and improvement of numerous community institutions and by a wide legal framework, all of which constitute the Andean Integration System.

The Cartagena Agreement, which created the Andean Group, was signed in 1969 by Bolivia, Colombia, Chile, Ecuador and Peru. In 1973 Venezuela, which had participated in the initial negotiations, joined the agreement while Chile decided to withdraw from it in 1976.

During the seventies progress was made in the definition of the fundamental goals regarding trade liberalization and industrial development. During this period the initial institutions were

established: the Commission, the political body; the Agreement's Junta, its technical organ, and the Justice Court, its legal body.

During the eighties the sub-regional integration process experienced a period of stagnation due to disagreements between some member states and particularly the debt crisis and the adjustment processes adopted by the entire region's economies. In order to overcome this situation, the Quito Protocol, which granted greater flexibility to the Cartagena Agreement's mechanisms, was signed in 1987.

During the nineties the process of Andean integration received a new push from the meetings of the Andean Presidential Council established in 1990. These twice a year summit meetings have granted the integration process much political support and dynamism through the so-called Presidential Guidelines.

In the mid-nineties the presidential meetings propelled the institutional reform process. Thus the Trujillo Protocol, which established the Andean Community of Nations and consolidates the Andean Integration System, was signed. The institutional structure was expanded to include the Andean Presidential Council and the Andean Council of Ministers of Foreign Affairs. Also a Secretary General with wider executive powers replaced the Agreement's three member Junta. The Protocol Modifying the Treaty for the Creation of the Andean Court of Justice and the Andean Parliament was also signed during this period.

In 1997 the Advisory Council of Ministers of the Economy and Finance, Central Banks and planning bodies was created within the framework of the process of coordination of economic policies and development strategies. Even though this body does not have a formal membership, it is a greatly important forum.

A wide network of legal norms developed throughout the integration process accompanies this complex organizational structure. The most important characteristic of the Andean legal order is supranationality, which distinguishes it from classic public international law. This supranationality is reflected, basically, in the "direct applicability" (norms need not be ratified at the national level as they become valid upon official publication) and "preeminence" of community norms, consecrated by the Treaty for the Creation of the Cartagena Agreement's Court of Justice, which entered into force in 1983.

### **A. Some Thoughts on the Andean Experience**

Compared with other integration arrangements within the

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*The most important characteristic of the Andean legal order is supranationality, which distinguishes it from classic public international law.*

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region, the Andean integration process is the most institutionally complex and dynamic one as far as organizational development is concerned.

Not only is its organizational structure complex, it is also the one sub-regional initiative that most closely resembles the European Union's institutional dexterity. Nevertheless, even though its achievements in the field of economic integration are many, there does not seem to be a direct relationship to the high level of institutional development achieved. Other political and economic issues have played an important role, just as other limitations have hampered the achievement of greater goals.

The nineties represented a period of growth and consolidation of the process, one in which the heads of state played a crucial role. The presidential meetings not only granted impetus to economic integration, they also made it possible to expand integration to other areas such culture, society and politics, which had not been dealt with until that time.

It is notable that the Andean process' institutional network corresponds to the vast number of areas covered by sub-regional integration. The different regional bodies and

Agreements have expanded the scope of sub-regional integration to include significant progress in areas such as education, public health, social services, to cite a few.

The Court of Justice, which plays a key role in the settlement of disputes between members, is another noteworthy aspect of the Andean integration process, as is the supra-national nature of its laws. This is something that greatly differentiates Latin American and Caribbean integration from other integration arrangements and the experience in this field should be analyzed in depth when the time comes to consider modifications in this area.

## 2. The Caribbean Community (Caricom)

The Caribbean Community (Caricom) was established in 1973 among several Caribbean countries and territories, signatories of the Chaguaramas Treaty. As was the case in other parts of the region, the Caribbean integration process experienced a relative slowdown during the 80's. However, in the 90's Caricom member countries reinforced their regional ties and adopted an outward focused, growth-oriented strategy geared towards a more efficient integration of their economies into the global market. At the present time, Caricom is evolving from a free trade area and tariff union into a trade union. Six of its members, belonging to the Organization of Eastern Caribbean States, have already adopted

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*The nineties represented a period of growth and consolidation of the Andean integration process.*

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a common currency, managed by a common central bank. Furthermore, Caricom holds a long standing regional cooperation experience in areas of mutual interest such as foreign policy, health, education, tourism, natural disasters and other fundamental social and economic development areas.

The Caribbean Community's main bodies are the Conference of Heads of Government and the Council of Ministers. The Conference is the Community's highest authority and it is made up by the heads of government of the member countries. As such, the Conference approves the policy guidelines of the Community and gives final approval to international treaties. The Council brings together each member country's ministers in charge of Caricom affairs as well as other ministers appointed by the governments. The Council is responsible for the organization's strategic planning and for coordination in the fields of integration, functional cooperation and foreign affairs. There are four other ministerial-level councils: the Councils on Trade and Economic Development, Foreign and Community Affairs, Human and Social Development, Planning and Finance.

Caricom's General Secretariat, under the authority of its Secretary General, coordinates and gives support to the meetings held by the Community's bodies and institutions and is responsible for a permanent follow-up of all programs and projects.

As regards functional cooperation, a number of specialized institutions exist, covering areas such as natural disasters, meteorology, food and agriculture, health, education and tourism, among others. The Caribbean Development Bank (CDB) is an associate institution covering the field of financing for development.

In recent years, progress has been made towards the establishment of legislative and legal bodies. In 1996, a Caricom Parliamentary Assembly was instituted. In July 1999, the heads of government adopted the decision to create a Caribbean Court of Justice, which will function as court of last appeal.

During the 90's, Caricom introduced important institutional and normative changes in order to advance regional integration. Considerable efforts have been devoted in recent years to achieve a Caribbean unified economy and market that would encompass not only a common market but also harmonized macroeconomic policies. Member countries have undertaken a revision of the Chaguaramas Treaty in order to fully implement the Free Trade Area and Tariff Union by way of a Common External Trade Tariff, and further still, to establish clear guidelines as regards free mobility of capital, labor and services. The

nine protocols amending the treaty have already been signed<sup>2</sup> and four of them have entered into force on a provisional basis while all the Member States complete the formal ratification procedures.<sup>3</sup>

The complexity of trade negotiations presently underway at the regional and global levels has required a great effort from the governments of the region. In 1997 the Member States established the Caribbean Regional Negotiating Machinery for International Economic Negotiations (RNM), taking into account both the on-going tariff union process and the need to pool human resources. The RNM has made important contributions to the definition and implementation of common negotiating strategies in relation to the WTO, the FTAA, the EU and the United States. The RNM played an important role in the EU – ACP negotiations and the agreement signed in 2000 in replacement of the Lome Convention represents an important institutional achievement for Caricom.

### **A. Some Thoughts on the Caribbean Integration Experience**

Caricom is a regional organization with particular characteristics that merit special attention. First of all, it is to be noted that from its inception Caricom's goals have gone well beyond economic concerns, such as regional integration and the creation of a common market, to reach into the establishment of a Community among all Caribbean nations. Such an advanced concept of integration has been at the origin of an intensive process of cooperation in many areas, including foreign affairs.

It is precisely in the field of a common external projection that an institution without precedent in Latin America and the Caribbean's integration experience, such as the Regional Negotiating Machinery for International Economic Negotiations (RNM), was created. This permanent body has not only allowed for an optimal use of always scarce high-level and experienced international economic negotiators but has also, by its own existence and work, fostered the development of a common trade negotiating policy. Such an experience should be studied in order to seriously consider similar mechanisms in other sub-regional organizations. The complexity of simultaneous negotiations at the regional, hemispheric (FTAA), interregional (negotiations with the EU for the renewal of the Lome Convention), and international levels (WTO), require institutional ways and means capable of generating consensus and coordinated positions in order to bring together diverging interests within each sub-regional integration entity, insure more effective representation

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*The complexity of trade negotiations presently underway at the regional and global levels has required a great effort from the governments of the region.*

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*During the 90's the Central American integration process regained its vitality and progress was made in the areas of institutional and organizational reform.*  
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and improve the negotiating capacity of our countries in their external relations.

Caricom has also developed a vast network of related institutions and an extensive pattern of intergovernmental, private sector and NGO meetings. This 'institutional density' and the consequent development of formal and informal networks have made it possible for Caribbean integration to gain strength in a considerable number of areas.

Also to be noted is the existence of a permanent organizational structure. The General Secretariat, to which human and budgetary resources are allocated, gives support to the Community's high level of activity in a wide range of issues.

An issue of particular relevance, to be noted within the scope of Caricom's institutional reform process, is that such reform has not only, by way of the protocols amending the treaty, developed the legal basis for perfecting the common market. It has also incorporated the adoption of decisions by the majority principle, thereby overcoming the unanimity or consensus rule prevailing in other Latin American regional integration organizations.

### 3. Central American Integration

The Central American General Treaty on Economic Integration (1960) is the framework agreement for integration in Central America. During the 80's, the process suffered the consequences of the conflicts affecting the region. In 1990, in the context of the Esquipulas peace process, the Central American Presidents held the Antigua (Guatemala) Summit focusing on economic development planning at the regional level. It was agreed to develop a new legal and institutional framework for the Central American integration process and, thereafter, the 'Tegucigalpa Protocol' was signed (1991).

During the 90's the Central American integration process regained its vitality and progress was made in the areas of institutional and organizational reform, allowing for the 1997 Presidential Agreement<sup>4</sup> in which the following reforms were adopted:

The presidential meetings became the highest-level authority for the Central American Integration System (SICA). Regular annual meetings, as well as extraordinary meetings, were instituted. The chairmanship was established on a six-month rotation basis and the General Secretariat of the System was designated to give administrative and technical support to the Pro Tempore Presidency.

The Council of Ministers established in the Tegucigalpa

Protocol was preserved and, at the same time, the Council of Ministers of Foreign Affairs kept its role as the main coordinating body of the Central American Integration System. It was also decided that the Ministers of the Economy, as members of the Council of Ministers, would constitute the Ministerial Council on Economic Integration.

The competences of the Central American Parliament were reviewed and its role as a main organ within the regional integration process was preserved, as was that of the Central American Court of Justice.

Since in Central America there are several secretariats giving support to the integration process in different areas, the Presidents fostered their unification. Such goal was later modified. The secretariats were preserved although greater coordination was required. The two main secretariats are the General Secretariat of the Central American Integration System (SICA) and the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA). Other specialized secretariats also exist.<sup>5</sup>

In the specific field of regional economic integration the following organs exist: the Ministerial Council on Economic Integration - integrated by the ministers belonging to the economic cabinets and the presidents of the Central Banks - has under its responsibility the coordination, harmonization, convergence or unification of the member countries' economic policies; the Council of Ministers on Economic Integration, bringing together both the economic integration ministers and those in charge of other policy areas; and the Sector Councils, which bring together ministers of the same areas.

There is also the Central American Bank for Economic Integration (BCIE) and the Economic Integration Consultative Committee (CCIE).

## **A. Some Thoughts on the Central American Integration Experience**

In the Central American integration experience the close links that exist between politics and economics have been apparent throughout the process. As regards economic integration, once the serious conflicts experienced by the region during the 80's were overcome it was possible to regain the time lost.

Just as was the case in other sub-regions, leadership by the heads of state was crucial for regional integration in Central America, not only as regards overcoming the crisis of the 80's but also to give impetus to a deeper integration process among the

five traditional isthmus countries and to reach towards new partners in Central America and the Caribbean.

This new integration impulse has been accompanied by revisions of the normative framework in order to allow for greater flexibility of options, particularly as regards economic integration. Such changes have fostered higher levels of integration and allowed for an expansion of trade and economic exchanges, even though the Central American Common Market has not yet been fully achieved.

Central America's long-standing integration process has given way to a considerable number of institutions, some of them of a permanent nature such as SICA or SIECA, and to a breadth of intergovernmental decision-making bodies, both at the ministerial and presidential levels. Peculiar to the Central America integration process are the fluidity and density of contacts among the different decision-making levels, including the presidents. In recent years such institutional diversity has, under presidential leadership, evolved towards greater coordination and, at the same time, has allowed for greater integration in many areas. This institutional structure, capable of preserving the bonds between the member countries even at the peak of the conflicts during the 80's, now faces new challenges derived from the more complex integration process that is taking place and from its enlargement to new members.

#### 4. The Common Market of the South (MERCOSUR)

Beginning in the early 80's, associated to the structural economic reforms implemented by the countries of the region, a renewal and re-launching of sub-regional integration processes took place in Latin America. The Asunción Treaty, signed on March 26, 1991, gave birth to the South Common Market, integrated by Argentina, Brazil, Paraguay and Uruguay. With a population of over 200 million and a GDP of over US\$ 800,000 millions, this new sub-regional area quickly gained attention. It did so also as a consequence of its ambitious goals: a common market for the free movement of goods, services, capital and people, and the coordination of economic policies among its member countries. Mercosur's importance and impact became all the more relevant as it drove decisively forward towards its stated goals, particularly after successfully concluding the so-called transition stage in December 1994.

To reach the goals set by the Asunción Treaty a mandatory chronogram of tariff reductions for trade among the member countries was adopted and successfully concluded by Decem-

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*Central America's long-standing integration process has given way to a considerable number of institutions, some of them of a permanent nature such as SICA or SIECA, and to a breadth of intergovernmental decision-making bodies, both at the ministerial and presidential levels.*

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ber 31, 1994. The Ouro Preto Protocol (December 1994), complementing the Asunción Treaty, formalized the achievements of the transition period: a free trade area, with only some exceptions to which time limits were set, and the establishment of a common external tariff. By January 1995 an 'imperfect' free trade area and a tariff union were established between Argentina, Brazil, Paraguay and Uruguay.<sup>6</sup>

The Ouro Preto Protocol equally established the final institutional framework for the Common Market on the basis of the experience gained during the transition period. During such period and in accordance with the provisions of the Asunción Treaty, two intergovernmental bodies were established: the Council and the Common Market Group. Three main organs thus govern Mercosur: the Common Market Council (CMC), the Common Market Group (CMG) and the Mercosur Trade Commission (MTC). Two consultation bodies also exist: the Parliamentary Commission and the Economic and Social Consultative Forum. The Administrative Secretariat complements this structure and has technical support responsibilities.

The Common Market Council (CMC), as the maximum authority, adopts decisions by consensus with all four members present. The ministers of the economy and foreign affairs are its members but it can also include other ministers if so required by the issues under consideration. It holds ordinary meetings every six months and can hold extraordinary meetings in cases of urgency.

The CMC must, in accordance with the Asunción Treaty, meet in the presence of the Heads of State of the member countries. This has given the Heads of State a pronounced involvement in Mercosur issues and has granted Mercosur significant political support.

The *protomptore* Presidency, rotating every six months among the four countries, has also given strong impetus to the process. Every country explicitly adopts the commitment to advance the integration process and to achieve certain goals during its tenure.

The CMG is made up of four representatives of each of the four member countries. Representatives to the CMG are high officials from the ministries of foreign affairs, economy, trade and the Central Banks of each country. The foreign affairs representative is normally the national Mercosur coordinator.

The CMG has the responsibility to implement all the decisions adopted by the CMC and takes note of all the recommendations coming from sectoral working groups and specialized meetings. It adopts resolutions by consensus and in the presence of its four members.

The Mercosur Trade Commission, a new institution created by the Ouro Preto Protocol, has the responsibility to administer trade relations among the member countries and acts as a first instance for trade disputes settlement. It reports to the Common Market Group and it oversees and follows-up the implementation of Mercosur's trade policy measures both among the member countries and as relates to third parties. The Commission has ten sector-oriented technical committees and endeavors to reach decisions under the figure of recommendations. It approves by consensus directives of mandatory compliance by the Member States.

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*A first consideration as regards Mercosur's experience is the speed with which ambitious integration goals were achieved.*

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### **A. Some Thoughts on the Mercosur Integration Experience**

A first consideration as regards Mercosur's experience is the speed with which ambitious integration goals were achieved. The Southern Cone's integration was built upon a strong integration process between Argentina and Brazil, initiated in 1985 with the signing of the Iguazú Declaration by Presidents Raúl Alfonsín and José Sarney and continued up to the 1991 Asunción Treaty. Even so, its success, at least in terms of economic and trade integration, is all the more surprising and gratifying if considered in the light of the decades long history of failed regional initiatives.

Success can be ascribed to different causes but a crucial role has been undoubtedly played by the strong political will invested by the member countries and by the full satisfaction of the commitments entered upon in the Asunción Treaty. As already mentioned, the adoption of a mandatory tariff reduction program and its implementation during the transition period allowed for the establishment of a free trade area and an imperfect trade union in a relatively short time. As such it was a positive experience that well deserves to be replicated elsewhere.

Direct involvement by the governments of the member countries—presidents, ministers, and high-level negotiators—is another positive and noteworthy aspect of the Mercosur formative process. Mercosur is an intergovernmental process practically devoid of 'community' components. A positive trait during the formative period this seems now to have become a negative one in the current stage of consolidation and development.

Mercosur's weakness from the institutional perspective, even when compared to other regional experiences, does not facilitate institutional solutions to conflicts derived from the integration process. Beyond the limited responsibilities ascribed to the 'Administrative Secretariat', Mercosur lacks any permanent

community organ. This does not imply that a strong secretariat or a 'commission' would avoid conflicts of interest among the participating parties, governmental or not, but it could seemingly avoid intervention by highest-level decision makers in order to settle differences or solve conflicts. As is recurrently the case in other regions, new integration stages normally require institutional framework reformulations.

Another consideration is that even though intergovernmental mechanisms do not place obstacles to an expansion of integration towards other economic, social and cultural areas, the fact that coordination and follow-up rests solely in the governments would in fact hinder the development of stronger sub-regional integration.

There is no doubt that the conflicts pending from several previous stages cannot be totally overcome since their solution would require to articulate interests which are in opposition. Nevertheless, just as was the case during previous stages with good results, the adoption of legal commitments with mandatory compliance time frames, and the adoption of mandatory community rules may represent a positive lesson Mercosur can offer others as well as itself.

## **Concluding Remarks**

Some observations have been drawn here with the purpose of making a contribution to the debate on institutions and integration in Latin America and the Caribbean. The issue is judged to be crucial to a further development of regional integration.

A first observation is that a direct relationship has been perceived between institutional development and the scope and breadth of an integration process. The stronger institutional development is—whether at the level of legally binding rules, intergovernmental instances or permanent organizations—the greater the scope and wider the reach of the areas covered by the integration process; that is to say, the 'depth' of the process. A complex web of institutions and legally binding commitments would seem to generate a dynamics that, at least at the governmental levels, gives impulse to greater integration activity in a number of areas. Some doubts about this process arise when trying to ascertain the demonstration effect this process has on non-governmental actors, particularly in the economic field, since the latter would seem to be motivated by economic incentives and not by organizational requirements.

It is therefore difficult to establish a precise relationship between institutional development and the outcome of economic

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*The richness of institutional and organizational experiences both within and outside our region as regards regional integration suggests the possibility of transferring such experiences to other realities.*

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integration. Economic factors –national, sub-regional or international– and political factors –particularly at the domestic level– have a greater impact on the results achieved by economic integration than any particular modality of organizational structure. Although no direct relationship between organizational structures and the outcome of an integration process has been perceived, this does not imply that political or economic dynamics cannot be channeled into institutional or organizational frameworks. Nevertheless, some institutional factors included in the legal frameworks have indeed represented limitations in the political options available to governments, not so much as a consequence of the inviolability of accepted commitments as for the high political costs associated to certain actions. If such constraints have not always restrained initiatives deemed contrary to an integration process – the 80’s bear witness to such effect – in many occasions they have placed such limitations on the options as to harm the processes, particularly during the 90’s. The institutional factor is deemed to be of significant relevance when considering new avenues for the legal and institutional development of the region’s integration arrangements.

The richness of institutional and organizational experiences both within and outside our region as regards regional integration suggests the possibility of transferring such experiences to other realities. Obviously the particular political, economic, social and cultural conditions of certain countries and regions cannot be disregarded, nor can the particular structural or short-term characteristics of each situation. Although they must be assessed in the light of each sub-region’s reality and of each specific situation, some solutions must necessarily be taken into consideration as lessons drawn from specific institutional and organizational experiences.

1. In view of such dynamism, some of our region's experiences may appear as too static and conservative as far as institutional development is concerned.

2. Protocol I, in force since 1997, allowed for a restructuring of the Community's organs and for a revision of the decision making procedures, introducing a qualified majority vote requirement in some policy areas. Protocol II, relating to the right of establishment, provision of services and capital movements, entered in force provisionally in 1998. Other protocols signed in 1998 are focused on facilitating the functioning of the common market: Protocol III covers industrial policy; Protocol IV, trade policy; Protocol V, agriculture; Protocol VI, transportation; Protocol VII, differential treatment for less advantaged members of the Community; Protocol VIII, dispute settlement procedures; Protocol IX, compe-

tion policy.

3. The four protocols which are applied on a provisional basis are Protocols I, II, IV and VII.

4. See 'Lineamientos para el fortalecimiento y racionalización de la institucionalidad regional'. Document adopted by the Central American presidents on occasion of the XIX th. Summit Meeting, Panama, July 12, 1997.

5. Secretariat of Central American Social Integration (SISCA); Executive Secretariat of the Central American Commission on Development and the Environment (SE-CCAD); General Secretariat of the Central American Agriculture and Livestock Council (SG-CAC); General Secretariat for Central American Education and Culture Coordination (SG-CECC); Secretariat for Integration in Tourism (SITCA); and the Executive Secretariat of the Central American Monetary Council (SE-CMCA).

6. The free trade

area and the common external tariff do not cover the complete tariff schedule. Sensitive products were excluded from the FTA and incorporated in a gradual manner before December 1999 in the cases of Argentina and Brazil, an additional period being allowed in the cases of Paraguay and Uruguay. Some sectors, such as automobiles and sugar, are under a special regime allowing for a longer transition period. On the other hand, the common external tariff does not yet cover capital goods, computers, software and telecommunications equipments. Up to now, each Mercosur member country applies its own tariffs to these items. For capital goods, tariffs should stand at 14 % by January 2001 in the cases of Argentina and Brazil and by January 2006 in those of Paraguay and Uruguay. For computers, software and telecommunications equipments, tariffs should stand at a 16% level by 2006.



**The South American Summit and the Development of Utopia**

*The South American Summit, held in Brazil at the end of last year, brings to the fore once again the modalities, scope and persistence of the different arrangements currently developed within our region. The many and ever more frequent meetings held on this subject give rise to a fundamental question: Does their meaning and substance come to an end with the final declarations issued at the conclusion of such gatherings or are they true strides on the arduous road towards greater regional integration?*

**La Cumbre suramericana y el desarrollo de una utopía**

*La Cumbre Sudamericana realizada a fines del año pasado en Brasil vuelve a colocar sobre la mesa las modalidades, alcances y persistencia de las instancias de relacionamiento recíproco que existen entre los países de nuestra región. Las diversas interrogantes que giran alrededor de estas reuniones, cada vez más frecuentes, podrían sintetizarse en una disyuntiva de base: ¿La sustancia y el sentido de ellas se agota en las respectivas declaraciones finales, o son auténticos jalones en un camino, desde luego difícil, hacia grados crecientes de integración regional?*

**Le sommet sud-américain et le développement d'une utopie**

*Le sommet sud-américain qui s'est tenu à la fin de l'année dernière au Brésil a relancé le débat sur les modalités, la portée et le maintien des instances régissant les interrelations entre les pays de la région. Les diverses questions surgissant de ces réunions, de plus en plus fréquentes, pourraient se résumer à cette simple alternative: leur substance et leur signification se limitent-ils aux déclarations finales qui en découlent ou sont elles de véritables jalons sur la voie, incontestablement difficile, d'une intégration régionale de plus en plus poussée?*

**A Reunião de Cúpula Sul Americana e o desenvolvimento de uma utopia**

*A Reunião de Cúpula Sul-Americana realizada no final do ano passado no Brasil, coloca novamente sobre a mesa as modalidades, alcances e persistência das instâncias do relacionamento recíproco estabelecidas pelos países da região. As diversas inquietudes que surgem nessas reuniões, cada vez mais frequentes, poderiam ser sintetizadas numa disjuntiva básica: A essência e o sentido delas se esgota nas respectivas declarações finais ou são autênticas sacudidas num caminho difícil que vise graus crescentes de integração regional?*

# The South American Summit and the Development of Utopia

❖ **Juan Mario Vacchino**

*Director of Regional Development and Cooperation, SELA's Permanent Secretariat.*

## I. The South American Region: A Few Characteristics

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South America's territory is over 17 million square kilometers, which represent 85% of all of Latin America and the Caribbean and approximately 45% of the American continent as a whole. More than 340 million people live in South America. They constitute 67% of the whole population of Latin America and the Caribbean and 55% of the continent's total inhabitants.

If the region's territorial expansion and population are considerable, so is its variety of climates and natural resources. Only its Andean region is endowed with one fourth of the planet's biodiversity.<sup>1</sup> Therefore, it is not surprising that the population, resources and territorial extension of South America should elicit positive remarks and that expectations should arise regarding its economic and social progress.

Nevertheless, the region's many harmonious characteristics hide equally many uneven traits: On the one hand, the territorial concentration of its population and large unexplored areas; the marginalization of a significant portion of the population and vast unbalances between the levels of income and quality of life of social groups within each of its countries. Vulnerability, inequality and stagnation are some of the conditions that define the countries of the region and explain their backwardness in social, political, economic and cultural areas.

On the other hand, the twelve South American countries are considerably different in their territorial extension, number of people and per capita income<sup>2</sup>. They also belong to different sub-regions and integration arrangements, such as the Andean Community of Nations (CAN); the Common Market of the South (MERCOSUR), with four member countries and two associate countries, Chile and Bolivia; and, finally, Surinam and Guyana, which belong to the Caribbean Community (CARICOM).

Amongst the many remedies that have been applied to

address regional problems, regional integration has been the most pursued and the one that has generated the highest expectations during the last decade, as it is viewed as part of a strategy aimed at obtaining a better insertion into the international system.<sup>3</sup>

## **II. Foreign Relations Strategies**

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Faced with external challenges and internal needs, the South American countries, like all the other countries of the region, have developed different foreign relations strategies regarding different geographical areas, in a sort of related concentric circles whose borders are barely defined, even though priorities are clear.

Thus, the following associations have developed: a) at the sub-regional level with geographically close countries, as in the case of MERCOSUR and CAN, within South America<sup>4</sup>; b) with other Latin American and Caribbean countries, in trade organizations such as the Latin American Free Trade Association and the Latin American Integration Association (ALALC/ALADI) and the Association of Caribbean States (ACS), cooperation associations such as the Latin American Economic System (SELA), or political gatherings such as the Group of Rio, which has a regional vocation and scope<sup>5</sup>; c) with the other countries of the continent, at the economic and trade level in the Free Trade Area of the Americas (FTAA), at the political and cooperation level in organizations such as the Organization of American States (OAS) and at the financial level in the Inter American Development Bank (IDB); d) with countries and regions from other continents, such as relations with the European Union (EU), at both the regional and sub-regional level or with groups of countries (as in the case of relations between the Ibero American countries and Spain and Portugal); and e) with the international community, for example, the World Trade Organization (WTO), the International Monetary Fund (IMF) or the World Bank (WB).

A new geographical and political dimension must be added to these multiple foreign relations modalities adopted so far: South America as a whole, an entity that recently has acquired impetus. This new dimension is the concern of this paper.

## **III. Integration During the Seventies and Eighties**

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Between the decades of the seventies and eighties the South American countries participated in several regional and sub-

regional integration projects concerned with trade or cooperation in different fields.

ALALC, created in 1960, was the pioneer of all such efforts and the one with the widest regional reach. The Southern Cone countries, Argentina, Brazil, Chile and Uruguay, proposed the creation of a free trade area, open to other Latin American countries, that would allow them to expand their bilateral trade relations and benefit from GATT rules that allowed free trade areas an exception to the most favored nation clause regarding their reciprocal trade. This minimalist version prevailed over ECLAC's proposal to create a regional market to overcome through import substitution policies the limitations faced by the industrialization process all countries of the region were then engaged in.<sup>6</sup>

The treaty was signed in Montevideo initially by Argentina, Brazil, Chile, Paraguay, Peru and Uruguay, and eventually by Mexico. Colombia and Ecuador joined almost immediately, followed, somewhat later, by Bolivia and Venezuela.

ALALC's role as an umbrella to prevent the extension to third parties of the benefits agreed amongst its members is well known. It is also common knowledge that ALALC could not make progress in the establishment of a free trade area beyond a certain point (set by the natural complementarity between the production systems of its members) and that its lukewarm differential treatment did not meet the expectations of the countries with a medium level of development nor of the less developed ones. Not surprisingly, the organization went into stagnation. To rescue it, a new agreement was negotiated, the 1980 Montevideo Treaty and a new organization was created, ALADI, comprising the same ten South American countries plus Cuba.

ALADI's member countries sought to establish an economic preferences area through the implementation of just a few mechanisms: gradual and progressive regional tariff preferences, compared with third countries, and regional and limited scope agreements, open to participation by other countries and integration areas of the region and other developing countries. Limited scope agreements were to be the major promoters of this process (they do not involve all member countries), thus keeping to a minimum the number of regional instruments such a regional tariff preference.

Much has been said about ALADI as a successor of ALALC. To summarize, we could say that an increasing number of trade agreements between pairs or groups of South American coun-

tries and countries from other parts of the region developed within its institutional framework and that this was made possible by the "legal umbrella" resulting from GATT's enabling clause, which freed them from extending to third parties the benefits and advantages they negotiated among themselves.

Unsatisfied with ALADI's results, its smaller market and less developed countries created, in 1969, the Andean Group, the most ambitious and complex integration arrangement ever attempted in South America. Other integration and cooperation efforts followed it, particularly in the area of infrastructure, such as the Cuenca del Plata and the Amazon Pact. However, the major integration push occurred during the eighties, with the progressive return to democracy and the efforts made to transform rivalries into cooperation relations, particularly among Southern Cone countries. The creation of MERCOSUR and the incorporation to it of Chile and Bolivia as associated countries, the transformation of the Andean Group into the CAN, the Paraguay-Paraná waterway, the strengthening of the Andean Development Corporation (CAF), are some of the manifestations of the new integration push of the nineties.

#### **IV. The Nineties: Success and Failure**

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During the nineties South American countries, like the rest of the region, began or intensified a number of internal institutional reforms that had international repercussions. Amongst them, the privatization of public sector enterprises, open to national and international firms, which began as a way to reduce the foreign debt and the fiscal deficit and became one of the pillars of the structural reforms implemented by the countries of the region. As a result, a good number of public enterprises were privatized in areas as diverse as banking, insurance, telecommunications, airlines, roads, ports, electricity, sanitary services, petroleum and trade.

On the other hand, one of the policies with the greater impact on the economies of the region and their insertion into the international market was the liberalization of trade. The unilateral reduction of tariff levels and simplification of tariff structures by almost all countries of the region were accompanied by the elimination of quantitative prohibitions and restrictions. This injected new life into both exports and imports. In the case of intra-regional trade, it reached again and even exceeded the levels registered before the debt crisis. Intra-regional trade, a good indicator of the level of integration achieved by each multinational group, grew significantly also within the CAN and

MERCOSUR. Both arrangements were able to establish free trade areas and imperfect customs unions. Moreover, negotiations have begun to establish a free trade area between both groups.

The economic changes, together with larger exports and foreign capital inputs and fiscal reduction and monetary stabilization policies, resulted in greater growth rates and lower inflation levels. As a result, the region's average annual GDP growth rate grew. Nevertheless, because of the international financial crisis and its contagion effect, the nineties ended on a negative note for South American countries. Capital inflows fell abruptly while capital remittances abroad increased sharply, raw materials' prices fell, economic growth stagnated or was negative and unemployment and poverty increased.

During the last years of the past decade the crisis expanded to sub-regional integration arrangements, particularly their trade flows, creating trade conflicts and political crises between member countries that have not been overcome yet, even though some positive signs are becoming apparent as a result of the recent improved economic performance of most South American countries.<sup>7</sup>

## V. The SAFTA, Idea and Project

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To counterbalance the North American Free Trade Area (NAFTA) and the United States' initiative to create a Free Trade Area of the Americas (FTAA), in 1993 Brazil proposed the creation of a South American Free Trade Area (SAFTA). Even though this idea did not become a project to be considered in formal discussions, as in the case of the FTAA, some progress has been made in partial negotiations among South American countries.

The future of the SAFTA discussions is being held in the balance by the current negotiations between the Andean Community and MERCOSUR<sup>8</sup>. According to the framework agreement for the creation of a free trade area between both blocs, signed on April 16, 1998 in Buenos Aires, the first stage covering the negotiation of a tariff preference agreement based on the historic patrimony negotiated within ALADI, with the possible inclusion of new products, was to conclude by September 30, 1998. During the second stage, from October 1, 1998 to December 31, 1999, a free trade agreement was to be negotiated, covering the products agreed upon during the first stage and all the others. The agreement was to enter into force by January 1, 2000.

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*During the last years of the past decade the crisis expanded to sub-regional integration arrangements, creating trade conflicts and political crises between member countries.*

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Because of complications encountered during the negotiations, particularly regarding agricultural trade, this schedule had to be modified and countries entered into partial negotiations.<sup>9</sup> In August 1999 Brazil and the CAN signed an Economic Complementation Agreement as a first step towards the creation of the free trade area. Argentina and the CAN signed a similar agreement on June 29, 2000.<sup>10</sup> At the South American Summit, the heads of state of MERCOSUR and the Andean Community decided to initiate new negotiations to establish, before January 2002, a free trade area between both groups.

As opposed to hemispheric negotiations, those underway between MERCOSUR and CAN are based on greater cultural and structural affinities; however, trade links between both groups are weaker. Indeed, in 1999 MERCOSUR's exports to CAN represented only 4.2% of its total exports (around US\$ 3,200 million) and CAN's exports to MERCOSUR only 3.5% of its total exports (US\$ 1,500). In 1999 these represented only 2.9% of CAN's total exports.<sup>11</sup>

Should South American integration make sufficient strides by the year 2005, it is possible that its members could join the FTAA "as members of a sub-regional integration group that negotiates as a unit", according to the level of unity obtained to such effect. This could favorably influence the hemispheric process in two ways: on the one hand, it would strengthen the negotiating capacity of South American countries as a whole; on the other, it would simplify hemispheric negotiations during their final stage since negotiations between individual countries could be replaced by negotiations between large sub-regional blocs.<sup>12</sup>

## **VI. The First South American Summit**

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The First Meeting of South American Presidents was held in Brasilia on August 31-September 1 of the year 2000, within the framework of the commemoration of the 500 years since the discovery of Brazil, and by invitation from Brazil's President, Fernando Enrique Cardoso. The heads of state of twelve South American countries –Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guayana, Paraguay, Peru, Surinam, Uruguay and Venezuela– participated in the summit, together with the presidents of the inter American Development Bank and the Andean Development Corporation. Mexico and regional organizations such as ALADI, ECLAC, BLANDEX, FONPLATA, PARLATINO and SELA participated as observers.

It was the first time in almost two centuries of independence

that a South American summit was held. The Minister of Foreign Affairs of the host country, Luis Felipe Lampreia, mentioned two questions that he was asked upon delivering Brazil's invitation: Why a meeting of South American presidents, since other regular meetings already exist that gather Latin American governments? And why now? Regarding the first question, he explained: "The twelve countries...share the same clearly defined geographical area. Practically an island, linked to the rest of the hemisphere by the Central American Isthmus". This justifies that South American countries should meet to discuss common issues and interests "derived from the undeniable fact of physical proximity." Regarding the second question, he explained that it is only now, with the recent return to democracy in South America, that the conditions exist to overcome obstacles, animosities and reciprocal mistrust and to convene this first presidential meeting.<sup>13</sup>

A forerunner of this initiative was Bolivian President Hugo Banzer's proposal to create a "Mechanism for Dialogue and Political Coordination for South American Integration", in order to establish the political conditions needed to give impetus and promote integration between MERCOSUR and the CAN. This proposal was presented during the XVI MERCOSUR Presidential Summit, held in Asunción within the framework of the ordinary meeting of the Andean Presidential Council. The specific objectives of such mechanism were defined as: the creation of the political framework to promote and consolidate the integration of the South American region; the organization of cooperation in areas of common interest and the development of joint actions to defend common interests within the international system.

In practice, this proposal was absorbed by Brazil's call, which included all South American countries (including Guyana and Suriname) and which was spurred somewhat "by the specific geographical character of South America, has naturally led to the definition of a common agenda of challenges and opportunities".<sup>14</sup>

Within this context, the "Brasilia Communiqué", which encompassed the results and agreements reached at the South American Presidential Summit, is divided into two main sections: the introductory section that includes the main political definitions and concepts agreed upon and another section that includes the understandings, conclusions and recommendations reached on the different issues that could benefit from a South American cooperation approach.

Among the pragmatic conclusions reached, the following stand out:



- 1) Peace, representative democracy and integration are indispensable elements to insure the region's development and security.
- 2) Political stability, economic growth and the promotion of social justice, in each of the twelve South American countries, will depend, to a great extent, on the expansion and strengthening of cooperation and of the network of reciprocal interests.
- 3) The commitment to integration in Latin America and the Caribbean, as foreign policy goals incorporated into the very national identity of the region's countries.
- 4) South America's sub-regional processes, such as MERCOSUR and its association agreements with Bolivia and Chile, the Andean Community and others, as well as others developed with other parts of the region, are considered the most dynamic elements of Latin American and Caribbean integration. Thus, to bring together South America is to strengthen Latin America and the Caribbean. Efforts to establish a free trade area of the Americas are also based on the consolidation of sub-regional arrangements.
- 5) South American borders must cease to isolate and separate to become a stepping-stone towards unity for the circulation of people and goods, thus creating a privileged cooperation area. Integration and the development of physical infrastructure are two areas of action that complement and strengthen each other, creating a momentum that must be stimulated.
- 6) The consolidation and implementation of the South American identity will also contribute to strengthen other regional organizations, mechanisms or processes of a wider geographical scope of which South American countries are members. In the political area, this refers particularly to the Group of Rio and the Organization of American States, the Summit of Heads of State and Government of the Americas or the Ibero American Conference, among others. Also, in the economic and trade area it refers to ALADI, SELA, the FTAA negotiations and it strengthens and complements bilateral and multilateral ties with other Latin American and Caribbean nations and countries of the continent and the world as a whole.
- 7) The cohesion of South America is an essential element for its favorable insertion into the world economy. By strengthening its integration and continuing, ever more efficiently, to act in a coordinated and solidary manner vis-à-vis the major issues on the international economic and social agenda, the region will be better able to face the challenges of globalization.

- 8) The launching of a new round of multilateral trade negotiations, which should include a clear commitment regarding access to and the liberalization of agricultural markets, as well as the elimination of distortions and subsidies in such priority markets, and the incorporation of special and differential treatment clauses that take into account structural differences and address with adequate instruments the needs of developing countries.

## **VII. Possible Areas of Action to Build a South American Area.**

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Even though the Brasilia Communiqué did not establish a complete program of actions, with stages, resources and modalities, it did provide governments and organizations with some guidelines and instructions in the five areas included in the Summit's agenda. These guidelines and instructions, pragmatically defined by the presidents, outline five important pillars on which to build the creation of the South American area: Democracy, as a foundation and institutional framework; trade, amply defined, as a vehicle and measure; integration's infrastructure, as a necessary condition; the fight against drug trafficking and related crimes, as an expression of moral strength and information, knowledge and technology, as keys to a better participation in a global world.

### **1. Democracy**

In order to strengthen "their unwavering commitment to democracy, peace and integration", the presidents committed themselves to perfecting the political regime and citizens' participation in democracy; promoting and upholding the rule of law and the efficient implementation of the principles of good governability and fighting corruption, among others.

Inspired by the "democratic principle" formally acknowledged by MERCOSUR, Bolivia, Chile and the Andean Community, they agreed that the preservation of the rule of law and a fully democratic regime in each of the twelve South American countries is a shared objective and commitment. To this end, they agreed to "carry out political consultations should a threat to democracy arise".

On the other hand, they agreed that poverty and marginalization threaten the region's institutional stability and considered it necessary to implement public policy actions to address the problems of malnutrition, access to education and basic health

services, in order to improve each country's human development index. In this regard, they took note with satisfaction of the signing, in June 2000, of the Buenos Aires Social Commitment Chart by MERCOSUR, Bolivia and Chile.

Governments will intensify their efforts to adopt measures to stop human rights violations and reaffirm their commitment to the Inter-American Human Rights Protection and Promotion System and to perfect it within the OEA. They also committed themselves to prevent the spread of racism and discrimination within South America and acknowledged that the World Conference on Racism, Racial Discrimination, Xenophobia and Related Forms of Intolerance offers an unprecedented opportunity to search for adequate answers within the international community.

## 2. Trade

The summit evaluated positively the strides made in the economic and trade integration process and the presidents expressed their willingness to strengthen such process according to the principles of "open regionalism". To this end, they set as their goal the creation of a South American economic and trade area resulting from the coordination of actions between MERCOSUR and the Andean Community and between integration arrangements and Chile, Suriname and Guyana. With this in mind, the heads of state of MERCOSUR and the Andean Community decided to initiate new negotiations to establish, in the shortest time possible and before January 2002, a free trade area between both groups. This will give impetus to a wider South American area, based on the progressive liberalization of trade in goods and services, the facilitation of investment and the creation of the necessary infrastructure.<sup>15</sup>

It was also emphasized that the creation of a wider South American area would strengthen South American countries' position in other negotiations such as those regarding the Free Trade Area of the Americas, the European Union or within the WTO. These negotiations can contribute to a better social and economic development and to obtain the full integration of South American countries to the international economy. Regarding hemispheric negotiations, the presidents reaffirmed their commitment to conclude them no later than the year 2005, on the basis of equality and balance and taking into consideration the different levels of development and the size of the economies involved in the negotiations. To this end, they agreed to intensify efforts to coordinate the South American countries' negotiating positions.

### 3. Integration's Infrastructure

On this issue, the presidents took note of the plan of action for the integration of the region's infrastructure, which contains proposals along a period of ten years aimed at expanding and modernizing South America's physical infrastructure, particularly in the areas of energy, transportation and communications. The plan also suggests the creation of a mechanism to follow up developments in this area.

Within this context, the presidents decided to instruct their governors and representatives in the IDB and other international financial organizations to propose, when necessary, the adoption of measures to implement the suggestions included in the plan of action in order to develop integration axes that may lead to a wider South American economic area. This idea of integration axes favors the execution of infrastructure projects aimed at the sustainable economic and social development of the regions involved.

In order to promote a regional line of action regarding the expansion and modernization of South America's infrastructure, the presidents decided to convene a ministerial meeting, to take place in Uruguay between November and December, to examine ways to stimulate the participation of the private sector in such process.

### 4. Illegal Drugs

Given the problems posed by illegal drugs and related crimes, the presidents agreed to strengthen cooperation in the areas of intelligence, the control and rerouting of chemical components, the control of gun trafficking and police operations. A formal consultations mechanism will be established between the entities in charge of fighting drug trafficking and related crimes.

They also reiterated their support for the search for sustainable alternative economic activities to insure an adequate livelihood for the people involved in the cultivation of illegal crops. They committed themselves to instruct their representatives to examine new ways to facilitate the access of alternative products to the regional market.

### 5. Information, Knowledge and Technology

Acknowledging the importance of the relationship between the production of science and technology and countries' development level, the presidents deemed it necessary to begin efforts

to connect the region to the world's internet centers, to provide advanced network services and to stimulate the establishment of research cooperation networks in strategic areas.

One of South American governments' greatest priority is to carry out joint efforts to develop basic technologies that may insure their countries' better insertion into the international economy, permanently incorporating new technologies, improve their exports' aggregate value and the region's competitiveness. Keeping in mind the Okinawa Communiqué of the year 2000, the presidents expressed their interest in developing actions with the members of the Group of Eight, particularly in the areas of information technology and biotechnology.

The host country announced the establishment of a South American Fund to stimulate scientific and technological cooperation and thus intensify contacts between the scientific and technological communities of South American countries.

### VIII. Are we on Time for an Integrated South America?

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While a wider South American area is not yet a reality, but rather a conceptual and ideological proposal, a process of coordination is taking place at the sub-regional level. This has given rise to a network of interrelations that could derive in an integrated structure.

Given the speed and strength of the globalization process we do not have much time to make this project a reality. Also, our countries are currently involved in a complex series of trade negotiations, both within the WTO and the hemisphere. In the case of the latter negotiations, following the change in the USA administration, a process centered on the USA could gain strength. This process, which already covers the NAFTA, Central America and the Caribbean (with their recent, even though limited, NAFTA parity) as well as bilateral negotiations with a South American country, could well expand to other countries of the region on a bilateral basis and based on NAFTA's framework.

Nevertheless, as was apparent at the summit, the only way a developing region can survive, preserving its character and autonomy, is by strengthening its integration and cooperation efforts, not just in the area of trade but also in the development of infrastructure and science and technology capabilities. If we do not make progress in these areas then the reciprocal relations between the countries of the region will not be greater than their traditional ties with third countries.<sup>16</sup> Should this occur, our

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*While a wider South American area is not yet a reality, a process of coordination is taking place at the sub-regional level. This has given rise to a network of interrelations that could derive in an integrated structure.*

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countries will be absorbed into larger areas resulting from the projects and the initiatives undertaken by those countries that govern the globalization process.

The Brasilia Communiqué pointed out important actions and processes that could play a determining role in ushering future action. These are: the adoption of the democratic clause for the whole of South America and the creation of a South American Peace Zone; the establishment, within a short period of time, of a free trade area between MERCOSUR and CAN; the implementation of a plan of action for the integration of South America's infrastructure; the creation of cooperation research networks in strategic areas and other cooperation modalities.

However, these modalities of action will only become a reality at each country's level, under joint guidance, as the presidents envisioned<sup>17</sup>, if the summit meetings are continued and focal points are singled out within each country to implement the commitments adopted within the South American region and as regards its relations with the rest of Latin America and the Caribbean. We must understand that the South American area is but another important step towards the integration and development of the whole of Latin America and the Caribbean. We must also avoid the repetition of efforts or inconsistencies between the commitments adopted by the different countries in different fora, since these may become obstacles to future commitments.

Nor is it a question of creating new institutions or means for action, but rather of taking full advantage of the existing ones. Within this context, SELA, in coordination with other institutions in the region, could be the forum in which to exchange experiences and identify cooperation modalities and instruments, at least as regards relations between South America's regions and other sub-regions of the vast Latin American and Caribbean area.<sup>18</sup>

## Notes

1. According to the first regional round table on bio-security, held in January 2001 in Santa Cruz, Bolivia, and organized by CAN's General Secretariat.

2. Particularly noticeable are differences between Surinam and Guyana, on the one hand, and Brazil and Argentina, on the other. The territory of Brazil is

8.5 million square kilometers, its population is 164 million and its per capita product \$3,200. While Argentina's extension is of 3.76 million square

kilometers, its population 36 million and its per capita product \$6,400. On the other hand, Suriname's territory is of 163 thousand square kilometers, its population 415,000 people and its per capita product \$760. Guyana has 176,000 square kilometers, 787,000 people and a \$743 per capita product (See "Keys to South America and the Caribbean", 1999, in its SELA web site version).

3. In terms of physical infrastructure, other initiatives are the Cuenca del Plata and the Amazon Cooperation Agreements.

4. See the document "Latin America and the Caribbean's Insertion in the Globalization Process of the World Economy," (SELA/SP/XXVI.0/DT No.8, October, 2000), which analyzes the region's insertion modalities and the possible scenarios to define a future strategy, in the belief that the insertion into the world economy and inte-

gration in the region are complementary processes.

5. The Group of Three is not based on such regional proximity, since its members are Colombia, Venezuela and Mexico.

6. The treaty was signed in Montevideo, initially by Argentina, Brazil, Chile, Paraguay, Peru and Uruguay, and later by Mexico. Colombia and Ecuador joined almost immediately and Bolivia and Venezuela much later.

7. SELA's papers have examined other relations and perspectives. See: **Globalization, Insertion, Integration: Three Major Challenges for the Region** (SELA, SP/Di No. 8-2000) and "Challenges for the New Century: International Insertion and Regional Integration in a Globalization Scenario", *Capitulos del SELA*, No.60, September-December 2000.

6. In a recent interview ("CAN and MERCOSUR,

Regional Integration's New Dimension"), Sebastian Alegrett, CAN's Secretary General, defines the coordination between CAN and MERCOSUR as the key to South American integration.

9. In the negotiations between both groups the major difficulties encountered referred to CAN's normative agreement to protect agricultural products, an area in which MERCOSUR countries are highly competitive, and the different dispute settlement regimes. The CAN has a supra-national body, the Andean Court of Justice, whereas MERCOSUR has an ad-hoc mechanism.

10. The agreement includes 2,608 tariff classifications, which represent around 92% of Andean countries' total exports to Argentina. (On this issue, see the Andean Community's web page).

11. See "Latin America and the Caribbean's

*Integration Guide, 1999*", SELA's web site.

12. *Op. Cit.*, see previous note.

13. See Luis Felipe Lampreia: "The South America and Brazil Summit", *Venezuela Analitica*, January 23, 2001.

14. See Luis Felipe de Seixá Correa, *Brazil's Secretary General for Foreign Relations*, in *Correio Braziliense*, August 22, 2000: "In a very short period of time...starting with the creation of MERCOSUR and the strengthening of Brazil's ties with the other countries of the continent, the concept of South America, which did not appear on the diplomatic agenda, was felt... it requires a true

redefinition of our international performance".

Lampreia adds: "The consolidation of the concept of South America will be, therefore, a novel contribution to the Latin American and Caribbean integration process". (See [www.mre.gov.br/projeto/mreweb/espanhol/discursos](http://www.mre.gov.br/projeto/mreweb/espanhol/discursos)).

15. The process of rapprochement between CAN and MERCOSUR should lead to the consolidation and strengthening of each group's integration process and to a growing coordination between both .

16. See an analysis of the conditions for the creation of an integrated whole in Juan Mario Vacchino and Telasco

Pulgar: "Coordination of Integration Agreements and the Latin America Community of Nations". (SELA/SP/DD/IICSLA/Di No. 1, April, 1998).

17. To this end, the presidents decided to instruct their ministers of foreign relations to appoint, in coordination with the competent areas, focal points for the implementation of the commitments embodied in the Brasilia Communiqué.

18. On SELA's tasks and possibilities for action, see the speeches of all its former secretaries published in *Capítulos*, No.60, September-December 2000, an issue dedicated to an overview of SELA's 25 years of history.



### **Integration as a Social Development Alternative**

*The author of this article argues that the almost exclusively trade dimension of our integration arrangements will soon wear out. Therefore, in order to consolidate the integration process other cultural, political and social objectives must be sought that may stimulate new types of interrelations and exchanges between our societies. He adds that social issues are yet to be considered in depth by the region's integration arrangements and points to some elements that could be taken into consideration when drawing a "common social agenda".*

### **La integración como alternativa de desarrollo social**

*El autor del siguiente artículo sostiene que el contenido casi exclusivamente comercial que ha registrado el proceso de integración en nuestra región está amenazando con agotarse, por lo que la consolidación de ese proceso exige su proyección hacia metas de otro orden, como las de carácter político, social y cultural que propicien nuevas interrelaciones e intercambios entre las sociedades de los países involucrados. Sin embargo, agrega, el tratamiento de la cuestión social al interior de los esquemas integracionistas se encuentra en un estado embrionario, por lo que pasa a señalar algunos elementos que podrían ser tomados en consideración al momento de elaborar una "agenda social común".*

### **L'intégration en tant qu'alternative du développement social**

*Le contenu presque exclusivement commercial du processus d'intégration dans notre région risque de se tarir, soutient l'auteur de cet article; pour consolider ce processus il convient de l'orienter vers des objectifs d'un autre ordre, notamment politique, social et culturel, de façon à encourager de nouveaux types d'interrelations et d'échanges entre les sociétés des pays concernés. Le traitement de la question sociale dans le cadre des schémas d'intégration demeure cependant à l'état embryonnaire, ajoute-t-il, signalant ensuite certains éléments qui pourraient être pris en compte pour l'élaboration d'un «agenda social commun».*

### **A integração como alternativa de desenvolvimento social**

*O autor deste artigo assevera que o conteúdo quase que exclusivamente comercial do processo de integração na nossa região está a ponto de esgotar-se, razão pela qual a consolidação desse processo exige sua projeção em objetivos de outro tipo, como os de caráter político, social e cultural que propiciem novas inter-relações e intercâmbios entre as sociedades dos países envolvidos. No entanto, afirma, o tratamento do problema social dentro dos esquemas integracionistas está num estado embrionário; por tal motivo destaca alguns elementos que poderiam ser levados em conta no momento de elaborar uma "agenda social comum".*

# Integration as a Social Development Alternative

⇒ **Telasco Pulgar**

*Chief of Projects, SELA's Permanent Secretariat*

## Introduction

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To achieve of integration together with equity and positive social effects among the people of the countries committed to the different integration arrangements, particularly in Latin America and the Caribbean's sub-regions—the Andean Community, the Central American Integration System and MERCOSUR—appears to be our last opportunity to successfully consolidate integration as an alternative development process for our countries. This is because due to globalization social policies have been gradually transnationalized and have become an integral part of international economic relations<sup>1</sup>, and also because trade as an initial, though questionable, way to generate a real interdependence between autonomous integration processes is threatening to come to an end. The consolidation of the results achieved so far in this area requires the redirection of our efforts towards new political, social and cultural goals that may give rise to new interrelations and exchanges between societies.

The different sub-regional integration arrangements have begun to reactivate, to a lesser or greater extent, the social and cultural objectives of integration, which are traditionally mentioned in agreements. These issues are now increasingly incorporated into the agendas of regional organizations such as ECLAC and SELA, which have joined efforts to collaborate with the government agencies responsible for the implementation of the so-called social agenda of integration. On the other hand, today more than ever integration is viewed as a strategic tool to counterbalance the negative effects of globalization and lessen the social deficit that hovers over the countries of the region. Many recent developments have given rise to a discussion and analysis of the social dimension and the need to incorporate it into integration efforts. Thus, a certain methodology has developed and the main social issues have been defined in a way that has enriched integration arrangements.

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*Today more than ever integration is viewed as a strategic tool to counterbalance the negative effects of globalization and lessen the social deficit that hovers over the countries of the region.*  
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## **I. The Current Social and Economic Environment**

The annual reports issued by international and regional organizations and institutions on the evolution of Latin American and Caribbean countries coincide in pointing out that even though their macroeconomic variables have improved significantly, fiscal deficits and inflation decreased and exports and thus foreign currency inflows increased, their performance regarding employment levels, the decrease of poverty and greater social equity has been disheartening.<sup>2</sup> It is estimated that unemployment levels have increased systematically since the nineties, so much so that urban unemployment has doubled as salaries have decreased dramatically in real terms. Inequality and social exclusion have deepened and Latin America and the Caribbean are still classified as the region with the highest levels of inequality in the world<sup>3</sup>. Thus, the benefits of economic growth do not reach the poorer sectors of the population.

This situation is a result, on the one hand, of the historical social and economic unbalances that have characterized the countries of the region and, on the other, and to a greater extent, of the profound trade and economic reforms adopted since the seventies. These reforms emphasized a policy of indiscriminate economic liberalization, deregulation and the market, without providing mechanisms for the redistribution of income, nor permanent social programs aimed at compensating the effects of macroeconomic adjustment policies on the poorer sectors of the population.

At the same time,<sup>4</sup> this situation is the result of globalization's contradictory and negative effects on the economies of the region.<sup>5</sup> On the one hand, the transnationalization of production accelerated by globalization does not precisely create productive employment in the countries receiving direct and even new investment.<sup>6</sup> At the most, it creates a growing demand for highly qualified workers, thus causing a decrease in employment among less skilled workers. As for managerial positions, transnational corporations tend to rely on personnel from the main office. Moreover, "the electronic revolution and the progress made in data processing and information transmission have facilitated this decision making process and this type of production organization by enterprises worldwide" (Ferrer, A., 1998). On the other hand, because of the profound scientific and technological transformations of the last decades—particularly in the field of information and telecommunications— which are precisely

transnationalized by globalization, the number of workers needed has decreased. The modification of management procedures and organization has reduced to a minimum the number of workers needed for production. In fact, generally the activities that generate the highest employment levels are those aimed at meeting the internal demand and the enterprises involved in such activities are not precisely exporting firms but rather local, medium sized and small firms active in the whole chain of production.<sup>7</sup>

In other words, the globalization process that began with the internationalization of markets and foreign direct investment – its more evident manifestation – has also increased poverty, social exclusion and unemployment. “Inequality and exclusion are also major traits of globalization” (UNDP, 1999), so much so that the most recent UNCTAD conference, UNCTAD X, in its final document, the Bangkok Declaration, acknowledged that the asymmetries and unbalances, as well as the marginalization of poorer countries and society’s most vulnerable groups, have increased in step with globalization.

Within this context, the concept of mobilizing internal resources towards production, trade and services through public development policies that may contribute to employment while at the same time take advantage of the benefits that may derive from globalization, or, in other words, without overlooking the possibility of “...regulating or channeling globalization”, developed.<sup>8</sup> This process will, in turn, depend on the quality of the adjustment, in fact, “...the impact of the changes may be positive or negative, that is, liberalization may bring about, for example, export or investment opportunities, just as it may cause risks, as demonstrated by the volatility of capital flows, particularly in Latin America and the Caribbean. The quality of the adjustment is what determines the difference between a positive or negative balance, between taking advantage of opportunities or paying for risks”.<sup>9</sup>

However, at the same time, we need to take into account that the only way the adjustment may be successful is through integration with social equity. We need policies that, besides insuring sustainable development and growing competitiveness at the international level, aim specifically at overcoming the serious social deficit. To this end, medium and long term economic policies must take into account social factors.<sup>10</sup> In turn, this type of integration requires the state to play a new role, developing medium and long term policies aimed at obtaining a

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*The globalization process that began with the internationalization of markets and foreign direct investment has also increased poverty, social exclusion and unemployment.*

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social, equitable and institutional development, sustained development levels and technological development.<sup>11</sup>

## II. Integration's New Role

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Within this framework, integration becomes one of the appropriate ways to maximize a country's own resources, based on the interdependency of relatively similar markets. Even though such interrelation grants greater priority to meeting internal markets' demand through a network of treaties and agreements, it may also provide the foundations for common projects, competitive access to international markets and, in general, taking advantage of globalization's opportunities while lessening its negative effects.

During the last years not only has the region's integration, at the sub-regional, multilateral or bilateral level survived in spite of globalization's strong divisive pull – apparent, among others, in the global dispersion of production and trade– it has also strengthened, becoming a valuable instrument to counterbalance the region's external vulnerability and benefit from the opportunities offered by development and international insertion. These are objectives that can hardly be achieved on an individual basis, given countries' limited markets and economic and technological resources. Also, a wider market buffers countries against the spread, through globalization, of such phenomena as inflation, recession or financial unbalances in the major world powers.

Nevertheless, the region's integrated areas continue to be too limited in size to allow its countries to meet the above objectives. Even the region's largest integrated area, MERCOSUR, was responsible for only 1% of world exports in 1996.<sup>12</sup> Thus the need to coordinate and harmonize the existing sub-regional integration efforts and agreements and to participate under better conditions in ongoing and future international and hemispheric negotiations. Harmonization implies, as well, making integration agreements compatible with social goals, that is, transforming such commitments into multi-dimensional political, economic, social and cultural processes that may mobilize all sectors of the population– businessmen, members of congress, intellectuals, workers and civil society<sup>13</sup> that play an increasingly active political and public opinion role.

As for the social dimension of this process, this paper's main concern, our countries have progressed beyond a view of

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integration based merely on trade. In an attempt to complement the liberalization of markets and overcome the inadequacies of past policies, the new commitments entered upon and the institutional reforms carried out now include social objectives, thus creating a more favorable environment for integration, one that "...may strengthen the complementarity between productive transformation and equity, competitiveness and social cohesion" (Vacchino 2000:p.100). Nevertheless, we must acknowledge that the consideration of social issues within integration arrangements is still a novelty and that common social policies are yet to be developed. In spite of the strides made in this area, the instruments and institutions that have been created to deal with these issues are still consultation mechanisms whose activities are limited to presenting proposals. Similarly, financial resources are not available nor are there common rules regarding the implementation of common social policies. Generally, social and political issues continue to be second to economic, trade and financial objectives. However, politically, the social question has always been present in integration commitments.

### III. Main Aspects of the European Integration Experience

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As opposed to developments in Latin America and the Caribbean, European integration was always concerned with the issue of distribution —of costs and benefits— and, therefore, with asymmetries, particularly in the labor sector. Significant community fiscal resources are permanently assigned for two crucial purposes: one, to promote the propagation of growth and integration's benefits from the higher development regions to the lesser income or more economically backward ones and, two, to guarantee social cohesion as the process deepens. It should be pointed out that both policies are part of a whole and are based on a high level of supra-nationality, in other words, they are of a communitarian character, something still lacking in the Latin America and Caribbean process.

The continuity of these policies, even given all the difficulties they encountered, is another characteristic of the European process<sup>14</sup>. Such perseverance culminated, in 1997, with the Amsterdam Treaty, which unifies and gives coherence to a community social policy and includes some novel developments in the social and employment areas. The 1951 Treaty of Paris was the forerunner of what we call today the European Social Area. It established the first social commitments and created the

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European Social Fund. Such commitments were later strengthened and improved systematically through the introduction into the community's legal system of several instruments such as the First Social Action Program of 1974; the second Program of 1984; the European Single Act of 1987; the European Union Treaty of 1992; the so-called Green Book of 1993 on the future of Europe's social policies and the 1994 White Book on growth, competitiveness and employment, which emphasized that competitiveness and employment can and must go hand in hand. Later, the third 1995-1997 Social Action Program was approved, followed by the program for 1998-2000. Finally, of particular importance are the conclusions reached by the European Council held in Lisbon in March 2000, which established as the Union's new strategic objectives the strengthening of employment, economic reform and social cohesion as part of a policy based on knowledge.

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*Another important aspect of the European process is the way the private sector, civil society and public institutions participate in the social program, making possible its implementation..*  
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*Another important aspect of the European process is the way the private sector, civil society and public institutions participate in the social program, making possible its implementation.* Institutional participation is provided through social and economic organizations, which channel their opinions and demands through fora and organizations created to this effect by the European Union. The Economic and Social Committee, which encompasses the different sectors of Europe's economic and social life 3, is the most important of these. Others are the Committee of the European Social Fund, the Permanent Employment Committee and the Social Dialogue, as well as other committees and fora in which the private sector and civil society participate. It is important to point out that the Treaty of the European Union requires that entrepreneurs and workers be consulted and that both submit recommendations before bringing proposals to the Council.

As for non-institutional participation, bodies such as the non-governmental organizations (NGOs) prepare reports and memoranda, organize congresses and meetings, etc. on specific aspects which they feel must be highlighted, in order to influence to some extent policy decisions and orientations. Another way civil society's organizations participate is through the co-financing and management, particularly in collaboration with Europe's Social Fund, of community policies aimed at abating long term unemployment, assisting in the reinsertion of those excluded from the labor market and promoting equality of opportunities for men and women.

Recent studies and analyses of this issue<sup>13</sup> coincide in pointing out that in order to progress towards an effective participation and interaction by the social actors involved in integration, three fundamental aspects must be taken into account. In the first place, issues related to health, education, culture, the circulation of people, migrations, the training of qualified human resources to face the new production paradigm and the progressive adjustment of labor conditions to the ever more demanding needs of a wider area. These are all necessary elements for integration to translate into deeds and become institutionally stronger as the liberalization of markets, investments and geographical areas deepens. In the second place, modalities of action to face and lessen the consequences on society of greater economic integration, particularly in high labor sectors, border areas and specific social groups that during the process could be left at the outskirts. Finally, those actions that guarantee the participation and interaction of civil society, as the final recipient of the transformations ushered by integration.<sup>16</sup>

For this reason, it would be convenient to concentrate efforts on very specific issues in order to progress steadily towards a common social integration agenda that may include at least the following points: (i) cooperation between organizations and countries to face problems regarding the circulation of people, the validation of academic degrees, labor rights, migration and social security norms (health, pensions, among others); and (ii) measures and policies aimed at lessening the negative effects of integration, such as economic cooperation for the development of industrial reconversion and labor projects and training of human resources for the modernization of production, support to border areas and to other key production sectors, among others.

Another classification<sup>17</sup> discriminates between (i) the issues closely linked to economic processes, such as the circulation of people –labor legislations, social security, academic degrees validation, labor reconversion, etc.–; (ii) social programs in areas such as health and hygiene, which, to a great extent, result from the international cooperation offered by the WTO, the PHO, among others; (iii) the so-called society processes that develop within each of the societies involved in the integration process, such as, for example, student, scientists, tourism and cultural exchanges; and (iv) the areas linked to the development of a

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common subject, Andean, Central American, from MERCOSUR, etc.

Within this context, even though in their initial phase integration agreements and arrangements ignored the social dimension to concentrate efforts on trade objectives, as economic and trade interdependence deepens the need to deal with social issues increases, as does political awareness regarding its importance. It is felt that integration must become a development tool that contributes to overcome the worrisome levels of unemployment, poverty and social exclusion of participating countries. Slowly but steadily, all integration processes have reached this perception and new mechanisms for action<sup>18</sup> have been developed to fulfill specific social goals and insure the active participation of all social actors, including civil society, in both the formulation of policies and the implementation of programs and projects<sup>19</sup>. It is now widely acknowledged that all economic processes entail social consequences that, in the long run, may compromise their own sustainability<sup>20</sup>, especially considering that as a public policy, the state's integration policy must go hand in hand with other public policies in areas such as labor, health, education, training, the environment, among others. Integration policies must be part of an integrating development policy aimed at insuring social equity.

However, even though governments have stated their strategic objective of achieving an economic, social and political community, in reality social initiatives and the participation of people, entrepreneurs and workers have produced few real results, perhaps due to the fact that the existing integration arrangements still lack supra-national links, as well as resources.

In the most recent meeting on this issue,<sup>21</sup> organized by SELA together with the Spanish Agency for International Cooperation (AECI), some recommendations were put forth regarding how to deal with social issues and conclusions were reached on the methodological aspects of these issues and specific common denominators among the processes analyzed.

As for the methodological aspects, it was deemed necessary to focus on two central issues: common social policies resulting from the evolution of integration and the participation of civil society, the final recipient of the changes brought about by this process. To this end, it was pointed out that the social agenda must become a flexible and adaptable instrument, subject to periodic revisions, of a general nature with specific adaptations at the local area (for example, the border areas between MERCOS-

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As economic  
and trade  
interdependence  
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social issues  
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SUR cities) or at sectoral levels (if some organizations are taken into account).

Regarding the participation of civil society in the development of a common social agenda, its level of involvement *must be increased through the establishment of networks for the exchange of ideas and proposals regarding common issues* (as in the case of MERCOSUR's cities, sub-regional issues and new participation mechanisms). In this regard, it was apparent that the number of actors involved in the integration process has grown considerably in terms of sectors (entrepreneurs, workers, professional associations, NGOs, culture representatives, consumer protection organizations, among others) as well as specific regional areas (local, sub-national, sub-regional, national and regional areas). The importance of parliaments, at the national, regional and sub-regional level, was highlighted. The links they have established with civil society's actors represent new ways of dealing with the building of regional processes.

On the other hand, some *common denominators* among the different processes dealing with social issues were identified. In the first place the fact that some issues are raised within a world context and are included in international agendas, such as the linking of the social clause to trade within the World Trade Organization and the FTAA. Second, social issues have become part of local and national development agendas and, increasingly, of integration agendas. Third, the specific nature of civil society and its relative autonomy from government negotiators grant its dealing a certain independence, which has led to a continuity of actions within integration arrangements, in spite of occasional crises. Fourth, social integration has occurred in some specific areas and sectors, particularly in border areas and among regional networks, thanks to interrelations between issues, their specific nature and the domino effect (for example, in the case of border areas: transborder identity, minority trade, pollution, transportation, the circulation of people). Fifth, several initiatives aimed at establishing a common regional endeavor, particularly in the cultural field (exchange of cultural goods, creation of cultural networks, among others), as well as freer circulation—a common passport or, in some cases, a specific regional document and some initiatives to stimulate tourism within the region. Finally, there is a consensus within the different integration arrangements that in order to deal with social issues clearer and more effective instruments must be developed.

Based on these common denominators and the different

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*The participation of civil society in the implementation of the social agenda must be increased through the establishment of networks for the exchange of ideas and proposals regarding common issues.*  
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## ANNEX

### Latin American and Caribbean Integration Arrangements Commitments, Bodies and Mechanisms Related to Social Issues

Clauses, Bodies, Mechanisms, Commitments	Andean Community of Nations	Caribbean Community's Common Market	Central American Common Market
1. Bodies and consultation and cooperation mechanisms for social issues, particularly education and culture.	Simon Rodriguez Agreement on Social and Labor Policies. Andres Bello Agreement on Education and Culture. Hipolito Unanue Agreement on Health. Simon Bolívar Andean University.	Councils of Ministers of Health, Education, Labor, etc. University of Guyana. University of the Western Antilles.	Social Integration Councils. Council of Ministers of Social areas. Social Interest Secretariat.
2. Consultation, economic and social representation bodies.	Entrepreneurial Consultation Council (CCEA). Labor Consultation Council (CCLA).	Assembly of Caribbean Community Parliamentarians.	Consultation Committee, SICA (encompassing business representatives, agricultural workers, workers and universities)
3. Consultation legislative representation bodies.	Andean Parliament	Assembly of Caribbean Community Parliamentarians	Central American Parliament (Parlacen)
4. Binding and non-binding rights and guarantees (individual, social and political).	Andean Social Security Instrument (Decision 113). Migrant workers' norms (Decision 116) Declaration of the Presidential Council on democracy and Integration (the forerunner of a binding protocol currently being prepared).	Charter of Civil Society. Agreement on Social Security.	Central American Social Integration Treaty (SICA). Democratic Security Treaty.
5. Bodies, mechanisms and resources at the community level (binding)	Justice Court	Disputes Settlement: Ad hoc Courts	Justice Court

Source: Di Filippo, A. and Franco, R. (2000), p.24.

arrangements' experience in dealing with social issues, some specific recommendations were issued. These are: (i) To analyze and strengthen the social agenda, establishing strategic objectives that may allow to focus efforts through several instruments (exchange of experiences, dialogues and coordination between social actors, among others) aimed at identifying the levels of approximation and coordination between the different integration arrangements. (ii) To establish venues and define instruments to develop communications channels regarding the participation of civil society in integration processes. (iii) To define the scope of local projects undertaken by each integration arrangement in order to develop projects that may allow for a shared learning process. (iv) To draw a map of the different initiatives aimed at establishing a common area within sub-regional arrangements (free circulation, tourism, common documents, among others) in order to exchange experiences and stimulate regional cooperation.

## Notes

1. *The World Summit on Social Development, held in Copenhagen, on March 1995, internationalized issues such as the reduction of poverty and the coordination of economic and social policies.*

2. See ECLAC, *Equidad, desarrollo y ciudadanía, 2000 and Panorama social de America Latina, 1998*, Santiago, Chile, 1998; and

UNDP, *Human Development Report 1999*, New York, 1999.

3. See Klein, E. and Tokman, V., "La estatificación social bajo tensión en la era de la globalización", *Revista de la CEPAL* 72, Santiago, Chile, December 2000, p.27.

4. "Because of these changes in the area of public policies, economic growth in Latin

America and the Caribbean now depends on the degree, intensity and quality of integration to a globalized and regionalized economy", text prepared for UNCTAD X, February 2000.

5. For an analytical categorization of the political, economic and social effects of globalization in Latin America and

the Caribbean, see: Ferrer, Aldo, "Globalization: Facts and Fiction", and other essays published by SELA in *Capitulos N° 53* of June 1998; as well as Mayobre, E., **Reality and Myth of Globalization**, SELA, SP/Di N° 7-2000; Vacchino, J.M., **Globalization, Insertion, Integration: Three Major Challenges for the Region**, SELA, SP/Di/N° 8-2000 and "Challenges in the New Century: International Insertion and regional Integration in a Globalization Scenario", *Capitulos N° 60*, December 2000; SELA, **Latin America and the Caribbean's Insertion into the World Economy's Globalization Process**, SP/CL/XXVI.O/DT N° 8-2000; and ECLAC "Globalization and Regionalization, a View from Latin America and the Caribbean", document prepared by ECLAC's Secretariat for UNCTAD X.

6. A good portion of foreign direct investment resulting from privatization operations has been channeled into the acquisition of existing enterprises, with few

effects on production and employment.

7. For a detailed description of these processes and their consequences, see Di Filippo, A. and Franco, R., **Integración Regional, Desarrollo y Equidad, Siglo XXI** Editors and ECLAC, January 2000, pp. 31-57.

8. Expression used by Ambassador Otto Boye, SELA's Permanent Secretary, in his presentation "Latin American and Caribbean Integration: Now or Never", delivered at the III International Meeting of Economists on Globalization and Development Problems, held in Havana, Cuba, from January 29 to February 2, 2002.

9. See SELA, "Development Strategies for a Global Economy", *Capitulos No.45*, January-March 1996, p.30.

10. The medium and long term refers to the state's permanent supply of health, education and social security, beyond its occasional assistance policies.

11. SELA, *ibid.*, p.35.

12. Number quoted by Laredo, Iris M., in "Hacia una integración multidimensional de América Latina como herramienta frente a la globalización" in **Escenarios de la Integración de las Américas**, Universidad de los Andes Mérida, Venezuela, 1999, p.81.

13. SELA has been studying the issue of civil society's participation in trade and regional and hemispheric negotiations. See VanGrasstek, C., "La sociedad civil y el compromiso político de los Estados Unidos para la liberalización comercial: implicaciones para las negociaciones comerciales", in **El Laberinto Económico**, SELA-AECI, Ediciones Corregidor, 1999 and Gil, J.C., **La sociedad civil ante la integración regional y hemisférica**, SELA, SP/REASIALC/Di N° 3-2000.

14. A detailed and updated review of the evolution of the European Union's common social policy can be read in: García-Baltasar,

Jose L., **El proceso de integracion europeo y la gobernabilidad de la Europa social**, SELA, SP/REASIALC/DI N° 5-2000.

15. Studies, meetings and seminars have been organized, mainly by ECLAC, which proposed the productive transformation with equity model within CLAD, IDB, CEFIR, in the integration secretariats and SELA. UNCTAD has also incorporated some social issues in its work on the development dimension in international trade negotiations.

16. An analysis of possible mechanisms can be found in Gil, J.C., **La sociedad civil ante la integracion regional y hemisferica**, SELA, cited above.

17. This classification was developed by the Peruvian expert Podesta, Bruno, in **La integracion regional y las posibilidades de una agenda social**, SELA, SP/REASIAL/Di. N° 4-2000.

18. See this article's annex.

19. An analysis of this issue can be

found in Bizzozero, L., **La construccion de la dimension social en los nuevos regionalismos. El caso MERCOSUR**, SELA, SP/REASIALC/Di. N° 2-2000 and Gil, J.C. (2000).

20. Podesta, Bruno, *op.cit.*, p. 1.

21. See SELA, *Final Report of the Experts' Meeting on the Social Aspects of Latin American and Caribbean Integration*, REASIALC/DF, November 2000.

### **Integration, a Road to Latin America and the Caribbean's Insertion into Globalization**

*This text is an abridged version of the document "Latin America and the Caribbean's Insertion in the World Economy's Globalization Process", prepared by SELA's Permanent Secretariat. The document calls attention to the fact that individual countries, particularly small and intermediate economies, have a "very limited" say in the canalization of the tendencies caused by globalization. Therefore, it is imperative to "join efforts and present common positions before the international community. The creation of regional blocs and the strides made in regional integration will lend credibility to our joint positions. Thus, in order to participate in the globalization process, the region should consider adopting a strategy of insertion with integration".*

### **La integración, una vía para la inserción de ALC en la globalización**

*Este texto es un resumen del documento "Inserción de América Latina y el Caribe en el proceso de globalización de la economía mundial", elaborado por la Secretaría Permanente del SELA, donde se advierte sobre las "muy reducidas" posibilidades que tienen individualmente los países, particularmente los más pequeños y las economías intermedias, de influir en la canalización de las tendencias originadas por la globalización, razón por la cual resulta "indispensable aunar fuerzas y presentar posiciones compartidas ante la comunidad internacional". La formación de bloques regionales y los avances en la integración regional aportarían credibilidad a las posiciones conjuntas, de allí que la región debería considerar la adopción de una estrategia de "inserción con integración" para participar en el proceso de globalización.*

### **L'intégration, une voie pour l'insertion de l'Amérique latine et des Caraïbes dans le processus de globalisation**

*Ce texte est le résumé d'un document intitulé «L'insertion de l'Amérique latine et des Caraïbes dans le processus de globalisation de l'économie mondiale», élaboré par le Secrétariat permanent du SELA; les possibilités des pays, notamment les plus petits, et des économies intermédiaires d'influer de manière individuelle pour canaliser les tendances engendrées par la globalisation y sont jugées «très réduites»; il est donc «indispensable de rassembler les forces et de soumettre des positions communes à la communauté internationale. La constitution de blocs régionaux et les progrès de l'intégration régionale renforceraient la crédibilité des positions communes»; la région devrait par conséquent opter pour une stratégie d'«insertion et d'intégration conjointes» dans le processus de globalisation.*

### **A integração, uma via para a inserção da ALC na globalização**

*Este texto é um resumo do documento "Inserção da América Latina e do Caribe no processo de globalização da economia mundial", elaborado pela Secretaria Permanente do SELA, onde ficam patentes as "muito reduzidas" possibilidades que os países têm individualmente, principalmente os menores e as economias intermediárias, de incluir na canalização das tendências originadas, pela globalização, sendo portanto "indispensável reunir forças e apresentar posições compartilhadas perante a comunidade internacional. A formação de blocos regionais e os avanços na integração regional ofereceriam credibilidade às posições conjuntas", portanto a região deveria considerar a possibilidade de adotar uma estratégia de "inserção com integração" no processo de globalização.*

# Integration, a Road to Latin America and the Caribbean's Insertion into Globalization

⇒ Permanent Secretariat, SELA

Democracy and peace, values and realities that have become widespread in Latin America and the Caribbean, now form the underlying principles of our national societies and consequently of the region's insertion in the world economy. The promotion of development and equity within a framework of peace and democracy is the crucial challenge facing the region at the moment. In order to meet it, the region will need policies that can satisfy the people's needs and expectations, which includes making progress in the fight against poverty and inequality.

The experience of the countries of Latin America and the Caribbean in an increasingly globalised world during the last decade has revealed the need for active policies for insertion in the world economy. A passive attitude towards the changing situation will fail to take full advantage of the opportunities offered by technological progress and the intensification of international economic inter-relations and will moreover increase the region's vulnerability to the external fluctuations and effects that are inherent to the globalisation process.

The economic stability attained by most of the region's countries during the nineties is at serious risk if they do not follow-up with insertion policies that have clearly defined objectives and instruments and are also compatible with national policies. The strategy of unilaterally opening up the economy and applying the rules of the market, which has been the predominant strategy pursued during the past few years, is beginning to show its limitations regarding economic stability itself as well as regarding its ability to boost economic growth prospects. It has moreover been notably inadequate at tackling social problems and promoting equity, which are objectives that are being pursued by all the countries of the region.

At the international level, it is becoming increasingly explicitly acknowledged that the policies based on the so-called "Washing-

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*The experience of the countries of Latin America and the Caribbean in an increasingly globalised world has revealed the need for active policies for insertion in the world economy.*

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ton Consensus" are to say the least insufficient and that what is now needed is a more active approach whose purpose is to tackle the problems those policies have been unable to resolve.

The international community will have to take some concerted action to ensure that international economic relations allow the positive aspects of globalisation to be taken advantage of and minimise its negative effects. For such action to be effective, there must be at least a glimpse of the solution to the problems of the various actors in the international economy and these will have to be taken into consideration. It is particularly important that the asymmetries among the various national economies and subregional groups are recognised and that the specific problems of the emerging or intermediately developed economies, as well as the economically relatively less developed countries, are tackled.

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*In order to obtain the best possible insertion in the world economy, the countries of Latin America and the Caribbean must make an effort to come up with concerted policies.*  
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In this context, each country must begin to view their development programmes (as well as their economic adjustment and stabilisation programmes) as their own. For this to happen, developing countries must participate extensively in the design of international norms and mechanisms which means they must have a greater presence in international decision-making processes.

Thanks to the progress made in terms of the validity of the region's democratic institutions, Latin American and Caribbean countries are able to participate in a significant way in the programmes and policies that are adopted. The international financial institutions themselves have recently stressed the need for societies to consider the policies they undertake as their own, which opens up the possibility of the region's countries being able to engage in a more frank and open dialogue with the international financial institutions and their other member countries, and this is an opportunity that should not be wasted.

In order to obtain the best possible insertion in the world economy, the countries of Latin America and the Caribbean must make an effort to come up with concerted policies and to co-ordinate their positions at international economic forums. The possibilities of individual countries, especially the smaller and intermediate economies, influencing how the trends stemming from globalisation will be channelled are minimal. It is therefore essential to join forces and present shared standpoints to the international community. The formation of regional blocks and any progress made in regional integration could lend credibility to such joint positions.

Insertion and integration should be seen as complementary

phenomena, and the regional strategy that needs to be pursued could be defined as insertion with integration.

The integration processes in the region made significant progress during the nineties, particularly through the consolidation and extension of subregional integration and the signing of free trade agreements. These developments are not, in most cases, enough however, to determine the kind of insertion the member countries involved will attain in the world economy. The trend has therefore been towards the creation of larger integration areas such as the Free Trade Area between the Andean Community and MERCOSUR and their associated countries. The importance of this move has been strongly emphasised by the Presidents of South America at their recent Brasilia Summit.

Up till now, integration efforts and the progress made in integration have concentrated mainly on trade and para-trade relations. The objectives of the subregional integration agreements and the demands of insertion in the world economy now require a more extensive and intense form of integration: in the area of economics, the harmonisation and co-ordination of macroeconomic policies; in other fields, co-operation in social, political, infrastructure, institutional and cultural affairs.

As a result of the manner in which integration has evolved in Latin America and the Caribbean, the quickest way to set up a favourable modality for the region's insertion in the world economy is through the articulation and convergence of the subregional integration processes and the free trade agreements. Such action should not be limited or subject to progress made in trade or economic aspects, however. The shared values and circumstances of the region's countries make it possible for progress to also be made in political, physical, social and cultural integration and not necessarily in the order that such integration has taken place before in or outside the region.

From the regional viewpoint the problem is how to articulate the integration processes of South America with those of Central America and the Caribbean and how to make them converge. Their compatibility and convergence are essential for preventing the fragmentation of the region and for ensuring its countries attain a positive insertion in the world economy.

In light of these considerations, the following are some of the courses of action the countries of Latin America and the Caribbean could consider:

1. Promote the adoption of the Democratic Clause by all the Latin American and Caribbean subregional integration groups within the framework of their own legal instruments.

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*The quickest way to set up a favourable modality for the region's insertion in the world economy is through the articulation and convergence of the subregional integration processes and the free trade agreements.*

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2. Draw up a regional development and insertion strategy that aims to promote development, equity and the fight against poverty and to lessen the region's vulnerability to adverse external economic impacts.
3. Participate actively and in a co-ordinated manner in international forums and debates on development, international trade and development financing while attempting to establish a greater presence of developing countries in such debates and forums.
4. Propose new terms for the scope and modalities of the conditions imposed by the International Financial Institutions in their programmes and projects and participate actively in the reformulation of the conditions currently in place.
5. Negotiate a greater opening of the developed countries' markets to exports from developing countries, particularly agricultural products and other exports that have a competitive advantage.
6. Insist on the need to revise and strengthen the concept of special and differentiated treatment and the Generalised System of Preferences in light of the changing realities of international trade and globalised production.
7. Promote a round of multilateral trade negotiations that are guided by a better balance and greater degree of symmetry between the rights and commitments of developed and developing countries.
8. Apply a joint and integral approach to the objectives and problems of the regional and international economic agenda with a view to adopting coherent positions that are valid in the various realms of negotiation.
9. Establish explicitly the link between the positions adopted regarding the international economic agenda and the foreign policy of the countries and subregional groups of Latin America and the Caribbean.
10. Convene a high level meeting of ministers of economy and Finance of the region to discuss the region's agenda in the areas under their responsibility and the architecture of the international financial system in particular.

11. Present a joint position at the High Level Meeting on Development Financing scheduled for the year 2001 by the United Nations.
12. Revitalise the developing countries' own forums so that, amongst other things, an effective follow-up can be made of the commitments assumed by the developed countries with respect to the international community, and so as to define which forums will be prioritised for discussing the various items on the international economic agenda.
13. Define the long-term objectives of Latin American and Caribbean integration inasmuch as the region pursues a kind of integration that goes further than the establishment of a free trade area.
14. Agree that the articulation and convergence of the existing subregional agreements currently represents the most efficient way to further integration and proceed towards the establishment of a community of nations, and draw up an appropriate strategy in light of this.
15. Establish parameters and mechanisms that make the co-ordination or harmonisation of macroeconomic policies possible.
16. Identify areas and sectors of co-operation for physical, educational, social, political and cultural integration.
17. Determine the conditions for the granting of preferential treatment to the subregional integration groups that consist of smaller or relatively less developed countries.
18. Define the areas and modalities in which the differences in levels of development will be recognised and those in which all countries will receive a generalised common treatment.
19. Evaluate the Latin American and Caribbean institutional set-up and take the necessary steps to strengthen it.
20. Study the appropriate mechanisms and relevant areas for settling any disputes that may arise between the countries of the region.

**Dollarization as a Political Problem**

*Dollarization, a subject much in vogue within our region, encompasses not just economic but also political aspects since its adoption, argue the authors of this article, creates a social system that "protects the privileged ones and curbs those left at the outskirts". The implications of this decision are of such magnitude that the authors – who do not conceal their rejection of this policy – conclude their analysis by asking whether the adoption of a policy of dollarization is not counter-productive for the maintenance of democracy.*

**La dolarización como problema político**

*La dolarización, tema muy de moda en nuestra región, abarca no sólo elementos económicos, sino también aspectos políticos puesto que su adopción estructura –según sostienen los autores de este artículo– un sistema social que "protege a los privilegiados y contiene a los marginados". Las implicaciones de una decisión de este tipo son de tal magnitud que al final los autores –quienes no ocultan su rechazo a esta medida– concluyen dejando en el aire la incógnita de si su adopción no será contraproducente para el mantenimiento de la democracia.*

**La dollarisation en tant que problème politique**

*La dollarisation, question très à la mode dans notre région, comporte des éléments économiques mais aussi politiques; selon les auteurs de cet article, son adoption mène en effet à l'édification d'un système social qui «protège les privilégiés et réprime les marginalisés». Les implications d'une décision de ce type sont d'une telle ampleur que les auteurs –qui ne dissimulent pas leur rejet de cette mesure– concluent par une question encore sans réponse: ne nuirait-elle pas plutôt au maintien de la démocratie?*

**A dolarização como problema político**

*A dolarização, tema que está de moda na nossa região, abrange não só elementos econômicos mas também aspectos políticos já que sua adoção estrutura conforme os autores deste artigo –um sistema social que "protege os privilegiados e contém os marginalizados". As implicações de uma decisão desse tipo são de tal magnitude que no final os autores –que não ocultam seu repúdio a essa medida– deixam no ar a incógnita de se sua adoção não será contraproducente para a manutenção da democracia.*

# Dollarization as a Political Problem

→ **Alfredo Eric Calcagno and Eric Calcagno**

*International Advisors*

## I. Currencies, a Social Issue

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Michel Aglietta's **Capitalism's Regulation and Crisis**<sup>1</sup> contains one of the most novel approximations to the currency theory. It explains how currencies are a social issue. Far from being a simple exchange instrument that replaces bartering, as the simplistic view prevailing at the end of the XIX century would have it, money has reached a stage where its symbolic meaning overshadows its economic function, as in traditional societies, and has come to represent a social link. According to Albert Hirschmann, this characteristic of money is even more essential when interests replace passions and capitalist hoarding prevails, with important variables, within wide sectors of the globe.

Thus, any change in money's value and tenure represents a transcendental political act both as regards social homogeneity and as a sure way towards segregation. This is when power pressures within each country determine the amount and quality of resources that should be assigned to the different social sectors: devaluation, overvaluation, a scarcity or abundance of currency all have lasting effects on society. Each alternative carries a heavy political and social load. Within this context, let us imagine what happens when a country's own currency disappears and another, foreign one, is adopted. This is dollarization.

What does this mean? This is the process whereby a country other than the USA adopts the dollar as its official currency. Thus, the dollar becomes its unit of account, its means of exchange and its reserves. Consequently, the national currency disappears: accounting, purchases and savings are all done in dollars.

At first sight, replacing the national currency for the dollar may appear to entail certain advantages: since devaluation is no longer a possibility the problem of loans in dollars disappears; each citizen of the country that has adopted the dollar will have

access to the most stable currency on earth. Also, this is a fast solution that saves much thinking and analyzing of more complex alternatives. In these frivolous days, there is even a "fashionable" side to this: we will have a better currency than our neighbors. What will they say when they find out!

But such flirting, which is a sort of dollarization marketing, soon comes to an end when we consider the real functioning of the economy, that which the neo-liberals do not know, or the political dimension, that which the neo-liberals do not understand.

Because in order to survive dollarization creates, perhaps irreversibly, a specific economic society, just as it shapes a political system that protects the privileged ones and restrains those left at the outskirts.

This is not an occult and malignant conspiracy. It is the financial sector's new approach to insure its control of the economy, particularly the honoring of foreign debts. In reality, this approach puts the functioning of the economy in the hands of the financial sector, particularly the international one. The mechanism is a simple one: a dollarized economy depends on capital inputs, loans and a balance of trade surplus. Since such surplus occurs in but a few Latin American countries, all the others are subject to the first two variables which pertain to and depend on decisions by the external financial sector. Thus, from supporters of production these variables become the economy's masters. They become the masters of a country's economic destiny. In some cases, they have carried out "market coups" that have caused governments to fall, as in the case of Argentina's President Raúl Alfonsín. In the past the financial establishment resorted to military coups, now it carries them out directly. But this is not all. Dollarization also implies an economic policy linked to the United States, since it would impede the creation of regional Latin American blocs. For example, MERCOSUR would not survive Argentina's dollarization. It would be impossible to coordinate Argentina and Brazil's international trade policies. Below, we shall see what are its consequences for both the USA and the dollarized country.

## **II. Advantages of Dollarization for the United States**

For the United States dollarization entails political and economic advantages. On the political front, it insures closer financial ties with the United States. A common currency makes transferences and exchanges easier, while the fact that devaluation is not possible reassures investors. However, what is more

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important is that the economy of the dollarized country depends on foreign capital flows and the USA supplies and controls most of such flows. Therefore it exerts direct influence on internal economic policies.

From an economic perspective, as the former US Secretary of the Treasury, Lawrence H. Summers, said, the advantage of dollarization is that “when they buy dollars to use them in their internal economies the dollarized countries grant the US an interest-free loan”.<sup>2</sup>

### **III. Advantages for the Dollarized Country**

In theory, the dollarized country would enjoy the following advantages: lower country-risk and real interest rates; inflation's monetary causes would disappear; greater ease in long term financing; lower international transactions costs; less uncertainty regarding the economy. And, above all, the benefit of belonging to the United States' area of direct influence.

These theoretical benefits have been proven false by facts. Let us begin with the external deficit.

The fact that devaluation is not possible does not imply that the fundamental economic forces that pressure for devaluation disappear. The external deficit will not disappear with the national currency. What will happen is that when market mechanisms are allowed to operate (those that, like the dollar, raise prices when demand outweighs supply) then it is even harder to reduce the internal deficit. Therefore, the dependency on external capitals will be greater and more structural and creditors and international financial organizations will have a greater say on policies.

Faced with a balance of payments unbalance there will be no alternative other than to cease payments or face a recession in order to reduce imports. Thus, the country risk would not decrease nor would the external financing spreads.

Also, dollarization does not eliminate the financial system's problems. On the contrary, the economy will be even more unstable since it will be subject completely to international financial fluctuations and the lender of last resort will have disappeared.

Nor would interest rates decrease for most national borrowers. Faced with decreasing deposits many banks will have no option but to increase interest rates (both passive and active) and the gradual elimination of national banks will make loans more costly for many national borrowers, such as agricultural, small and medium sized enterprises, assuming they have access to them. On the other hand, lower interest rates can also be achieved



## CURRENT AFFAIRS

through sound fiscal management, without sacrificing the national currency. In reality, lower risks and, therefore, lower interest rates, are the result of a financial system's characteristics, not of fiddling with the national currency. While it is true that the danger of inflation caused by excessive flotation disappears the danger of other types of inflation, such as that caused by lagging demand remains. But there are other, more reasonable ways to control this situation.

Reference is often made to the greater ease in long term financing and the lower costs of international transactions. In this regard, we must not lose sight of the fact that financing conditions depend much more on negotiations than on the currency in which they are carried out. Also, the currency conversion costs are minimal compared with the other conditions included in the loan contract.

It is also said that dollarization reduces economic uncertainty. Obviously, all doubts regarding devaluation disappear, but the rest of economic management remains as uncertain as before dollarization.

However, besides considering these theoretical questions, it is important to review a recent dollarization process such as

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**Table 1**  
**Ecuador, Economic Indicators, 1998, 1999 and 2000**

	1998	1999	2000
Gross Domestic Product (annual variation rates)	0,4	-7,3	2,0
Gross Per Capita Domestic Product (annual variation rates)	-1,6	-9,0	0,1
Consumer Prices (annual variation rates)	43,4	60,7	96,6
Real Minimum Wage (annual variation rates)	-7,2	-10,7	-4,0
Urban Unemployment Rate (percentage)	11,5	15,1	14,7
Goods' Terms of Trade FOB/FOB (index1995=100)	99,6	106,2	121,4
Net Foreign Direct Investment (in million US\$)	831	636	735
Net Resource Transfers (in million US\$) <sup>1</sup>	231	-3026	-2520
Relation between total interests paid on foreign debt and exports in goods and services	21,2	21,5	26,0
Total Gross Capital Formation (annual variation rates)	9,7	-52,9	3,5

Source: ECLAC, *Balance preliminar de las economías de América Latina y el Caribe 2000*, Santiago de Chile, 2000.

1) The net transfer of resources is equal to net capital inputs (including non-autonomous ones and errors and omissions) less the balance in the revenues account (net income and interests).

Ecuador's, which adopted this regime in January 2000. Table 1 illustrates the main characteristics of Ecuador's economic evolution in the period 1998-2000. As can be observed, during the dollarization year the global product grew slightly, following a 7.3% fall the previous year, while the per capita product remained stagnant. Due to the increase in oil prices the terms of trade improved significantly and \$1,200 million entered the country, mostly through emigrants' remittances. Net foreign direct investment remained at the three-year level, but net transfers corresponding to 43% of exports took place. In the social area, real wages continued to fall and unemployment remained close to 15%. This is not an inspiring picture and it gets even worse when we consider that during this period inflation peaked at 96%.

To summarize, dollarization did not stop inflation, or capital flights, nor did it cause an external capitals boom. The per capita product stagnated and open unemployment remained close to 15%. The political and social situation is marred by uncertainty.

#### **IV. Negative Effects on the Dollarized Country**

With dollarization the economy functions in a different way, since it depends on capital inputs and external loans. In order to obtain both the only option left, given the impossibility of adjusting the exchange rate, is to lower costs (particularly salaries) and raise interest rates. In other words, a recessive scenario is ushered in, moreover, the foreign exchange policy disappears as do lenders of last resort. Thus, the dollarized country renounces to a fundamental tool of economic policy.

This is an explosive mechanism. The United States' productivity is far superior to that of Latin American countries. If dollarization is adopted, the goods produced in the less productive country lose competitiveness and can even lose ground internally. Under normal conditions these differences are reflected in changes in relative prices (particularly exchange and interest rates) and in the reallocation of resources.

The dollarized country suffers a number of negative effects: it forfeits monetary and foreign exchange sovereignty; it adopts a recessive plan; its banking sector becomes more vulnerable due to the disappearance of lenders of last resort; seigniorage is eliminated; regional integration arrangements are put at risk; sizable reserves are lost in the replacement of currency. On the one hand, as we shall see, dollarization does not help remedy negative situations and on the other, if the outlook is promising it is unnecessary. We shall examine each of these points.

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*With dollarization the economy functions in a different way, since it depends on capital inputs and external loans.*

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*1. Relinquishing Sovereignty over Monetary and Exchange Rate Policies*

The dollarized country is deprived of a fundamental sovereignty attribute and puts some essential aspects of its national economic policy into the hands of officials from another country.<sup>3</sup> The supporters of dollarization value this serious dangerous development as a virtue since it implies total adhesion to US policies. They argue that dollarization allows a country to take advantage of belonging to the United States' area of direct influence and to use one of the symbols of its sovereignty, its currency. For them, it is not important to lose one's decision-making capacity since the nation will benefit the most from the least state intervention. For them the best thing would be to become a rich colony. Those of us who are at the opposite end believe that national sovereignty and freedom continue to be the essence of life in society. It is absurd to renege for macroeconomic reasons the independence struggles carried out during the XIX century.

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*2. Dollarization Tends to Usher in Recession*

Dollarized countries are subject to recessive plans. In flexible foreign exchange countries a situation of foreign trade deficit without sufficient capital inputs obliges policymakers to combine devaluation with recessive measures in the best possible way. A dollarized country, deprived of the possibility to devalue, is left with only recessive measures, together with an increase on interest rates. Thus, productivity, employment and real salaries fall in order to lower imports and allow for a foreign trade surplus to finance the foreign debt<sup>4</sup>. Moreover, the dollarized country's economic cycles follow those of the USA, thus deepening recession.

*3. Dollarization Eliminates Lenders of Last Resort*

With dollarization the central bank's function as lender of last resort disappears. Dollarization's implicit thesis is that the only risk the financial system faces is devaluation. A possible halt of foreign payments is not considered even though dollarization does not eliminate foreign unbalances. On the other hand, an internal financial crisis may occur, causing greater harm than usual due to the fact that the lender of last resort does not exist.

The neutralization of the central bank eliminates a basic instrument of economic policy. In fact, the central bank's active policies are important not only to draw the basic outlines of economic policy, but also to halt possible economic and banking

crises. For example, during the "tequila effect" fears of banks' insolvency caused in Argentina a banking crisis that was halted with funds from the Banco de la Nación and the Central Bank (by the way, in violation of the exchange law that forbids such actions). If the country had been dollarized then such operation would not have been possible because Argentina's Central Bank does not issue dollars.

Since the United States' Federal Reserve Board is not willing to play the role of lender of last resort for a foreign country and since Latin American central banks do not issue dollars, each country would have to have its own lender of last resort, a role that can only be fulfilled by foreign banks. Thus, a banking crisis in a dollarized country would cause the end of national banks.

#### *4. Elimination of "Seigniorage"*

Seigniorage is the difference that exists between the cost of putting the currency into circulation and the value of the goods such currency may buy. Another way to calculate it is that an individual with cash in dollars, instead of holding on to this cash could buy a treasury bond and thus gain interest. If he keeps the cash in fact he is granting the US governments an interest free loan. Within this outlook, the seigniorage is the monetary basis multiplied by an interest rate. The United States earns \$25,000 per year in seigniorage. If a country adopts the dollar then it does not earn seigniorage. Thus, some supporters of dollarization have suggested that the US share the increase in seigniorage with the country causing it.

#### *5. Dollarization Affects Regional Integration*

If a country renounces having its own monetary and foreign exchange policy the coordination of policies within the Latin American integration processes becomes more difficult. Obviously, one cannot coordinate that which one does not control. In this regard, dollarization would affect the Andean Community and MERCOSUR, but is instrumental within the FTAA; moreover, it would lay the foundations for a monetary FTAA, besides a trade one.

#### *6. The Loss of Reserves Caused by Dollarization*

Dollarization forces countries to allocate an important part of their reserves to the establishment of the new currency. The governments of countries that decide to dollarize must hand over to the US Federal Reserve US Treasury certificates equal to the amount of national currency that is in circulation at the time of

dollarization. As they cease to be currency, such national bills become mere pieces of paper. The dollar will be the new currency, but since the US Federal Reserve does not sell dollars in exchange for pieces of paper, reserves or a new loan must be used to buy dollars. Thus, the dollarized country loses all its circulating currency, which disappears without any counterpart.

### 7. No Need to Dollarize

In Latin America "history often repeats itself". During the seventies countries run up a huge foreign debt when there was no real economic need to do so. The point was to meet the international financial system's need to recycle petrodollars. Now we want to dollarize, also without a real need to do so. Let us see.

The dollarization recipe establishes that in order for it to work adequately external and fiscal accounts must be balanced and the banking system healthy. The obvious question is: if these conditions exist, then why dollarize? In this case the best thing would be to retain the currency that made such positive economic situation possible.<sup>5</sup>

## V. Democracy and Dollarization

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In the end, what is at stake is who is going to govern? In many countries the agricultural sector prevailed from the end of the XIX century to mid XX century. From World War Two until the 1970's /1980's the industrial sector ruled, particularly in the larger countries of the region. Ever since then the financial sector has called the shots. For this sector dollarization is the best solution. This a financial conglomerate spearheaded by US and European banks for whom dollarization represents a direct link to the USA that allows them to collect in dollars on outstanding loans and to retain control of economies that depend on the capital inputs they supply. The less the state intervenes, the more it delegates sovereignty the better it is for them.

The other important group comprises transnational enterprises that benefited from the indiscriminate sale of national assets, particularly those that bought public services. In fact, dollarization allows them to charge in dollars for the services they offer, without any possibility of competition. This situation is particularly favorable to European enterprises since they collect and draw revenues in dollars at a lower value than the Euro.

The question that remains to be answered is up to what point a situation of economic and social deterioration, the hegemony

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exercised by a sector not linked to production and the state's renouncing of fundamental instruments of economic policy are compatible with the preservation of democracy.

## Notes

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1. See Michel Aglietta, **Régulation et crises du capitalisme**, Odile Jacob Editors, Paris, 1997.

2. See Lawrence H. Summers, presentation before the Banking Committee, Subcommittees on Economic Policy and Trade and Finance, April 22, 1990.

3. Dr. Catherine L. Mann, an economist at Washington's Institute for International Economics, in a presentation before the US Senate's Banking Committee declared that dollarization "not only eliminates the national currency but also puts the future of growth in the hands of

another country's policy makers".

4. See Arturo Huerta González, **La dolarización, inestabilidad financiera y alternativa en el fin del sexenio**, Editorial Diana, México, 2000.

5. *Ibid.*

**Sleepless in Seattle**

*The WTO Ministerial Conference, held in Seattle at the end of 1999, is seen by many as a failure since the objectives that motivated it were not met. However, this does not make it any less important, particularly if we see it as an experience to be studied. As an expert aptly put it: "The battle of Seattle may in the future acquire for future diplomats the same educational value Pearl Harbor holds for military officers". The author of this article, who was a member of his country's delegation to that meeting, discusses some aspects of the conference, the internal and external issues that made it difficult to reach a consensus and the main lessons that may be drawn from it.*

**Pesadilla en Seattle**

*La Conferencia Ministerial de la OMC realizada a fines de 1999 en Seattle es considerada por muchos como un fracaso, dado que no se alcanzaron los objetivos para los cuales fue convocada. Pero ello no le resta importancia, si se le toma como una experiencia digna de ser estudiada, y sobre la cual un experto se aventuró a sentenciar que "la batalla de Seattle podrá adquirir el mismo valor educativo para los futuros diplomáticos que el que posee Pearl Harbor para los oficiales militares". El autor de este artículo, quien formó parte de la delegación de su país en esa conferencia, cuenta algunos pormenores de la misma, los factores internos y externos que impidieron que se lograra el consenso, y las principales lecciones que se pueden aprender.*

**Cauchemar à Seattle**

*La Conférence ministérielle de l'OMC tenue fin 1999 à Seattle fut, de l'avis de beaucoup, un échec en ce qu'elle ne permit pas d'atteindre les objectifs qui furent à l'origine de sa convocation. On ne peut néanmoins minimiser son importance dans la mesure où elle constitue une expérience qui mérite d'être étudiée et sur laquelle un expert a émis ce jugement audacieux: «La bataille de Seattle pourrait acquérir la même valeur éducative pour les futurs diplomates que Pearl Harbor pour les officiers de l'armée». L'auteur de cet article, qui faisait partie de la délégation de son pays à cette conférence, en décrit certains détails ainsi que les facteurs internes et externes qui empêchèrent l'obtention d'un consensus et les principales leçons à en tirer.*

**Pesadelo em Seattle**

*A Conferência Ministerial da OMC realizada no final de 1999 em Seattle é considerada por muitos um fracasso, em vista de que não foram alcançados os objetivos para os quais foi convocada. Entretanto sua importância não diminui se a considerarmos como uma experiência digna de ser estudada e sobre a qual um especialista afirmou que "a batalha de Seattle poderá adquirir o mesmo valor educativo para os futuros diplomáticos como o que representa Pearl Harbor para os oficiais militares". O autor deste artigo, que formou parte da delegação do seu país nessa conferência, relata alguns pormenores da mesma, tais como os fatores internos e externos que impediram a obtenção do consenso e as principais lições que podem ser aprendidas.*

# Sleepless in Seattle

↔ **Richard L. Bernal**

*Jamaica's Ambassador to the United States*

## Introduction

The long anticipated Ministerial meeting of the World Trade Organization (WTO) was held in Seattle from November 30 to December 3, 1999. There were two major issues, first, whether to start a new comprehensive round of negotiations such as the Uruguay Round or confine negotiations to the so-called «built in agenda» of agriculture and services mandated at the last Ministerial. Secondly, what should the negotiations encompass, more specifically what should be included in the agenda of the meeting. The meeting was unable to resolve both issues, and ended in stalemate. The deliberations were suspended without agreement on a new round of negotiations and without agreement on a ministerial declaration. Indeed, the meeting issued no formal documentation and did not even decide if and when to hold the next ministerial.

No one won, but perhaps more importantly, no one lost, in the sense of making any irreversible commitments or concessions. The large, well-organized demonstrations were not a causal factor although the inchoate coalition was able to bring to a global media audience a wide range of strongly held views. Nor was the lack of resolution due to the perverse conduct of negotiators reducing the conference to «a theatre of the absurd»<sup>1</sup>. It is essential that all concerned should understand what happened in Seattle and why, and learn the lessons of that experience. Assessing the importance of this type of analytic exercise, one expert ventured: «The Battle of Seattle may acquire the same instructive value for future diplomats as Pearl Harbour has for military officers»<sup>2</sup>.

## I. Seattle

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There are five factors which explain why the Seattle Ministerial meeting ended without consensus on an agenda for a new round of multilateral trade negotiations.

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## 1. The Political Environment

First, in many respects the Seattle meeting was politically premature, as a broad consensus had not emanated from the preparatory process in Geneva. There was more than a little «political egotism», both national and personal, which motivated the suggestion and adoption of the idea of a Millennium Round. There was little political support and insufficient careful thought on which to build such a complex undertaking. In preceding years, before the launch of a new Round the developed countries, and the larger trading countries would have arrived at an agreement on a core set of issues and then tried to persuade the rest of the world to adopt their agenda. The Seattle meeting began without consensus or agreement or even coordination between the European Union, the US and Japan, a fact which was clearly reflected in the deliberations.

Secondly, the state of US domestic politics played a large part in the lack of momentum. The focus on domestic political matters detracted from the ability of the Clinton Administration to lead the WTO process in a decisive way and the preparatory process was deprived of a concerted US effort because of the preoccupation with concluding a trade pact with China, after thirteen years of negotiations. The President's speech in Seattle did not help an already unsettled gathering as it appeared to condone the demonstrations and his remarks on sanctions as a chastisement for not adhering to labour standards offended many delegations. While the President's comments were widely interpreted as aimed at a domestic audience in an election year<sup>3</sup> when the financial and manpower contribution of organized labour would be crucial, it aroused «suspicions of Western intentions»<sup>4</sup> among the developing countries. In Seattle there was pervasive awareness among the negotiating parties that in 2001, there could be a radical shift in the US position on many issues, which were proposed for possible inclusion in the negotiations, for example, the differences between the Democrats and the Republicans on the issues of labour and environment and how they should be dealt with in international trade agreements. There was also concern that the US did not have fast track at that time and it seemed unlikely that that legislative issue would be resolved before the boom experienced in the US economy assuaged the escalating demands for protectionism. Paradoxically, it weakened the traditional vociferous lobbying of business groups.<sup>5</sup>

Thirdly, part of the problem as well, is that the United States

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*In preceding years, before the launch of a new Round the developed countries and the larger trading countries would have arrived at an agreement on a core set of issues and then tried to persuade the rest of the world to adopt their agenda.*  
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appeared to have other priorities at the time. The deal with China had consumed an inordinate amount of time of the lead negotiators of the US; time which if it had been channeled into the WTO process, might have made a difference. The signing of a free trade agreement with South Africa in October<sup>6</sup> and an FTA outline with Mexico less than a week before the Seattle meeting was an ambiguous signal by the EU of its commitment to multilateralism<sup>7</sup>. In addition the preparation of the European Union, a key player, was severely hampered by "a six month political vacuum" created by the resignation en masse of the European Commission<sup>8</sup>. At the same time, many developing countries, which have vigorously implemented substantial trade liberalization, are cautious about further liberalization because of public discontent. The Inter-American Dialogue warns that: "Skepticism is growing about whether democratic rule and market economic policies will ever be able to satisfy the demands of Latin America's citizens. Democracy and markets are still on trial for most Latin Americans"<sup>9</sup>.

The economic output of Asian economies in 1998 stagnated or declined for the first time in twenty five years<sup>10</sup>. With a few exceptions, notably Singapore, they were weary from two years of recession in the aftermath of an unprecedented financial crisis, and had "little appetite" for negotiations<sup>11</sup>. While there was some interest in reducing tariffs on industrial goods, there was reluctance to open the financial sector to foreign firms and unwillingness to expose certain manufacturing industries to foreign competition. Malaysia exhibited a growing suspicion of liberalization and paranoia about multinational corporations and global currency traders. The poorer countries lost faith over the entrenched protectionism constraining textiles and apparel exports. Asian countries were in no mood to cooperate with the West as antagonism persists since the US declined to support Thailand's Supachai Panitchpakdi for Director General of the WTO<sup>12</sup>.

One clear omen was the failure of a last minute attempt by the White House to get some thirty Heads of Governments to join President Clinton in Seattle. Their non-attendance was an acknowledgment that they had come to the conclusion that the Seattle meeting was likely to be a fiasco. This sense of foreboding even pervaded senior officials in Washington, D.C. who realized that the chances of failure were much higher than anyone was willing to admit publicly.

Fourthly, the ministerial meeting took place in the context of growing «globophobia»<sup>13</sup>, i.e. apprehension about trade liberalization and globalization. There is a broad transnational commu-

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nity, which includes small business in developed countries<sup>14</sup>, governments in developing countries, environmentalists and trade unions that is apprehensive about globalization and further trade liberalization at the multilateral level. Most governments were worried that further trade liberalization will seriously erode the sovereignty of the nation state and the ability to pursue autonomous national economic policies. There is also widespread apprehension among developing countries, including least developed countries, about the pace of liberalization because they have not fully implemented the commitments of the WTO agreements. Their reservations also stemmed from the conviction that the Uruguay Round did not yield the tangible benefits which developing countries had anticipated. Consequently, developing countries felt that it was premature to begin negotiations on complex issues with far reaching implications.

Globalization and the associated multilateral liberalization of trade and investment cause conflict within and between countries over domestic norms, social institutions and social insurance to ameliorate adjustment costs<sup>15</sup>. This issue had been resolved in the post world War II period by an unwritten social contract operationalized by the welfare state, in which adjustment was embedded in a wider set of policies and institutions cushioned internal social and economic adjustments. The excesses and fluctuation of the market system were minimized and businesses in distress and displaced and unemployed workers were assisted by the State. As the transition to a global marketplace proceeds, trade liberalization is taking place in the absence of such a complex of institutions at the global level, which would serve the same purposes that state undertakes at the national level. In addition, there are no multilateral institutions which have the political responsibility to design and implement such institutions and policies.

The political environment was not conducive for a new round of multilateral trade negotiation. This was known before the Seattle meeting, but it was hoped that it would have been possible to galvanize member states to abandon some of their fixed positions, thus permitting a consensus to emerge. A week before the Ministerial, Charlene Barshefsky, US Trade Representative, was reported as «confident a successful outcome would still be reached»<sup>16</sup>. However, the pessimistic prognostication of Pascal Lamy, the EU Trade Commissioner, proved correct<sup>17</sup>. Although some progress was made in some of the less contentious areas, at the end of the frustrating meetings the differences were considerable.

## 2. Truncated Preparatory Process

The preparatory process for the ministerial meeting suffered from the fact that the Director General (DG) of the WTO, Mike Moore, assumed office a couple months before this major meeting, because of the long and contentious debate over the election. This prolonged electoral process reflected some of the divisions within the membership, many of which persist to the present. Mr. Moore did not have sufficient time to assert leadership of the secretariat and direct the preparatory work. This reduced the progress which could have been expected in normal circumstances. In addition, the four Deputy Director Generals, who play a significant role in the day-to-day work of the WTO, were not in place until shortly before the convening of the Ministerial.

The issues which were included in the agenda for the proposed new Round and which were discussed in Seattle were more difficult than in previous Rounds. These issues either required further liberalization in many areas, where the easier phases of liberalization have already been completed, or were complex and new to, and not fully understood by many countries. The failure to achieve consensus on the agenda resulted from the fact that the preparatory process referred too many unresolved issues to the Seattle Ministerial. Meetings at the Ministerial level are most likely to succeed when there are only a few major issues to be settled.

The preparatory process was severely hampered by the acrimonious relationship between the EU and US. In particular, dispute over agricultural trade undermined the possibility of them achieving accommodation on other issues. Contentious and at times hostile behaviour between the two «heavyweights» has a long history aggravated in recent years by bitter disputes, e.g. bananas, hormones, subsidies. Both parties have «dirty hands» on agricultural subsidies and the dialogue has degenerated into an exchange of accusations. Canada, a vigorous proponent of trade liberalization, entered a codicil on protecting its «social interests» in the areas of culture, health, education and investment. It proffered the notion of a new international instrument which would permit a country to maintain domestic policies to preserve and promote its national culture, even if this could be interpreted as trade distorting<sup>18</sup>. Japan's insistence on the multi-functionality of agriculture may have resonated with EU countries, but remained a proposal, which was incomprehensible to the Cairns group in their campaign to banish subsidies and open up markets.<sup>19</sup>

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The preparatory process was already weakened by the absence of representation by many least developed countries and inadequate presence and participation of developing countries, which constitute the vast majority of the WTO membership. Industrial countries deployed an average of 6.8 officials to follow activities in Geneva. Developing countries sent an average of 3.5 officials.<sup>20</sup> Nineteen of the forty-two African countries have no permanent representative at the WTO in Geneva.<sup>21</sup>

### 3. Minimalist versus Millennium Round

There were different ideas on what the next Round of the WTO negotiations should encompass. The WTO was committed to commence negotiations in 2000 on the "built-in agenda" which consists of agriculture and services. It was mandated at the end of the Uruguay Round that these negotiations would start in early 2000. The discussions on services achieved some progress before and during the Seattle Ministerial, and this was not one of the issues on which the meeting foundered. However, in agriculture the issues remain very contentious, and the positions taken were in many instances diametrically opposed. The parties were far apart and there was little or no willingness to compromise. Additional issues were proposed for inclusion, i.e. competition policy, government procurement, investment, trade related labour issues, the environment and electronic commerce. There were, however, serious differences on which of these topics should be included. The European Union advocated investment and competition policy as priorities, but the United States was insistent on electronic commerce and as Ambassador Barshefsky said in testifying to the Senate Finance Committee: "more attention to the interaction of trade and core labour standards is warranted".<sup>22</sup> There was even profound disagreement on what to include in the mandated service negotiations. The developed countries pushed for air transport, financial and professional services, while developing countries pressed for maritime transport, entertainment and movement of natural persons.

There were two schools of thought on what the agenda should encompass. The *minimalist school* suggested that the built-in agenda was adequate to constitute the basis for further multilateral trade negotiations. The objectives in Article XIX of the GATT and Article 20 of the Agreement on Agriculture<sup>23</sup> are couched in such vague language that the ambit of negotiations could be very wide. It was strongly felt by the proponents of this perspective that there was no need for a new round of negotiations and if there was such a round, it was ill advised to broaden the agenda to

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include divisive issues such as labour, environment and investment. Many developing countries felt that any future negotiations should focus on the issue of development, as the UNCTAD Trade and Development Report of 1999 states: «*the predicted gains to developing countries from the Uruguay Round have proved to be exaggerated.*»<sup>24</sup> The advocates of a Millennium Round argued that a wider agenda would provide more trade-offs thereby allowing countries to compromise in agriculture and services. The notion of a millennium round was instigated by the EU at the behest of Trade Commissioner, Sir Leon Britten, with a view to ensuring adequate compensation for concessions in agriculture.<sup>25</sup> However, the disadvantages of a widened agenda were the increased number of issues, permutations and possibilities. In reality, rather than making it easier to arrive at an agenda, more trade-offs actually made the process more complex. For example, for every new issue proposed there were some group of countries that were opposed to its conclusion or did not think it should be dealt with in the way it was proposed. The broad approach to the draft agenda did not necessarily help to get consensus on an agenda. The experience of Seattle reinforced the view expressed by India's Minister of Commerce and Industry: "What we need is a manageable round, not a millennium round".<sup>26</sup>

#### 4. Decision-making Process

The decision-making process in the WTO has major deficiencies. It is a process developed in the GATT where membership was much smaller and had been dominated by the developed and industrialized countries. The developing countries on a whole went along because they were not as assertive and sophisticated as they are now. The Green Room process controlled by the Chair, the Developed Countries and the Director General is a process in which a few other countries are chosen to constitute groups of about twenty countries to discuss critical issues. The problem is that the full membership is not aware of what criteria are used for admission to the Green Room and therefore feel disenfranchised. Even if some developing countries are present in the Green Rooms, they do not have a clear mandate to represent those member states which were omitted. The result is that spokes persons from developing countries were confined to articulating national positions or very broad principles subscribed to by the majority of developing countries.

The situation has changed and, therefore, the old management style and decision making process, which was not trans-

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parent and was essentially undemocratic, will no longer work. Sir Shridath Ramphal, Chief Negotiator of the Caribbean Regional Negotiating Machinery (CRNM), issued a communiqué which declared that «as long as due respect to the procedures and conditions of transparency, openness and participation that allow for adequately balanced results in respect of the interests of all members do not exist, we will not join the consensus.»<sup>27</sup> The African countries issued a similarly condemnatory statement highlighting the lack of transparency as the basis for their unwillingness to join any consensus.

Obviously, 135 countries cannot constitute a manageable drafting committee and therefore there has to be some smaller group charged with resolving key issues. Such a group must however, satisfy the principles of transparency and representation. Ambassador Barshefsky, the chair of the meeting and Director General Moore expressed empathy with a more transparent process in Seattle. Hence, a hybrid system of formal working groups and informal green rooms emerged in Seattle. This new arrangement was one of managed democracy, as was evident when the chair of implementation working group was switched from Jamaica (spokesperson for trade on behalf of the 70 developing countries of the African, Caribbean and Pacific group in their negotiations with EU) to Canada, overnight and without explanation.

The process of dialogue was also complicated by the patent lack of diplomacy, as there was an imperial management style, which was an ever present threat to consensus. Barshetsky stated that if the process did not reach a consensus text, «I fully reserve the right to also use a more exclusive process to achieve a final outcome. There is no question about either my right as the chair to do it or my intention as the chair to do it.»<sup>28</sup> The inadequacy of diplomacy deprived the forum of the possibility of achieving the synergism necessary for a consensus.

## 5. Dissatisfied Majority

There is a dissatisfied majority of countries because the 110 non-OECD member states, mainly developing countries, felt that their issues were not being fully recognised. These countries called for development to be a dimension of all the issues being discussed, and that it should not be a stand-alone issue. The majority of members in the organization felt that this issue should be reviewed or they would be reluctant to be part of any consensus. Developed countries advised developing countries that there would not be a re-opening of the Uruguay Round text.

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unless a plethora of new issues could be included in the discussion. The developed countries also contended that the development issue had already been addressed and there was now an urgent need to move on to other matters. In reality many developing countries have not been able to meet the implementation deadlines despite their best endeavors. This prompted the African, Caribbean and Pacific Group of States to propose the extension of transitional periods of the TRIPS, TRIMS and Custom Valuation Agreements for «*periods that take into account the availability of resources required to effectively implement these Agreements.*»<sup>29</sup> The costs of implementing these three agreements have been very substantial.<sup>30</sup> It was unfortunate that such modest demands by developing countries were allowed to be a source of resentment. The US in particular was implacable in their insistence on compliance with commitments on time and in full.<sup>31</sup>

This controversy was not unexpected, as developing countries had consistently expressed their reservations. Skepticism had been expressed at the G.15 Summit about the efforts of developed countries to implement obligations benefiting developing countries and the consequent inability of these countries to realize the gains which can result from improved market access in developed countries, particularly in agriculture and textiles and apparel. The caucus also condemned the failure to implement the provisions for special and differential treatment for developing countries and least developed countries<sup>32</sup> Some developing countries had taken more strident positions. Brazil and India have questioned whether further tariff liberalization is in the interest of developing countries unless the problems of non-tariff barriers e.g. anti-dumping and countervailing duties imposed by developed countries are addressed, particularly in agricultural trade.<sup>33</sup>

Developing countries have repeatedly stated that it has been extremely difficult to translate the special and differential provisions contained in the WTO Uruguay Round agreements into meaningful results such as increased market access. The effectiveness of special and differential treatment is also limited by offsetting countervailing action by developed countries and utilization of other or new forms of protectionism. The provisions need to be simplified and clarified in order to turn them into tangible benefits. Special and differential treatment came under severe attack from more developed countries, reflecting a shift in the philosophical approach to trade and development, the emergence of the newly industrialized economies who can utilize these special privileges in a way that threatens developed

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country markets and the perception that developing countries are not doing enough to take advantage of the provisions.

If the majority of members in an organization feel strongly about an issue, which is not included on the agenda, it is unlikely that they will agree to be part of the consensus. Such a situation occurred because developing countries, which constitute the majority of the membership of the WTO, felt that issues of vital concern to them were ignored. Developed countries had consistently rebuffed developing countries stating repeatedly that there was no need to reopen the Uruguay Round text, as the question of development had already been adequately dealt with and there is now a compelling need to move on to other topics. In addition, reopening would have to include "new" issues not in the existing agreement. Since it is neither magnanimous nor impractical to take the concerns of developing countries into account, developed countries should have adopted a more conciliatory stance; a more reasonable approach by developed countries would in all likelihood have elicited a cooperative disposition by the majority of member states. For example, the least developed countries' call for "*bound and duty-free, quota-free market access for all products originating in LDC*"<sup>34</sup> could have been welcomed since it was not a major concession. Exports from the 48 LDCs comprise only 0.25 per cent of total world trade.<sup>35</sup>

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## II. Post Seattle

The Seattle Ministerial discussed intensely, but made limited progress on the 32-page draft declaration and resolved few of the nearly 400-bracketed items. The status of this document remains unclear because there is disagreement among member states on whether discussions would resume where they ended or whether to start afresh, as many countries regard the draft text as no longer valid.<sup>36</sup> The debacle in Seattle was a setback to the prospects for and process of a new round of negotiations in the WTO, but it was not fatal. The following factors are among the most influential in determining what transpires in the future.

### 1. Progress on the Built-in Agenda

One possibility for restarting a new Round is to begin with the existing mandate, i.e. the "*built in*" agenda, and expand the ambit by adding new initiatives as occurred during the Tokyo and Uruguay Round and/or adding the TRIPS Agreement which is soon to be reviewed.<sup>37</sup> The built in agenda could also be expanded by adding contentious issues, which might include

increased transparency in the WTO, more technical assistance for developing countries, duty-free market access for the least developed countries and improvements to the dispute settlement process. The built-in agenda is a positive and complex agenda, and its successful conclusion would be an important achievement. If substantial progress can be made in liberalizing trade in agriculture and services it would make a significant contribution to global economy since these two sectors account for about 30 per cent of world trade. Liberalization of these sectors could produce a significant stimulus to the expansion of global trade in which all countries can be beneficiaries. Negotiations in agriculture and services will be complicated because of entrenched national interests and new issues emerging from the evolution of global service economy and will take considerable time and therefore negotiations should start immediately.

The passage of time may also have a salutary effect on some of the principal protagonists. The EU's positions on several issues may be influenced by the expansion of its members to include 13 new countries and the expiration of the "peace clause" in 2002. The recovery of the world economy may make a range of countries more disposed to liberalization.

## 2. Post Election US-Trade Policy

Significant progress in the WTO negotiations is unlikely until the new US administration enunciates its trade policy. If the new administration is granted fast track authority by Congress, this will provide the assurance that the US negotiators have a clear mandate and negotiations can proceed in earnest. A new administration with fast track authority can give the kind of decisive leadership, which it has in the past and which as the largest trading country and the most powerful country in the world, it has to give if this process is to come to fruition. How long it will take a new administration to persuade Congress to grant fast-track authority is impossible to predict. The only certainty is that it will be a protracted debate<sup>38</sup> which will require political acumen and adroitness by the White House and Congressional leaders.

How the labour rights issue is treated will be an important determinant on whether there will be consensus on an expanded agenda for negotiation. US insistence on including the topic in the WTO deliberations rather than in the International Labour Organization could derail the negotiations, as the opposition of developing countries is deeply entrenched. A former chief economic advisor to President Clinton believes that the irony of

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such a predicament is that «*the biggest losers would be the very workers.*»<sup>39</sup> Only Republican control of the White House and Congress could provide the possibility to expunge labour rights from US trade policy.

### 3. Reforming the Institutional Process

There has to be a review and reorganization of the decision making process in the WTO. In particular, there needs to be some decision-making mechanism which stands between the chairing country, the Director General and the membership. The existing General Council on which all member states are represented is too large and cumbersome to be effective. Decisions are usually made by consensus but if this is not possible, decisions can be arrived at by voting. This means that one member state can block the consensus. A smaller representative body more conducive to efficacious decision-making is needed. A committee similar to the Economic Security Council proposed by the Commission on Global Governance<sup>40</sup> should be considered. It should comprise 20-25 member states and its composition must include the 10 largest countries by share of global trade in goods and services. The remaining membership of 10 to 15 countries should be elected by a democratic process. Adequate and balanced representation could be ensured by having members elected on the basis of region<sup>41</sup> or categories of countries or some combination of both criteria. Decisions would be made by consensus, as this body would not confer a veto power to any country. A US proposal for allocating votes based on members share of world trade<sup>42</sup> is a non-starter, as it would ensure the dominance of the US and the EU. A transparent, decision-making institutional structure must be created to avoid the problems, which occurred in Seattle. This is a matter, which the Director General needs to turn his attention to.

In the Free Trade Area of the Americas (FTAA), this problem has been resolved by the operation at the Ministerial and Trade Negotiators Committee of a small informal group including the largest trading countries namely: the United States, Canada, Mexico and Chile and one country from each regional group (Andean Group, Central America, CARICOM and MERCOSUR). In the GATT and subsequently in the WTO process there is no such intermediary managing committee. Those countries that are not invited or conscripted to the Green Rooms do not feel they have representation or a voice in the deliberations. The result is that decisions lack the legitimacy of a participatory democratic process and cannot command compliance. The old undemocrat-

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ic process is no longer acceptable, indeed, the majority of countries, i.e. the developing countries, are less willing to acquiesce to the traditional hegemony of the developed countries. This deficiency in the WTO system needs to be corrected at the earliest opportunity.

#### 4. Incorporating Civil Society

There is widespread anxiety and even disaffection about globalization and further trade liberalization as an aspect of this process. These concerns are exhibited by governments, business organizations, trade unions and non-governmental organizations (NGOs) in developed and developing countries. Concerns about the impact of trade liberalization have led to interventions by new actors and may portend new alliances. For example, Consumers' International (CI), a federation of 247 consumer organizations in 111 countries opposed to further global trade liberalization. It advocates ensuring the benefits from Uruguay Round are fully attained and finding ways to achieve adequate protection for consumers. The CI is convinced that the benefits of the Uruguay Round have not been shared equitably; in fact, the WTO accords have been implemented chiefly to the advantage of multinational corporations and the more powerful countries.<sup>43</sup> This perspective is not unlike some views emanating from developing countries. Interestingly, there is a possible coincidence of interests between groups in developed and developing countries and the global NGO community on some issues e.g. curtailing the dominance of developed countries<sup>44</sup> which could be portents of a nascent strategic alliance.

A new development in multilateral trade talks is the increased influence of non-governmental organizations (NGOs). The NGO community has begun to exert influence beyond the issue of trade and the environment, particularly in developed countries where NGOs have both opposed the positions of their own governments and sought to influence other countries participating in trade negotiations. Non governmental groups have considerably expanded their international cooperation; for example, the NGO statement on the Multilateral Agreements on Investment was endorsed by 565 organizations in sixtyeight countries.<sup>45</sup> A month after Seattle selected NGOs and labour organizations participated in the World Economic Forum in Davos, the so called "*inner sanctum of global business executives.*"

Non-governmental organizations can make an important contribution to the work of the World Trade Organization as it can

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provide a mechanism for (a) soliciting and incorporating the view of civil society (b) improve the responsiveness of the WTO to criticisms about the roles of the multilateral trading system (c) it can enhance the legitimacy of the WTO as the rule making organization by making the decisions of the WTO more representative and (d) can facilitate an increased and improved flow of information to groups and organizations traditionally excluded from trade negotiations.<sup>46</sup> The WTO should seek to develop institutional mechanisms for expanded public participation and consultation as this can enrich its decision making process. However, this has to be done in a way which does not overwhelm the WTO capacity to assimilate information and make decisions. In this regard the experience of the consultative group on civil society in the Free Trade Areas of the Americas (FTAA) could be instructive.

### **Impact of New Members**

There are thirty countries waiting to join the WTO, including China, Russia and some transitional economies. Although their entry is not likely to be achieved very quickly, whenever they do accede to membership, it will further complicate the negotiations. This will be the case whether they enter during the negotiations of the “built in” agenda or a comprehensive Round, if that is launched. The entry of China will change the political dynamics of the WTO process depending on where it chooses to align itself, for example in tandem with developing countries it could change the existing power configuration. Another problem is the request by transitional economies for special treatment and concessions, a concept which is likely to be repudiated by some developed countries and resisted by developing countries.

### **6. Reconciliation of Bilateralism, Regionalism and Multilateralism**

More than in any previous round of multilateral trade negotiations; member states came to Seattle in the midst of numerous bilateral, regional and hemispheric initiatives. This plethora of activity, aptly described as trade *promiscuity*,<sup>47</sup> enervated the WTO preparatory process. These other negotiations diverted time, money and human resources from the preparatory process. The EU and seventy developing countries of the ACP were in the penultimate stage of concluding a renewal of the Lomé Convention. The Americas were involved with the Free Trade area of the Americas and with a notable resurgence of intra-regional trade in

NAFTA, Mercosur, CARICOM, the Andean Group and the Central American Common Market.<sup>48</sup> The Asian countries, although embroiled in financial crises, continued to work within the ASEAN and APEC. The United States, since the late 1980s, has operated a trade strategy of inter-related multilateral, regional and bilateral initiatives, which may have weakened the multilateral track.<sup>49</sup> Several observers have decried the US for not being in its traditional assertive leadership role in multilateral trade fora.<sup>50</sup> This has been attributed to domestic politics, changing global realities in the world economy, “*aggressive unilateralism*” in US trade policy<sup>51</sup> and a preoccupation with a few “*big emerging markets*”.<sup>52</sup>

Regionalism is going to coexist with multilateralism for the foreseeable future, therefore the issue is how to create a symbiosis between regionalism and multilateralism. It may be easier to resolve issues or break new ground in regional fora where the numbers of participants is smaller and affinity is greater. Achievements in regional groups could feed into multilateral negotiations already having support from a group of countries. For example, the multilateral discussion on investment has stalled yet it is actively and constructively being tackled in the EU, FTAA and APEC.

## 7. Developing Country Demands

Developing countries constitute the majority of the membership of the WTO and are adamant that their concerns must be addressed in any future negotiations. Their demands center on adjusting implementation schedules, more participation in decision-making, transforming special and differential treatment into tangible gains, duty free, quota, free treatment of exports from the least developed countries and a moratorium on new forms of protectionism. The EU<sup>53</sup> Japan and Canada evince more empathy of developing country demands than the US. The US, leaning towards duty-free but not quota-free treatment for the LDC's providing it did go further than the Africa Trade bill and the CBI enhancement legislation before Congress was met with derision. The stance of the US is tantamount to no liberalization of market access for textiles and apparel, commodities in which LDC have a comparative advantage and potential for export growth. The developing countries and the US seem destined to prolonged confrontation over labor and trade. Inadequate workers rights in developing countries is believed by the US to be an unfair trade practice as it functions as a subsidy to exports and investment in labor intensive industries.<sup>54</sup> The perceived evisceration of their

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goals during the WTO has engendered a new militancy by developing countries enunciated by the Minister from St. Lucia in his address to the plenary of the Seattle meeting. "No to *globalization without ethics! No to Liberalization without equity! No to globalization without inclusion! No to Liberalization without human security! No to globalization without sustainability and above all, Chairperson, no to liberalization without development.*"<sup>55</sup>

### III. Review and Outlook

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Some critics have equated the WTO to some Orwellian «Big Brother» and have called for it to be dismantled.<sup>56</sup> However, a rule based, multilateral trading system must have an institution where the rules are formulated, monitored and interpreted. Like democracy, the WTO system is not perfect but it is the best alternative and therefore attention must be focused on improving its operations. The trade ministerial in Seattle was detrimental but not fatal to the WTO. The failure of the meeting to decide on whether to have a new comprehensive round of negotiations and what should be included in the agenda of such a round is a reflection of a political environment which was not conducive to achieving success on such a momentous issue. It also revealed the truncated preparatory process and the endemic weaknesses of the WTO's decision-making process. The proposal to expand the ambit of the agenda beyond the built-in issues did create options and tradeoffs but it also multiplied the difficulties. The complexity of the issues and the dissatisfaction of developing countries over the lack of traction on issues critical to them also contributed to the stalemate.

The WTO commenced negotiations on the built-in agenda of agriculture and services early in 2000, a task technically complex and politically contentious. These negotiations are enormously important and if successful can be a major boost to global trade. If the negotiations on the built-in agenda are to be expanded into a comprehensive round, it will depend on the progress achieved on the items of the built-in agenda and on US trade policy under the new administration. The extent to which member states focus on multilateral trade issues rather than on the burgeoning regional and bilateral initiatives will be an important factor. The decisions which have to be taken can be facilitated by reforming the decision-making structure and process of the WTO to make them more transparent, democratic and responsive to civil society. The developing countries (the

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majority of membership) will be more assertive in pursuit of issues that they feel strongly have been neglected or marginalized. This will create a new political dynamic in the WTO negotiating process, a dynamic which is certain to be changed by the entry of as many as thirty new members, in particular China.

## Notes

1. Larry Elliot, "Unless the World Trade Organization cleans up its act there will be more issues for the protesters to trade on", *Guardian Weekly*, December 9-15, 1999.
2. Gary Clyde Hufbauer, *World Trade After Seattle: Implications for the United States*. International Economics Policy Briefs, N<sup>o</sup> 99-10 (Washington, D.C.: Institute for International Economics, December, 1999) page 1.
3. President Clinton has denied that his statement was intended to boost the candidacy of Vice President Al Gore. See Paul Magnusson and Aaron Bernstein, "Whose World is it, anyway?" *Business Week*, December 20, 1999, page 34.
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### **III International Meeting on Globalization and Development**

The annual international meeting on globalization and development problems has been convening in Havana, Cuba, ever since 1999. It is a forum that gathers economists with the most diverse ideological tendencies to discuss the major problems of today. The third meeting, held from January 29 to February 2, 2001, discussed possible alternatives to the prevailing world order, which is seen as "inoperative and explosive", in the words of Roberto Verrier, Chairman of Cuba's National Association of Economists and Accountants and Vice-Chairman of the Economists Association of Latin America and the Caribbean, which organized the meeting.

### **III encuentro internacional sobre globalización y desarrollo**

Desde 1999 se viene realizando en La Habana, Cuba, el encuentro anual internacional sobre globalización y problemas del desarrollo, un foro al que concurren economistas de las más variadas corrientes ideológicas con el propósito de hacer un diagnóstico sobre principales problemas de nuestra época. En su tercera edición -entre el 29 de enero y el 2 de febrero de 2001- el encuentro dio un nuevo paso al proponer el debate de posibles alternativas al orden vigente "que se reconoce ya como inoperante y explosivo", según palabras de Roberto Verrier, presidente de la Asociación Nacional de Economistas y Contadores de Cuba (ANEAC) y vicepresidente de la Asociación de Economistas de América Latina y el Caribe, entidades organizadoras de los encuentros.

### **Troisième rencontre internationale sur la globalisation et le développement**

Depuis 1999 se tient chaque année à La Havane, Cuba, une rencontre internationale sur la globalisation et les problèmes du développement; à ce forum participent des économistes venant d'horizons idéologiques très divers qui se proposent d'émettre un diagnostic sur les principaux problèmes de notre époque. La troisième rencontre, du 29 janvier au 2 février 2001, a permis de franchir un nouveau pas en proposant un débat sur les solutions susceptibles de modifier l'ordre actuel «déjà reconnu comme inopérant et explosif», selon les paroles de Roberto Verrier, président de l'Association nationale des économistes et comptables de Cuba (ANEC) et vice-président de l'Association des économistes d'Amérique latine et des Caraïbes, institutions qui organisaient la rencontre.

### **III Encontro internacional sobre globalização e desenvolvimento**

Desde 1999 realiza-se em Havana, Cuba, o encontro anual internacional sobre globalização e problemas do desenvolvimento, um foro no qual participam economistas das mais variadas correntes ideológicas para darem um diagnóstico sobre os principais problemas da nossa época. Na sua terceira realização -entre 29 de janeiro e 2 de fevereiro de 2001- o encontro deu um novo passo ao propor o debate de possíveis alternativas para a ordem vigente "que já se reconhece como inoperante e explosiva", segundo Roberto Verrier, presidente da Associação Nacional de Economistas e Contabilistas de Cuba (ANEAC) e vice-presidente da Associação de Economistas da América Latina e do Caribe, entidades organizadoras dos encontros.

# III International Meeting on Globalization and Development

→ **Roberto Verrier**

*Chairman of Cuba's National Economists' Association (ANEC)*

Dear Colleagues from Latin America and the world:

"Let us for a moment assume, believing in the metaphor that is often used to describe global interdependency, that the world is indeed a global village. Let us say that this village has one thousand inhabitants with all the characteristics of today's human race evenly distributed. What would it look like? What would be its main problems?

Around one hundred and fifty people live in a prosperous area of the village and approximately eight hundred and eighty in poorer neighborhoods. Around seventy more live in a neighborhood in transition. The average per capita income is \$6,000 per year and there are more people earning this income than was the case in the past. However, 86% of all wealth is in the hands of two hundred people, while almost half of the villagers struggle to survive on less than \$2 per day.

Who among us would not wonder how long can a village survive under those conditions? This is the question we must face in our real world of six thousand million people."

What I just read is a quote from the United Nations' Secretary General's report prepared for the Millennium Summit held at the end of the year 2000. This brilliant synthesis summarizes the terrible paradox mankind faces at the dawn of the third millennium.

In an attempt to untie the terrible Gordian knot such paradox represents today experts in the most different subjects and with the most varied ideological and political tendencies have been gathering from the four corners of the world, as gurus of modernity. It is regrettable that almost all their meetings attempt to solve separately what can only be solved by mutual agreement.

In light of this, two years ago, at a meeting of Latin American economists to which he was invited as special guest, President Fidel Castro called attention to the fact that the solution of global problems cannot come through antagonist proposals, which highlight personal talents and, at most, suggest half truths and

partial ways of action but fail to produce results, as our problems are increasingly global.

In that same meeting held in Havana in the summer of 1998, President Castro, based on his extraordinary faith in mankind's capacity and possibility to change such sorrowful destiny, revealed what can be considered one of the hidden ends of the Gordian knot: Latin American economists, convinced of the need to unite that which remains separate, should foster a meeting, at the highest academic level, of economists from all the current schools of thought so that discrepancies may be finally put to some use in the search for a consensus.

During two years the ANEC, the AEALC and Cuba have succeeded in what seemed impossible in economists' meetings on globalization and development problems: to gather in the same forum Marxists, development advocates, liberals and neo-liberals. Together we have analyzed the main problems of our times and practiced the difficult exercise of reaching a consensus. This faced us with the responsibility of considering a second level, this one, in which we will listen to possible alternatives to the current world order, which has proven inoperable and explosive.

Our attempts to steer our world' ship from the implacable iceberg that awaits it as blind market holds the rudder fluctuate from despair to disillusionment. The historical Millennium Summit, which at the time was seen as the beginning of a new and promising time in which all countries would reach development and poverty would end, within a dignified time span and in accordance with technology's rapid growth, seems destined to remain in our memory as an act of collective disillusionment. This is apparent in Kofi Annan's words during the last Christmas of the XX century.

On that day, the United Nations' Secretary General acknowledged before the media that "none of the goals" established for that meeting "could be met unless the whole world is truly developed" and "development will never come without resources", he added with disillusionment.

Thus, we need development to reach development and development will never come unless resources are allocated. Annan tells us what we have said here countless times, but he also tells us that the Millennium Summit failed to make the owners of wealth aware of the obvious truths that the owners of poverty not only know but suffer from.

There is no indication whatsoever that the alarm bells will cease to ring, as development assistance instead of increasing is decreasing, investments continue to be insufficient compared

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with development's needs, the debt is used as a weapon to exercise pressure in order to impose policies that deepen unbalances, the market continues to set the course blindly.

The signs of doubt arise from the very center of global powers. The US economy, now that the expansionist and consumer euphoria has ceased, begins to show signs of deceleration and hints at a recession that could have catastrophic consequences on this already uneven and battered world.

On the other hand, growing poverty at the south of the global village is causing an increasing process of migration which, given the xenophobic tendencies prevailing, could lead to violence. Powerful wealthy countries manipulate migrations in a double game of rejection in some cases and stimulus in others.

Colleagues:

People, tired of disillusion, have begun a new type of battle against global hypocrisy.

Political and economic fora, conceived by those with power in order to build the next universal dictate, are attacked by the representatives of organizations that are also global but lack real power. Seattle, Prague, Davos leave a clear message upon the walls of the universe: a new civil movement that transcends national boundaries is emerging. A strong global resistance movement is already opposing neoliberal globalization and attempting to develop new alternatives to neoliberalism's proposals. One of this is the World Social Forum held in Porto Alegre (Brazil). Like them, we believe that another world is possible.

Meanwhile, we continue to insist in the possibility of reaching an understanding, in creating awareness, in opening new areas of creative discussion. The presence here of several representatives of the IDB, the Inter-American Dialogue, the World Bank, who come here willing to discuss their views and policies, represents a stimulus that somehow rewards our efforts. Similarly, for the third time we invited several executives from the IMF to participate in this plural debate which concerns, necessarily, their very questioned policies and we do not lose hope that at some point in time a representative of that organization, which we hold mostly responsible for our poverty, will join us here.

We have been asked if this invitation and our willingness to discuss all views signal a change in our association's position. As Chairman of Cuba's ANEC, I believe that my words clearly express the positions I represent. As Vice-Chairman of the Economists' Association of Latin America and the Caribbean, I keep in mind always that we are part of a varied group that at times has disagreed and even held antagonistic positions.

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*Growing poverty at the south of the global village is causing an increasing process of migration which, given the xenophobic tendencies prevailing, could lead to violence.*

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Nevertheless we believe in the tremendous usefulness of this school in which we grow as economists and politicians, by listening closely to each other, relinquishing inflexible or extremist positions and always aware of our great responsibility as children of people who have been traveling for centuries in the last wagon of development, waiting for the opportunity that those who have become wealthy on a good portion of our wealth owe us.

These meetings arose from such desire for dialogue and thus will continue in the future as long as we are capable to grant meaning and a practical outlet to what we learn.

### **Some General Principles to Reach Sustained Development**

Robert Solow, of the United States, was awarded the Nobel Prize in Economics for his contributions to the theory of economic development. It is with authority, then, that he states directly that there is no universal recipe for obtaining sustained growth in productivity and income throughout the world, "as if it were a broiled chicken that you can roast in much the same way just about anywhere in the world". Nevertheless, he adds that there are some general principles that can provide a starting point to achieve the desired objectives. In this article he reviews these general guidelines.

### **Algunos principios generales para alcanzar el crecimiento sostenido**

El estadounidense Robert Solow obtuvo el Premio Nobel de Economía por sus contribuciones a la teoría del crecimiento económico, y ello le da la autoridad para asegurar sin ambages que no existe ninguna receta universal que permita producir un crecimiento sostenido de la productividad y los ingresos de la misma manera en todas partes del mundo, "como si fuese un pollo asado, el cual se prepara más o menos de la misma forma en cualquier lugar". Sin embargo, sí existen, en su opinión, ciertos principios generales —a los cuales se refiere en el siguiente texto— que representan un buen punto de partida para alcanzar tan deseado objetivo.

### **Quelques principes généraux pour parvenir à une croissance soutenue**

L'américain Robert Solow s'est vu décerner le prix Nobel d'économie pour sa contribution à la théorie de la croissance économique, ce qui l'autorise à affirmer sans ambages qu'il n'existe aucune recette universelle permettant une hausse soutenue de la productivité et des revenus dans toutes les régions du monde «comme s'il s'agissait d'un poulet rôti au four, dont le mode de préparation est pratiquement le même partout». Il juge toutefois que certains principes généraux, auxquels il se réfère dans le texte ci-après, constituent un bon point de départ pour atteindre cet objectif si convoité.

### **Alguns princípios gerais para atingir o crescimento sustentável**

O norte-americano Robert Solow ganhou o prêmio Nobel de Economia por suas contribuições à teoria do crescimento econômico; isso lhe permite assegurar que não existe nenhuma receita universal que permita um crescimento sustentável da produtividade e da receita igual em todas as partes do mundo, "como se fosse um frango assado que se prepara mais ou menos da mesma maneira em qualquer lugar". No entanto, o que existe sem dúvida são certos princípios gerais —aos quais se refere no seguinte texto— que representam um bom ponto de partida para atingir tão desejado objetivo.

# Some General Principles to Reach Sustained Development

⇒ **Robert Solow**

*Nobel Prize in Economics, 1987*

It is a great honor for me to speak to this important meeting, first of all as a working economist and also in my capacity as the current president of the International Economic Association (IEA). Unlike the Asociación Nacional de Economistas de Cuba and the other national associations represented here, the IEA does not have individual economists as members. The members of the IEA are national associations of economists, including the Cuban association. I hope that other national associations in the Latin American and Caribbean region will join the IEA if they are not already members.

For a long time the IEA was almost entirely an activity of academic economists in Europe and North America. It sponsored small conferences of specialists, published books, and organized many rather important discussions of issues at the intellectual frontier of economics. This function seems less important now, because it has been taken over by national associations and by the publication of scholarly journals and series of working papers that are read all over the world. Just recently the IEA has come to the conclusion that the most useful thing it can do is to help improve the conditions for economic research in Africa, Asia, the Middle East, Latin America, the Caribbean and the transition economies of Eastern Europe, and to serve as a sort of clearing-house for the continuing integration of professional economists from those areas into the world community of economists. Isolation is very bad for intellectual progress, so I hope the IEA can make a contribution toward breaking it down where it exists.

The IEA still conducts occasional small expert conferences and it plans to continue its regular series of World Congresses, held every year. The most recent one took place in Buenos Aires in 1999. I imagine that some people who are here today

participated in that meeting. The next World Congress is scheduled for 2002, possibly in Portugal, and I hope many of you will be able to attend.

The IEA has also begun to work with the World Bank's Regional Development Networks in the formation of a Global Development Network. This is now well underway. The Regional Development Networks are just what their name suggests. They are networks of economists in the various countries of a region, providing an organized way to share ideas, think about each other's problems and engage in cooperative research projects. The Global Development Network hopes to encourage the same activities across regions. The first cooperative research project has already begun, on *The Sources of Economic Growth*. Through parallel studies in each region, using common methods, we hope the comparison of results will uncover some useful generalizations about the process of economic growth as it has occurred under widely different circumstances, and will thus suggest successful approaches to policy. The IEA has participated in the planning and review of the first papers. A book containing them is now being prepared and I am planning to write the introductory chapter when it is ready.

One of the things I have learned as an observer of this first stage of the Global Development Network is that understanding is advanced by the use of a common theoretical framework and a common empirical approach in studying the growth of different national economies. Without this discipline one never knows if contrasting conclusions arise because the detailed reality differs from place to place or because of methodological biases that would produce different results even if applied to the same material.

But I have also learned that intelligent flexibility is required in this kind of comparative analysis. Reality can differ from place to place in ways that are not captured simply by varying the parameters of any tractable model. For example, two economies can respond differently to a common shock mainly because they have had different histories that have left their institutions with different reflexes and capacities, and their people with different ways of interpreting what they see and deciding how to respond.

An obvious example of exactly this is the way in which the

decisions made right after the break-up of the Soviet Union paid far too little attention to the need for rebuilding an institutional infrastructure capable of bearing the weight of a market economy and performing the functions necessary for a market system to be able to operate efficiently and equitably.

There is no universal recipe that will produce sustained growth of productivity and income anywhere in the world, the way you can roast a chicken in much the same way just about anywhere in the world. I think, however, that there are some fairly general principles, with roots in both economic theory and experience that are worth discussing. They have to be general precisely because they will have to be applied differently under different circumstances. But they are a good place to start.

The first of these principles has already been mentioned indirectly. A society that wants to make sustained economic progress needs a legal (or customary) infrastructure that enforces good-fair contracts, protects people and groups against arbitrary interference, guarantees the availability of necessary information and states clearly what are the limits of permissible economic behavior. Such rules do not have to be the same everywhere, though a certain amount of harmonization may prove to be healthy for trade and foreign investment.

The deeper point is that any modern economy necessarily involves a complex network of jointly useful transactions, usually extending into the future. Some uncertainty about the final outcome is probably inevitable. The rules of the game are there in order to avoid unnecessary uncertainty. I may not know if my customer or borrower or employer will be able to pay; that is business risk. The legal system can give me some confidence that if he can pay he will pay. Since uncertainty can inhibit otherwise productive actions and transactions, keeping uncertainty to the minimum that technology and human nature will allow is generally good for economic activity.

Along with any legal infrastructure goes an administrative infrastructure, in fact a bureaucracy. Everything I have said applies equally to the need for a reliable, impartial, fairly honest bureaucracy to enforce laws and regulations. To say this is a reminder that any social institution is operated by real people and can not function any better than they allow it to do.

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*There is no universal recipe that will produce sustained growth of productivity and income anywhere in the world, the way you can roast a chicken in much the same way just about anywhere in the world.*

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The second general principle that I want to mention is that competition is generally a good thing for the economy. A system in which competition is suppressed is unlikely to be one with high and rapidly rising productivity. Every economist knows the textbook arguments that show how and why monopoly tends to waste resources and restrict output. Those arguments are correct, but I am thinking of a more important economic cost associated with the absence of competitive pressure on producers.

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*Competition  
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 for the  
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There is convincing evidence that enterprises that are protected against competition tend to be slack. They may be slow to adopt new technology and they get less productivity that they could from the technology that they use. They organize production inefficiently, they chose a mix of products that does not correspond very well to what consumers want, and they do not control quality very well. Competition forces them to improve in order to survive. Long ago John Hicks remarked that “the best of all monopoly profits is a quiet life,” and there is a lot of truth to that observation.

The kind of competitive pressure that is needed can come from many sources: from domestic rivals, from imports, from transplants of foreign firms that have achieved good production habits, or from the providers of investment capital, whoever they are.

The third general principle follows from these considerations; open economies perform better than protected ones, primarily because openness enforces a competitive discipline. The classical gains from trade are real enough, but I am inclined to think that the bigger gains from openness come from the acquisition of new technology and industrial know-how and from access to capital.

Everyone has learned the lesson that direct investment is better than portfolio investment from abroad. Developing countries are certainly entitled to protect themselves from the kind of short-run funds in both directions. Developing countries have little to gain from foreign investment that does not create long-lasting stakes in the success of the local economy. It is important to get that protection in ways that favor domestic efficiency. For example, it seems better to limit the inflow of

capital rather than the outflow—Chile has experimented along this line—and to do so in a way that favors direct investment over portfolio investment. Whatever is done should not be or even look like a form of disguised protection. Experience tells us that the protection of local industry against imports and transplants tends to be a recipe for nepotism and corruption, and continuing low productivity. I emphasize domestic productivity, of course, because it is the only permanent determinant of the domestic standard of living.

The fourth remark I want to make is that every developing country (and every developed country, for that matter) needs a tax system that meets certain general requirements. The first, naturally, is that it should raise enough revenues and raise them equitably, according to ability to pay. It is also vital that the tax system be defended against corruption. This is a very important aspect of the legal infrastructure I discussed earlier.

Unless the tax system produces enough revenues to cover the important government functions, the tendency will probably prove to be irresistible to fill the gap by excessive monetary expansion, with the usual inflationary consequences and the usual diversion of resources away from productive activity and toward speculation and rent-seeking. I am afraid that this part of the conventional wisdom is true, and this makes the establishment of an adequate and equitable tax system all the more important for development.

There is still a further consideration. Any real-world tax system will create incentives that favor some activities and discourage others, to locate in one place rather than another, and so on. These effects have to be taken into account in designing a tax system. It is no wonder that designing a good tax system is difficult and there are no universal rules. This is another issue where history and local culture and attitudes can matter. I sometimes wonder why more developing countries and transitional countries do not think more seriously about land-value taxation, at least incrementally. There are obvious difficulties arising in advanced economies that would seem to be weaker at earlier stages of development.

The fifth and last general principle I want to propose is the need to provide some kind of safety net for those who are left behind

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Every country needs a tax system that meets certain general requirements.

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*Even though there are some general principles worth obeying, there is no need for other societies to imitate the precise political and institutional choices made by the U.S. or by the nations of Europe.*

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in the process of development or transition. This is not an afterthought but an absolutely essential part of any strategy of rapid development. The damage done by neglect is most clearly seen in the former Soviet Union, but the need is present wherever there is rapid massive change. This is, of course, one of the main reasons why governments need revenues. Here too the question of differential incentives must be considered as part of the design problem. The context I know best is my own country, so I take examples from there. If one social goal is to encourage work, than an Earned Income Tax Credit is superior to many other forms of public assistance. If population limitation is an important social goal, then that should be taken into account in designing social assistance and the way it affects men and women, for example. There is much more to be said on this important topic than I have the competence to say.

I will stop here, not because there are not other general principles worth stating, but because I do not know enough about problems of development and transition to state them carefully. Just because I am an outsider, however, especially an American outsider, I want to make one more point. That is to remind you that, even though there are some general principles worth obeying, there is no need for other societies to imitate the precise political and institutional choices made by the U.S. or by the nations of Europe.

Indeed, by my standards the U.S.A. has set a very poor example in some respects. For example, its tax system is not very progressive and the new Administration would like to make it even less progressive if it can manage to do so. It remains to be seen if the Bush government will succeed in voting a large tax reduction that favors the very rich. To take another example, the U.S.A. creates and allows more inequality and more poverty than is necessary or desirable. The system of elementary, secondary and vocational education functions badly; far too many people, children and adults, are without satisfactory access to health care and the fragile and erratic safety net is inadequate to the size of the problem that remains in such a rich country.

Every one of the policy areas I have mentioned can be dealt with according to your own preferences and experiences. It is important that *somehow* you maintain openness to trade and long-term capital movements, *somehow* provide for competition,



produce *some* clear and certain laws and regulations that provide the transparency and security of contract needed for industry to develop, introduce *some* form of progressive taxation that still encourages enterprises, provide *somehow* for those who find themselves seriously disadvantaged by the obsolescence of skills or left behind by unexpected shifts in the nature and location of industry.

There is more than just one way to pursue those objectives and different national cultures will naturally prefer different ways. Every society should make sure, however, that it is actually pursuing them effectively, and not evading tough choices by retreating into empty but nice-sounding slogans.

The theme of this conference is Globalization and Development. The only place where globalization enters into the principles that I have been discussing is through the importance of openness. Is globalization actually much more important than that? I am not sure. It is certainly true that globalization has magnified and speeded up the intrusion of international trade and finance into the development process and this is bound to attract attention. But it is also true that the main determinant of a nation's or region's level of income is still its own level of productivity. Success in adapting to globalization comes from finding and exploiting opportunities to use access to foreign goods and capital to enhance domestic productivity. That should be the goal of economic policy in this area.

Like nearly all economists I think that open and competitive international trade is a good thing for a country on the road to economic development; protection nearly always causes more problems than it solves. But it is important not to claim too much. In a world with rapid technological change, and especially with active trade in intermediate goods, it is always possible that an important industry in one country will be damaged by events that are beyond that country's control: the entry into the market of a new lower-cost competitor, or the appearance of a new technology that reduces the demand for a previously exported intermediate good. Both in theory and in practice, however, commitment to open trade remains the best policy in the medium and long run. Let me repeat: the most important determinant of a country's economic welfare is its own productivity, even in a world of active trade and capital flow.

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*Globalization has magnified and speeded up the intrusion of international trade and finance into the development process and this is bound to attract attention. But it is also true that the main determinant of a nation's or region's level of income is still its own level of productivity.*

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I would like to return, finally, to the general principles that I was discussing earlier, in order to point out one more strategic way in which they are interrelated. Before coming to Havana, I naturally tried to learn a little bit about the Cuban economy. Like nearly everyone who does so, I was filled with admiration of the prolonged and successful Cuban investment in human resources. The spread of literacy and general and technical education, and the universal accessibility of health care, with the consequent impressive reduction in infant and child mortality, are achievements to be proud of. Other nations of Latin America—not to mention North America—would do well to learn from Cuba's success in these important fields.

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*There are risks associated with creating a market economy and extending it to new goods and services. Some people will gain and others will lose, because some are lucky and others not. I have some confidence that more will gain than will lose; otherwise liberalization would be a bad idea.*

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Access to health care and education are important components of the safety net that every developing country, and every developed country, needs. They set a floor under the quality of life of every citizen, and therefore they limit the degree of inequality that can arise from the risks inherent in any changing economy. For this reason, it seems to me, Cuba is in a better position than some other countries to move in the direction of liberalization and to try to get the economic benefits that come with competition and openness to trade and investment.

There are risks associated with creating a market economy and extending it to new goods and services. Some people will gain and others will lose, not because some are virtuous and others not, but because some are lucky and others not. I have some confidence that more will gain than will lose; otherwise liberalization would be a bad idea. A nation like Cuba that already has, and intends to keep, the most important components of the safety net can better afford to accept the risks of opening up the economy, precisely because it is already protected against some of the social costs that will inevitably come with liberalization.

This kind of trajectory might help to preserve and extend the remarkable gains that Cuba has made in its adjustment to the adverse shock of 1989-90. Otherwise it is likely that only very limited further gains can be made in productivity and the standard of living. As an outsider I am in no position to guess what the next steps ought to be. But I think the general goal should be to remove the biggest remaining distortions, and to look for gains in economic efficiency while preserving as much of Cuba's

human resource tradition as is practical. That would be a creative contribution to the practice of economic development. The function of economic analysis is to understand and assist that process.

DEBATES |

**Globalization and the Agenda for Development**

*The developing world has not obtained as yet the benefits –mainly, high economic growth rates– it expected as a reward for the strict economic adjustment policies it has adopted since the seventies. However, in the opinion of ECLAC's Secretary General, this fact has also given rise to a debate that will surely enrich the proposals in favor of a new development agenda that may allow all peoples of the world to benefit from globalization.*

**La globalización y la agenda del desarrollo**

*El mundo en desarrollo no ha logrado aún los beneficios –altas tasas de crecimiento económico, principalmente– que esperaba como recompensa por la aplicación de los severos planes de ajuste económico emprendidos desde la década de los setenta. Pero este hecho –de acuerdo a la visión del Secretario general de la CEPAL– ha generado también un debate que seguramente servirá para enriquecer las propuestas a favor de una nueva agenda para el desarrollo con la cual todos los habitantes del mundo puedan beneficiarse de la globalización.*

**La globalisation et l'agenda du développement**

*Le monde en développement n'a pas encore obtenu les bénéfices escomptés de l'application de rigoureux plans d'ajustement économique à partir des années soixante qui paraient notamment sur la hausse des taux de croissance économique. Aux yeux du Secrétaire général de la CEPAL, ceci a toutefois donné naissance à un débat qui contribuera sans aucun doute à enrichir les propositions en faveur d'un nouvel agenda du développement permettant aux habitants de la planète de tirer parti de la globalisation.*

**A globalização e a agenda do desenvolvimento**

*O mundo em desenvolvimento ainda não conseguiu benefícios como altas taxas de crescimento econômico, principalmente, que esperava como recompensa pela aplicação dos estritos planos de ajuste econômico empreendidos desde a década de setenta. Entretanto, este tema –de acordo com a visão do Secretário Geral da CEPAL– tem criado um debate que servirá certamente para enriquecer as propostas a favor de uma nova agenda para o desenvolvimento com o qual todos os habitantes do mundo poderão beneficiar-se da globalização.*

# Globalization and the Agenda for Development

↔ **José Antonio Ocampo**

*Executive Secretary of ECLAC*

Economic liberalization was presented to the developing world as the answer to inefficient strategies associated with trade protection, high levels of government intervention and rent-seeking approaches by economic agents. It was equally presented as the means to fully benefit from the opportunities made available by globalization. Such an approach represented a radical shift from the ideas that had served as the basis for development strategies for several decades, according to which late industrialization required massive intervention by the State. The 'Washington Consensus' was one of the best presentations of this agenda, which by the way did not incorporate some of the more radical positions such as those which claimed the need for a minimalist state (Williamson, 1997). It equally reflected the optimism prevailing a decade ago on the reform agenda.

The wisdom of this vision has been forcefully questioned during recent years. Probably the Asian crisis was its worst setback as it showed that financial liberalization can be at the origin of profound macroeconomic instability if not accompanied by an appropriate institutional framework. The strong reaction by the 'global civil society' since Seattle indicates that globalization is in itself questioned, showing the discontent prevailing in the industrialized world. In developing countries, even though discontent with the reforms is growing its political manifestations are less organized and its agenda is still to be drawn.

In general terms, there is an increasing lack of satisfaction with the results achieved by the reforms. Even though trade and foreign direct investment have grown notably, the 'promised land' of high rates of growth is increasingly perceived as a mirage. In Latin America, the region of the world where reforms have advanced the most, the annual rate of growth during the 90's was

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*Even though trade and foreign direct investment have grown notably, the 'promised land' of high rates of growth is increasingly perceived as a mirage.*

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only 3.2 %, significantly lower than the yearly rates of growth achieved during the three decades of state led industrialization, between the 50's and 70's (5.5%). The performance achieved by Sub-Saharan Africa and, in general, by the Least Developed Countries, continues to be very inadequate. Several of the economies in transition show levels of activity lower than those registered before the "great opening". Most of the Asian economies affected by the crisis have recovered but they still have to confront the repercussions of the financial crises. The most notable exceptions are obviously China and India, which, at any rate, are not among the economies with high levels of reform. Even in the industrialized world, growth during the 90's was much lower than during the "golden age" (1950 to 1973). The United States did reach such growth rates but only during the second half of the decade.

On the other hand, acute tensions prevail at the income distribution level and it is probable that they may be increasing. Income disparities between developed and developing countries continue to rise (UNDP, 1999). Income distribution has deteriorated in a large number of both developed and developing countries. Existing calculations show that 57% of the world population lives in countries where income distribution has deteriorated whereas only 16% lives in countries where it has improved, the rest not showing any significant trend (Cornia, 1999). The growing income differentials associated to levels of skill within the labor force is a world wide phenomenon, even though different situations may explain it: trade liberalization, technological trends, existing asymmetries in the international mobility of some production factors (capital or highly qualified labor) versus others (less qualified labor), the growing difficulties encountered by governments to provide effective social protection instruments (Rodrick, 1997).

Such situations and the discontent they engender have given rise to a welcomed debate that will no doubt enrich the agenda for development. In recent years such debate has acquired a more pluralistic character, which has led to new development perspectives. New views have come forth in the international debate, among them the importance of institutional development, social protection networks, the need for a sense of ownership of development policies. Does it mean that the

development agenda is changing? Maybe, but it is not yet evident. In many cases, the new concepts and emphases are simply added to what is basically the same agenda that has prevailed in recent years. It is a lineal conception according to which new generations of reforms are added to what are considered sound foundations. In the less favorable conditions they are simply new trappings for the same ideas. The markets, in particular the financial markets, have not really assimilated the need for a new development agenda and, in essence, continue to claim for further liberalization, both at the national and world levels: in short, more first generation reforms. This continues to be the prevailing trend in a world where national governments' capacity to act has weakened and there is yet but a precarious transition towards global policies.

In the present essay some of the more important lines of thought upon which proposals in favor of a development agenda are based are succinctly presented<sup>1</sup>. Two cross cutting themes permeate the existing literature and must be underlined from the beginning. The first is a call towards a new equilibrium between the market and public interest. Such a call must not be seen as contrary to the market since actions in favor of the supply of public goods, the rounding-up of markets, assisting non-competitive markets to function appropriately, making use of positive external variables and avoiding negative ones, or guaranteeing a fair participation in the benefits of development, can operate as powerful mechanisms in favor of the marketplace through different economic, social and political channels.

If appropriately implemented, an active policy of this kind will be more 'market friendly' than the alternative approaches that have tended to predominate during the first wave of reforms.

The second issue is that public policies must be understood as any kind of organized action in favor of common interest goals, instead of as relating exclusively to state initiatives. Such a concept is consistent with the call for greater participation opportunities for civil society and with the need to overcome the crisis of the state that affects the developing world and, in truth, the world at large. It endeavors to overcome both the failings of the market and those of the state. At a more general level, such an approach endeavors to build and rebuild institutions (institu-

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*Public policies must be understood as any kind of organized action in favor of common interest goals, instead of as relating exclusively to state initiatives.*

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tions and organizations, in the new institutional literature's terminology), no doubt one of the more complex undertakings economies in development and economies in transition face today, and even the most urgent and insufficiently addressed task in the process of shaping a better international order.

### **I. A More Balanced Globalization with True Respect for Diversity**

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*Even though globalization derives from dynamic processes driven by the economy and by technology, there is no doubt that it can be shaped.*

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The need to 'civilize' the global economy (Helleiner, 2000) or, as expressed in the U.N. Millennium Declaration, to 'insure that globalization becomes a positive force for all the inhabitants of the world' (United Nations, 2000) is undoubtedly the most important issue. Even though globalization derives from dynamic processes driven by the economy and by technology, there is no doubt that it can be shaped. In fact, the way it has developed is to a large extent the consequence of explicit policy decisions.

Thus, the most troubling feature of the present globalization process and of the international policy agenda that goes with it, is its incomplete and even unbalanced character that reenacts old asymmetries in the world economy and fosters new ones. Four issues prevail in the current agenda: free trade, intellectual property rights, investment protection and financial and capital account liberalization. To the latter, some additional conditions have been imposed in view of the latest crises: it must be undertaken in a prescribed sequence, priority should be given to term flows and to institutional development. Further more, trade liberalization is incomplete and asymmetric: sensitive products, of interest to developing countries, are subject to the highest levels of protection in the industrialized world.

On the other hand, some other issues have been clearly marginalized in the present agenda: labor mobility; international taxation rules, particularly on capital, indispensable to insure an appropriate contribution by this highly movable factor; regulations of a truly international nature on competition and codes of conduct for multinational corporations; compensatory financing for those countries and social groups that tend to lag behind as a result of the globalization process.

It all comes to illustrate, in turn, the most important asymme-



try: the rapid globalization of (some) markets and the notorious absence of an international social agenda. The latter has been restricted, in U.N. summits, to the definition of some common international principles and to some incipient international legislation. Reductions in Official Development Assistance and the growing conditionality associated to international financial support are the most notable proofs of the lack of an adequate commitment with a truly international social agenda.

From a wider perspective, it is increasingly recognized that globalization has made more evident the need to provide some global public goods (political, social, economic and environmental) taking into account that many previously national (and even local) public goods have become global (Kaul Grunberg and Stern, 1999). Nevertheless, there is an undisputable contrast between such recognition, the frailty of those international structures in charge of providing such goods and the funding made available to them to meet such responsibilities.

These asymmetries reveal the basic characteristics of contemporary world economy and politics. They equally reflect the actors' lack of organization in the international debates, in particular those from developing countries. Such performance is to be ascribed not only to a weakening of developing countries' traditional collective action mechanisms (the G.77, among others) but also to the competitive policy approaches fostered by globalization itself: the incentive for each country to present itself as the most attractive for investments at a time of capital mobility and of higher production levels open to relocation. Thus, the asymmetries in world power relations and the high cost of establishing international alliances to balance them have become ever more important.

The situation is undoubtedly affected by a political and political economy element: countries' widespread resistance to transfer economic sovereignty to international organizations. Government regulations have weakened worldwide under the combined effect of the vigorous market forces that underlie globalization and tend to weaken the Nation-State, and the unilateral liberalization processes undertaken at the very same time by countries. For many analysts this is a favorable development. It is equally a source of great distortions and risks,

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*Reductions in Official Development Assistance and the growing conditionality associated to international financial support are the most notable proofs of the lack of an adequate commitment with a truly international social agenda.*  
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particularly in the financial field. Even though an open regionalism is one of the characteristic traits of globalization and in many areas of the world (particularly in Latin America and South East Asia) many efforts have been made towards integration, such efforts have not translated into strong coalitions among developing countries. Beyond the European Union, countries have proven to be unwilling to transfer their sovereignty to international organizations (and even in the EU case, only in a limited way).

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*No international architecture is neutral in terms of a balance in international relations.*

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Such realities have important consequences as regards international reform efforts. The most important is that efforts towards a significant reform will tend to be weak and will most probably hinder any significant response to the need for a more balanced globalization and a better world governance system. Furthermore, they render more difficult any balanced negotiation process and could lead to an underestimation or complete disregard of the interests of some parties. The lack of truly international institutions also implies that institutions such as those created in the past at the national level will either not exist at the international level or will have very limited responsibilities.

Since no international architecture is neutral in terms of a balance in international relations, a last and crucial consequence is that a system dependent upon only a few global institutions will be less balanced than a system based on a network of regional institutions. Countries with limited weight in international affairs would see their positions better served if they were to actively participate in regional structures. Such structures can provide a degree of autonomy and mutual support that countries may not be able to achieve otherwise. Therefore, the international order should allow ample space for strong regional institutions that are respectful of a global order based upon clear rules (a system of open regionalism to use a term from economic integration literature). Regional institutions could in fact become the major conduit to undertake the task of building a better international order.

## **II. An Ample Vision of Macroeconomic Stability and the Role of Anti-cyclical Policies**

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The concept of macroeconomic stability has greatly evolved

during the last two decades. In the Keynesian dominated economics of the post war period such a concept implied full employment and stable economic growth accompanied by low inflation and sustainable external accounts. As time went by, external accounts equilibrium and price stability won prominence while the Keynesian emphasis on real economic activity lost importance in the economic discourse and tended even to disappear.

The consistency that must characterize macroeconomic policies should suggest a wider definition of stability. Such an understanding of stability should take into account that there is no simple correlation among its possible definitions and that there may exist, therefore, significant policy alternatives. There are two particularly important lessons to remember in this regard. The first is that instability has very high costs. Thus, a stabilization concept of a limited scope, based solely on an inflation target, can have an impact as negative as the old macroeconomic practice in which inflation costs were underestimated. Recessions cause a huge loss of resources that may have long term consequences, among others an irreversible loss of industrial assets both tangible and intangible (technological and managerial know-how, trade relationships, accumulated human capital and a firm's reputation); a permanent loss of human capital in the unemployed or underemployed; and school desertion of a lasting nature. Volatility in growth processes brings forth high underutilization of installed production capacities (Ffrench-Davis, 1999). The uncertainty that instability of growth rates can foster may thus have more serious effects on capital accumulation than a moderate inflation would. In fact, such an uncertainty tends to develop into defensive microeconomic strategies, that is to say those geared towards asset protection in an unfriendly environment, instead of in aggressive strategies conducive to high investment levels and technological change.

The second lesson is that private sector deficits have as high a cost as public sector imbalances. Furthermore, private sector balance sheets showing a high level of risk can be as pernicious as an imbalance in the economy's basic flows. In economies where financial liberalization has taken place both situations may interact in a non-linear way with clashes affecting the capital account. The lack of strict regulations and prudential supervi-

sion, characteristic of the first stages of financial liberalization, is obviously a very important factor in many countries, but it is not the only one. Boom and bust cycles are inherent to the workings of financial markets. Private expenditure expansion and high-risk balance sheets tend to become common during periods of financial euphoria, giving way to crises when such exceptional circumstances disappear. In such times of euphoria the possible inter-temporal inconsistency of current expenditures and financial structures are often disregarded. When crises involve financial setbacks they have an extremely high cost. The loss of assets may imply the loss of capital accumulated during long periods. To avoid a systemic crisis it may be necessary to socialize the losses, whether partially or totally, and this will affect future fiscal (or semi-fiscal) performance. Regaining confidence in the financial sector is a long-term process and the financial sector itself will become risk-averse thereby reducing its capacity to fulfill its basic economic responsibilities.

These two lessons are closely interrelated since boom-and-bust cycles have been predominantly at the source of developing countries' economic cycles. Therefore, the basic role of macroeconomic policy is to control such cycles by way of the appropriate anti-cyclical tools. Experience in developing countries shows that control of growth volatility requires a combination of three policy packages. Their importance varies in accordance with the structural characteristics and macroeconomic policy traditions of each country (Ocampo, 2000). The first macroeconomic policy package is made of fiscal, monetary and exchange rate policies consistent and flexible, geared towards avoiding debt accumulation by public and private sector actors and imbalances both in the major macroeconomic prices (exchange and interest rates) and in the price of fixed and financial assets. The second is a strict regulatory and prudential supervision system with a clear anti-cyclical bias. This means that in periods of financial euphoria more strict regulations and supervisory rules must be implemented in order to counterbalance the higher risks taken by financial intermediation institutions. The third is a liabilities policy, geared towards preserving an adequate profile of domestic and foreign debt maturities, both public and private. Prudential norms on the capital account, applied during financial euphoria periods to curtail excessive indebtedness,

may play a critical role in a liabilities policy favoring long-term flows, as well as a tool that allows greater freedom for the adoption of anti-cyclical monetary policies.

### **Note**

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1. *Although extensive literature on the subject exists, references have been kept to a minimum.*

### ***In Search of the Lost Consensus on Integration, Development and Globalization***

*This is a summary of the main approaches and ideas presented by economists and other professionals from the most diverse schools of thought who participated in or sent their contribution to the III International Economists' Meeting on Globalization and Development Problems. For purposes of clarity, the text was divided into three main chapters on international trade, financial and monetary issues and economic integration. Cuba's National Association of Economists and Accountants wishes to thank the Center for International Economic Research of the University of Havana for its valuable contribution in the preparation of this document.*

### ***En busca del consenso perdido en torno a integración, desarrollo y globalización***

*A continuación se presenta un resumen de los enfoques y las ideas principales de los economistas y otros profesionales de las más diversas escuelas del pensamiento, que participaron o enviaron sus documentos al III Encuentro Internacional de Economistas sobre Globalización y Problemas del Desarrollo. Para una más fácil comprensión, el texto fue dividido en tres grandes capítulos referidos al comercio internacional, los aspectos financieros y monetarios y la integración económica. La Asociación Nacional de Economistas y Contadores de Cuba (ANEC) agradece al Centro de Investigaciones de Economía Internacional de la Universidad de La Habana su valiosa contribución en la preparación de este documento.*

### ***Intégration, développement et globalisation: à la recherche du consensus perdu***

*Le texte ci-après résume les approches et les principales idées des économistes et d'autres experts se réclamant des courants de pensée les plus divers qui ont participé ou envoyé des documents à la Troisième rencontre internationale d'économistes sur la globalisation et les problèmes du développement. Pour en faciliter la compréhension, le texte a été divisé en trois chapitres portant sur le commerce international, les aspects financiers et monétaires et l'intégration économique. L'Association nationale d'économistes et de comptables de Cuba (ANEC) remercie le Centre de recherches sur l'économie internationale de l'Université de La Havane de son inappréciable contribution à l'élaboration de ce document.*

### ***Em busca do consenso perdido em torno à integração, desenvolvimento e globalização***

*A seguir apresenta-se um resumo dos enfoques e das ideias principais dos economistas e outros profissionais das mais diversas escolas do pensamento que participaram ou enviaram seus documentos ao III Encontro Internacional de Economistas sobre Globalização e Problemas do Desenvolvimento. Para mais fácil compreensão, o texto foi dividido em três grandes capítulos referentes ao comércio internacional, aspectos financeiros e monetários e integração econômica. A Associação Nacional de Economistas e Contabilistas de Cuba (ANEC) agradece ao Centro de Investigações de Economia Internacional da Universidade de Havana sua valiosa contribuição na preparação deste documento.*

# In Search of the Lost Consensus on Integration, Development and Globalization

↔ ANEC/AEALC

## Introduction

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The III International Meeting of Economists on Globalization and Development Problems, held in Havana between January 29 and February 2, 2001 and organized by Cuba's National Association of Economists and Accountants and the Latin American and Caribbean Association of Economists, focused its attention on the analysis of the current tendencies of Latin American and Caribbean countries' external relations and integration and cooperation processes. Coincidentally, the issues of external insertion and regional integration have also been the concern of the Latin American Economic System, SELA.

The importance for developing countries of both issues, which are closely related, explains this coincidence. Within this context, discussions on what would be the best "geographical-spatial" area for external insertion are transcendental. It would appear that, at the theoretical level, the idea that the best trade policy—or the trade policy compatible with globalization—is that which is aimed at obtaining the most advantage from a country's active participation in trade flows, technology and capital at the world level. Nevertheless, the sub-regional or regional dimension of an external insertion strategy is very important, particularly when we analyze the political mistakes made by several developing countries and their consequent marginalization from the international economy and trade.

Obviously, the analysis of Latin American and Caribbean countries' external insertion, their economic and social dynamics and their integration processes is a very complex issue due to the vast number of variables and the different national experiences in these areas that must be taken into account. A large number of presentations by experts and representatives of regional and international institutions and organizations were received as contributions to the debates.

Below we will present a summary of the main approaches and ideas put forth by economists and other professionals from the most varied schools of thought who participated in the meeting or sent their presentations. The three main issues discussed were: international trade, financial and monetary matters and economic integration.

We have summarized here some of the main elements of the analysis carried out at the meeting and the main aspects of the debates on the above three subjects. We have selected those positions that contributed to an open analysis of the reality faced by Latin American and Caribbean economies in order to grasp the importance of these issues for the region's development as well as the limitations of some official approaches that have prevailed among our countries.<sup>1</sup>

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*In spite of all the efforts the region carried out during the last twenty years during the nineties it reached an annual growth rate of only 3,2%.*  
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## **I. Current International Trade and Latin American and Caribbean Economies**

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### **1. The Tendencies of Today's International Trade**

Because of its general tendencies international trade presents a complex scenario for the insertion of economies with structural weaknesses in their production apparatus, distribution mechanisms and institutionality such as the vast majority of Latin American and Caribbean countries. Due to increasing competition, ever more complex multilateral rules and the high concentration of trade flows a great number of underdeveloped countries face the risk of being left at the outskirts of international trade. Also, a greater external opening may not necessarily produce more wealth.

Thus, it is not surprising that in spite of all the efforts the region carried out during the last twenty years—our is the one region in the world that has carried out the deepest economic reforms, particularly as regards trade—during the nineties it reached an annual growth rate of only 3,2%, significantly lower than the level obtained during the three decades of state-led industrialization, between the fifties and seventies (5,5% per year).<sup>2</sup>

### **2. Developing Countries' Trade Policies and International Insertion**

Current economic thought and debates argue that the benefits of globalization can be obtained through the implementation of



radical external liberalization policies, together with a “slimmer” state apparatus and policies aimed at obtaining “optimal economic conditions” through liberalized markets and efficient private agents. However, as all relevant international experiences demonstrate, the role of the state in the creation of conditions to reach competitiveness, which obviously cannot be attained without meeting social and environmental goals, must be strengthened.

Some positions argue that there are two equally wrong policy alternatives within the current globalized scenario. On the one hand, isolation or lack of contact, which imply renouncing a priori the potential benefits to be derived from the efficiency and creative innovation stemming from the development of the global market's production forces. On the other, the simplistic position that a mere passive insertion into the global economy, renouncing all relevant public policies, is enough to bring growth.<sup>3</sup>

The positive factors attributed to an active participation in the global market were examined. These are: vast gains as far as efficiency is concerned, translating into better production means that allow for greater income and well being; access to modern technology's productive processes; the advantages derived from economies of scale and specialization, etc. Similarly, innovation, creativity, etc. were considered important “dynamic trade liberalization effects”, as opposed to the sluggish effects protectionist measures have on production.<sup>4</sup>

Some empirical studies were also cited showing a correlation between insertion into the global economy and better per capita income levels. They also point to the important role played by trade liberalization and insertion into the global economy as a way of promoting developing countries' convergence with industrialized countries' levels. However, it was agreed that recent developments in growth theories –referring to “endogenous growth”–lead to ambiguous conclusions regarding the link between trade liberalization and economic growth.

Within this context, it was pointed out that some studies carried out by international organizations<sup>5</sup> indicate that only some countries have adapted successfully to changes and have benefited from globalization thanks, in part, to exports based growth strategies and foreign direct investment flows. However, the same sources point out that many developing countries have not succeeded in increasing their per capita GDP during the last thirty years. Even though this situation is due, partly, to internal

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*Recent developments in growth theories lead to ambiguous conclusions regarding the link between trade liberalization and economic growth.*

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factors, it is apparent that the international scenario has not been favorable to those countries' development efforts.

Thus the consensus on developing countries' need to develop and apply "adequate", "coherent" and "flexible" trade and competition policies in order to face the challenges of globalization.

Within this context, recent positions that argue that in order to reap the positive effects of opening up to globalization it is necessary to adopt coherent "companion" policies that stimulate productive investment and generate appropriate levels of internal savings, macroeconomic stability, the development and consolidation of an institutional network for conflict resolutions, an adequate level of economic incentives and social cohesion and equity, which constitutes the foundation of the political and economic model, were underlined.

Consideration was also given to the link between free trade and environmental sustainability, calling attention to the fact that trade policies may have direct and indirect effects on equity and to the economic and trade effects that may derive from a deterioration of the environment.

### 3. Multilateral Trade Norms and Developing Countries

Some speakers analyzed current WTO multilateral trade norms and the issues on the international trade agenda, among them free trade, intellectual property rights, investment protection and financial and capital account liberalization.

The opinions put forth indicate that the WTO is the first example of the "global government" that will take shape during this century. Thus the advantages or disadvantages of the "needed" international institutional framework to regulate globalization were examined from different analytical points of view. Some argued that the mostly undesired effects of globalization result from the current absence of a full-fledged international institutional framework. However, others pointed out that the insurmountable obstacles some countries face to gain insertion into the global economy are precisely due to such institutional framework designed and imposed by the centers of power.

From the perspective of world economic history, it was explained that the problems developing countries face are not so much the current institutional framework as their inability to formulate a position regarding what is the institutional structure of globalization that best represents their interests.<sup>5</sup>

It was pointed out that ever since the Uruguay Round and

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*Developing countries have been unable to formulate a position regarding what is the institutional structure of globalization that best represents their interests.*

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within the framework of globalization, the belief has prevailed that the world is indeed moving towards an economic system that will create very positive trade opportunities. The considerable tariff reductions obtained in trade negotiations since the creation of the GATT, the gradual dismantling of administered agricultural trade and more transparent international norms in other areas recently added to the trade policy agenda were seen as the foundations of such future trade opportunities. In fact, average tariffs fell from approximately 40% at the end of World War Two to less than 5% in 1984, when the total application of the agreements reached at the Tokyo Round was completed.

Some speakers indicated that rather than produce immediate tangible benefits the WTO has improved the climate of international economic relations by establishing a solid legal foundation for the multilateral trade system. In fact, it has curtailed countries' freedom to apply unilateral measures and approaches, as they convened to adapt their legislations, rules and administrative procedures to WTO rules. It was also pointed out that a trade system devoid of rules and institutions could unleash much stronger protectionist tendencies and international trade conflicts than those occurring today.

Nevertheless, it was agreed that ever since the III WTO Ministerial Conference in Seattle (USA), the need has arisen to critically examine that institution, particularly the strongly neo-liberal character of its regulations - which could become a "third conditionality"- the role it plays in the strengthening of transnational corporations' rights and the limitations its liberalization proposals pose on governments' capacity for action.<sup>7</sup>

Within this context, reference was made to the establishment of general rules that do not take into account the asymmetries between countries, thus perpetuating them, and to the fact that the reciprocity and conditionality of WTO rules are pernicious for most developing countries.

It was interesting to note that there is a perception that the WTO and its agreements are central elements that establish the conditions necessary to insure minimum levels of confidence among investors.<sup>8</sup>

It was agreed, even by its critics, that in the long run the WTO will acquire increasing importance and power as it expands its scope to include the new issues to be discussed in future negotiations. This will imply greater levels of harmonization of trade (and economic) policies and thus greater challenges on the road to development. This probable future scenario will depend

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on that organization's effectiveness in: (a) sharply reducing the proliferation of unilateral international trade measures; (b) incorporating developing countries' still unmet demands and (c) granting credibility to its dispute settlement system.<sup>9</sup>

It was acknowledged that the WTO's Agreement on Agriculture and the General Agreement on Trade in Services are of special relevance to developing countries, and particularly Latin American and Caribbean ones, in light of the real possibilities these new rules open up for them and for the definition of international insertion strategies under current conditions.

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*The design of trade policies is a complex process that must be part of each country's development strategies.*

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#### **4. Insertion Strategies and Trade Liberalization Policies**

Developing countries' international trade insertion strategies were the object of an interesting debate. Their potential benefits, risks and structural, institutional and policy “prerequisites” to maximize advantages were examined.

Regarding trade liberalization policies it was warned that many external variables affect all the world economies since their room for maneuver and possibilities to face successfully the external adverse conditions are strongly linked to each country's development level.

Within this context, the across the board criteria for efficiency and competitiveness that underline the global trading system and the generalized adoption of incomplete, “orthodox” and unrealistic open trade and external liberalization policies are the main culprits for the recent wider gap between poor and industrialized nations.

Generally, participants at the seminar agreed that the design of trade policies is a complex process that must be part of each country's development strategies and that it not very realistic to assume that globalization's potential advantages will derive only from a more flexible definition of foreign trade policies. On the other hand, such policy must be coherently linked to macroeconomic stability, active productive development strategies, an adequate and growing institutional development and comprehensive social policies that may grant legitimacy to the development model.

### **III. Monetary and Financial Issues**

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#### **1. Trends in Monetary and Financial Affairs**

The present international monetary and financial system

preserves the same fundamental traits that were prevalent during the crisis years of the nineties. Among these, mention was made to the following; i) persistence of high interest rates and exchange rate volatility; ii) unpredictable financial markets; iii) inability of the international financial institutions to avert new crises; iv) lack of effective mechanisms to control extremely high capital mobility; v) debt service pressures; vi) difficulties at the national economic policy level to effectively cope with external vulnerabilities and achieve social and economic development goals.

## 2. International Capital Mobility Implications

When considering the implications of international capital mobility, the size and, in particular, the speed of capital movements showed that central banks are becoming hardly able to counter speculation in currency markets. They equally showed that the volume of reserves held by the major countries is at a ridiculously low level when compared to the level of liquidity present in the global market.

In order to insure appropriate profit margins, increased requirements are placed upon developing countries for capital inflows, such as economic liberalization, monetary stability, fiscal discipline, high interest rates and accelerated privatizations. Developing countries forcibly operate under conditions set by international financial capital.

Capital inflows have rendered more complex the problems faced by recipient countries. In as far as stock markets tend to be the focus of capital inflows, investment flows to the productive sector are hindered. Such capital inflows foster currency appreciation and lower competitiveness by domestic production. Economic liberalization as well as fiscal discipline, exchange rate appreciation and high interest rate policies negatively affect a country's process of accumulation and foster external indebtedness.

The need for developing countries to counter the general trend towards contractionary economic policies centered on monetary stability was widely shared. Such policies were perceived as shifting the emphasis away from production needs. Both situations tended to aggravate structural problems and to generate crises, as evidenced by the short-term nature of reductions in the rate of inflation.

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*Capital inflows have rendered more complex the problems faced by recipient countries. In as far as stock markets tend to be the focus of capital inflows, investment flows to the productive sector are hindered.*

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The need to overcome reliance on capital inflows as well as capital inflow biased policies, such as contractionary and currency appreciation policies, was considered by some participants as a pre-condition for policies centered on national priorities. To such ends, trade and financial liberalization were considered to be in need of revision. A re-assessment of how countries insert themselves into globalization would be needed in order to recover the ability to establish and manage monetary and fiscal policies on the basis of productivity and economic growth goals.<sup>10</sup>

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*Countries need to adopt mechanisms to counterbalance short-term financial flows volatility and to foster productive investments with a higher impact on welfare.*

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### 3. The Impact of ‘Currency-Runs’

Financial information flows were considered a critical issue as regards how to counter the negative impact of speculative runs in the financial markets. It was deemed that from an economic perspective information should be considered as a public good since asymmetries in the flow of information bring about resource allocation inefficiencies and moral risks. State intervention, in contrast to regulation, was suggested. State intervention would insure a fair and efficient distribution of information resources acting on the basis of a prior selection of market relevant news and a definition of broadcasting modalities.<sup>11</sup>

The need to adopt mechanisms to counterbalance short-term financial flows volatility and to foster productive investments with a higher impact on welfare was considered. A Tobin Tax was considered as one of such mechanisms, suggesting the need to invest resulting resources in poverty reduction projects and in humanitarian needs.<sup>12</sup>

By way of example, recently published figures by the IMF indicate that daily world currency exchange transactions amount to US\$ 1.9 billion. If so, a tax of only 0.01% would allow for estimated revenues of US\$ 190 million. This figure is far from negligible in order to face some of the most pressing needs confronted by developing countries.

Nevertheless, the conclusion was reached that for developing countries the underside of financial globalization does not derive only from the fact that their capital markets lack depth and diversity of financial options or from the fact that exchange rates have ceased to act as a nominal anchor of their economies. Other factors such as structural disequilibria, i.e. degree the economy is open, production factor mobility and prices, labor market flexibility, export composition and export price trends in

international markets, modalities of participation in the international economy, low technological levels and inadequate economic policy management, also have an impact.

#### **4. Currency Agreements and Dollarization in Latin America and the Caribbean**

Several speakers addressed the limitations exchange rate policies face in a global economy. As a policy tool, exchange rates not only allow for monetary and fiscal policy flexibility but can also be a strategic tool to achieve economic equilibrium. Further debate on currency agreements has followed, each country in search of a currency of the highest possible quality. An important number of speakers was of the view that trends point towards a significant reduction in the number of currencies in the future world economy, or at least to a limited number of independent monetary policies.

From another perspective, it would seem that no single country could hope to be able to establish independent currency arrangements that might offer stability vis-à-vis other currencies. For some participants the most viable option would be to contain the degree of instability by links with a stronger currency or by becoming a part to an integrated monetary zone with major trading partners.

It was pointed out that during the last decade, particularly in Latin America, an increasing number of countries have looked for answers to the evident weakness shown by their currencies in what can be termed as a 'denationalization' of their monetary systems. In such cases, national currencies have been totally or partially replaced by a foreign currency in the understanding that the latter is a sound, stable and appropriately convertible currency, capable of confronting the challenges posed by globalization.

Note was made during the discussions that recurrent international financial crises having a severe impact on Latin American exchange and stock markets –whether or not their economies' macroeconomic aggregates were balanced or they had undergone severe structural adjustment programs– have given rise to the idea that a *dollarization* of domestic transactions might allow for placing the continent on a firm basis towards sustained economic growth.

Nevertheless –whatever *dollarization* approach was implemented, whatever its scope and depth, and whether or not prior conditions were met– there was a consensus on the need to

consider both the advantages and disadvantages of such a policy in order not only to ascertain the viability and feasibility of such a complex and problem-laden process but equally how sustainable such a radical approach can be in the case of economies with serious structural imbalances.

In considering the benefits derived from the *dollarization* process in Latin America, its proponents advanced, among others, the arguments that the regions' economies, by substituting unstable domestic currencies for the US dollar, would gain an important dynamism, their interest rates would become substantially lower, exchange risks would be eliminated with positive impacts on trade and investment flows, and the level of inflation would tend towards that of the United States.

On the other hand, a number of concerns related to the costs of *dollarization* were advanced, underlining among others the following negative aspects: a) loss of monetary sovereignty by placing it in subordination to decisions by the Federal Reserve; b) loss of monetary and fiscal economic policy-making tools; c) disappearance of the central bank as the domestic banking sector regulator and lender of last resort; d) fragmentation of the country's international reserves; e) loss of seigniorial revenues.

## 5. Restructuring the Financial and Banking Sectors

Among possible alternatives to address existing situations mention was made of the need to regain control of central banks and to regulate the banking system as a whole in order to make them responsive to credit demand and favor production by way of making illegal or placing high interest rates or high taxes on speculative activities.

Taking into consideration the importance of small and medium enterprises (SME's) for the economies of the region and the developing world in general, extensive discussions were held on how segmented credit policies tend to exclude SME's from access to the major financial flows while at the same time high intermediation margins result in low passive rates of interest and in high active rates on production activities.

It was equally noted that imperfections and voids in the domestic financial markets call for state intervention and for development banks to play a more active role in shifting towards high priority economic and social sectors otherwise disregarded by financial markets, investment promotion, technological modernization and the provision of non-financial services.



The notion of development banks conceived, as they were at a certain point in time, as purveyors of financing at below the market costs on the basis of interest rate subsidization, was by consensus rejected as erroneous. Development financing should not place emphasis on low cost credit. It should be understood within a systemic approach that would include access to risk capital, incentives for the adoption of new production and management technologies, incentives to accessing new markets, support for an international presence, preservation of the environment, etc.

It was reiterated that development and promotion banks could not be indiscriminately established to cater to all kind of clients or activities. They must, on a selective basis, support projects with either private or social profitability. It was noted that although in market economies development banks fill voids left by the market they must nevertheless preserve their financial strength for the higher purpose of assisting our countries find, in the midst of the promises and risks posed by globalization, the way forward towards economic and social development.<sup>13</sup>

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*In market economies development banks fill voids left by the market.*  
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## 6. Reliance on External Financing

When considering external financing in emerging economies, in particular those belonging to the Latin American and Caribbean region, a strong reliance on bond emissions in the international capital markets was noted. A reduction of dependency on such a vulnerable source was predominantly considered as an objective for the long term. Recent trends indicate that country-risk perceptions in the bond markets tend to aggravate both contagion phenomena and deterioration in macroeconomic fundamentals. It was also noted that financing in euro-obligations is governed by a stark rationing logic. When considered together with the lack of coordination prevalent in the bond markets during crises situations, such rationing tends to prolong and increase growth volatility.

As regards foreign direct investment flows received during the last decade, it was underlined that such inflows should not detract the countries of the region from the goal of reducing their reliance on external financing. Several participants warned that such high levels of investment flows, centered on a very reduced number of countries, might not remain as high in coming years and that they are generating increasingly higher net dividend payments.

The need to develop domestic capital markets in the countries of the region and to foster domestic savings was justified. Creating a local long-term debt market, as exist in the majority of developed countries, should prominently figure in the regional financial agenda.<sup>14</sup>

## 7. The External Debt

One of the most debated issues was no doubt that of the foreign debt of developing countries and in particular Latin America, considered to have been an outstanding business for the creditor banks. In 1990 developing countries owed about US\$ 1.4 trillions. By 1999 the amount had reached US\$ 2.5 trillions. Debt service payments between 1990 and 1998 amounted to nearly US\$ 2 trillions, an amount higher than the US\$ 1.1 trillion debt increase for the period.

The lack of coherence and effectiveness of the creditors' strategy towards indebtedness, including the Highly Indebted Poor Countries Initiative, was stressed. Data on the proposal showing that it centers on achieving a sustainable level of debt but that, by disregarding the high incidence of external factors on the future evolution of debt, it does not take into account those countries' capacity to do so were presented. Among such external factors are, to mention just a few, interest rates movements, shifts in the terms of exchange and a propensity towards preserving protectionist measures by developed countries.

The Highly Indebted Poor Countries Initiative was debated on the grounds of its own limitations. Its major limitation derives from the fact that is part of the traditional IMF strategy of adjustment as a precondition for new financing. Under the present circumstances, servicing the portion of debt not covered by the initiative continues –by way of new credits, restructurings and accumulated arrears– to feed the vicious circle of external indebtedness, thereby constraining even more those countries' possibilities to develop. There was, in fact, consensus in pointing out that the initiative does not constitute a long-term solution to the social crisis experienced by those countries. It is rather an instrument to exert control on and interfere with the poorest and more highly indebted countries' national development policies in order to insure their insertion into the global economy under neo-liberal standards.

Recognition was nevertheless given to the fact that debt

cancellation is being increasingly considered, however by itself it does not solve the issue at the core of the debt phenomenon. Even though it would represent a much welcomed respite for debtors, if debt cancellation is not accompanied by ways and means to insure a sustained flow of resources in concessional terms and a true insertion into the global economy, the debt problem will tend to multiply in time.<sup>15</sup>

The need to create a Debtors' Club in order to be able to adopt positions as a group and break the traditional case-by-case approach was upheld during the discussions on the external debt problem. In the same line of thought the possible creation of a Latin American Forum on External Debt was considered. Such a forum would serve the purpose of divulging in each country the historical, economic and political precedents of external debt in order to mobilize public opinion in favor of its cancellation.

#### **IV. Globalization and Economic Integration in Latin America and the Caribbean.**

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Economic integration was understood to be a process of multiple dimensions. Differences between integration agreements established among developed countries and those underway between developing economies were noted. Obstacles faced by the latter as a consequence of the adverse impact of policies carried out by some developed countries and by international financial institutions were thoroughly analyzed.

##### **1. Integration Among Countries with Different Levels of Development**

Problems associated to economic integration between partners enjoying different levels of development, as well as the risks posed by agreements concluded between countries of the North and the South, held an important place in the debates. Other integration processes were equally reviewed, in particular those of the Common Market of the South (MERCOSUR), the Andean Community (CAN) and –as regards its most recent developments– the Latin American Economic Integration Association (ALADI).

Interesting discussions took place in relation to monetary issues and economic integration, as well as regarding how both issues are dealt with by the European Union and, in comparison, Latin America. The EU's Common Agricultural Policy (PAC) and

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its terrible effects on developing countries was equally the subject of considerable discussions.

Nevertheless, the core of the discussions took place around the link between integration and economic development, particularly as regards Latin America and the Caribbean. Interesting presentations and exchanges of views gave insights into how the regions' integration processes impact its development, the challenges integration faces in the coming years and the requirements such processes must satisfy in order to meet the expectations placed upon them.

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*Integration among unequal partners should be of mutual benefit for all participating countries or regions.*

*Nevertheless, the conditions to ensure that integration among unequal partners is beneficial to the weaker ones need to be further clarified.*

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It was argued that integration among unequal partners should be of mutual benefit for all participating countries or regions. Nevertheless, the conditions to ensure that integration among unequal partners is beneficial to the weaker ones need to be further clarified. Among the many suggestions put forward during the debate, the need to attract investments that foster a higher level of structural competitiveness in the weaker partners was, among others, retained. Investment promotion policies are to be undertaken in the framework of industrial policies geared towards increased factor-productivity, better product-quality, higher capacity to adapt to market trends, better after-sale services, financial and trade reliability, etc. Well-defined human resources and technology-investment policies are, in this regard, deemed to be essential.

In order to insure that the suggested measures be truly effective, consideration was given to other elements judged to be of an equally critical nature, such as: appropriate financing, a sound long-term national strategy, a dynamic domestic environment based on macroeconomic stability and on appropriate exchange-rate policies. Regional integration would then, as a consequence of its multiplying and scale-enlargement effects, be able to translate into, among other benefits, expanded markets, new enterprises, job creation, greater specialization within sectors and –if coordination among partners were to be truly effective– into higher levels of reliability and credibility.

A consensus emerged around the understanding that weaker countries should not base their comparative advantages within an integration process on wage containment policies, reductions in the fiscal burden or on a curtailment of social expenditures. Nor should they rely on an intensive use of natural resources and a low-wage labor force since such policies would have a counterproductive effect and would contribute neither to long-term economic growth nor to social development.<sup>16</sup>

A presentation in contrast with this line of thought addressed Mexico's experience as a member of a Free Trade Agreement in association with highly developed countries such as Canada and the United States. Such association has allowed for a dismantling of barriers on goods, services and financial flows heading south thereby basically placing that agreement at the service of transnational corporations. These corporations have gained access to markets enjoying strong potential growth and low cost labor as well as the stability required for their production, trade and financial activities.

Some participants were of the view that beyond the positive aspects these agreements have from a macroeconomic standpoint their social implications were clear for the developing partner: unemployment growth, reduced purchasing power, increased social and regional imbalances and more poverty.<sup>17</sup>

## **2. Agreements Between the European Union and Latin America and the Caribbean**

Relations between the European Union and Latin America were reviewed from a more general perspective. The projected Free Trade Agreements between the EU and Mexico, Chile, MERCOSUR, Central America and the Andean Community were considered. It was noted that from an economic standpoint many EU countries have important business interests in Latin America. Spain, in particular, has displaced the United States as the major foreign investor in the region although Germany, France, Italy and the United Kingdom are also present. Europe well understands that the Latin American and Caribbean region, where some population segments enjoy mid-and-high level incomes, has important potentialities as an export market for European goods and investments if its growth potential improves.

Latin American interests vis-à-vis the European Union were equally considered. Since relationships and priorities differ from one actor to the other, it was evident that no uniform judgment could be made. It was felt that from a strategic perspective Latin America and the Caribbean might gain from more diversified foreign relations and from trade and financial relationships less centered in the United States than has historically been the case, in particular for some countries. For the region, the European Union plays in this context an overwhelming role taking into consideration it is at the present time the most important

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*From a strategic perspective Latin America and the Caribbean might gain from more diversified foreign relations.*

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economic bloc, is home to a third of the world's population and enjoys a high purchasing power.

The most important obstacle facing an expansion of relations between Europe and Latin America is the great trade imbalance existing between both regions. This imbalance can be seen in the structure of exchange flows and in the growing trade deficit. It can also be perceived in the different relative importance each region has vis-à-vis the other in the context of total exchanges. During the 90's, Europe's share in Latin America's total exports went from 24% to less than 14%. Traditional exports and low added value products represent 2/5 of Latin American exports towards Europe. Nevertheless, interregional trade has grown as a consequence of Latin American imports from Europe.

The EU's Common Agricultural Policy deepens the existing asymmetries in EU/LA trade relations since its European proponents have been extremely reluctant to lower agricultural subsidies. This is particularly harmful to Latin America and the Caribbean where external revenues depend to a large extent on agricultural products exports. Non-tariff barriers on other goods exported by the region such as antidumping measures, phytosanitary and environmental regulations, among others, place additional difficulties on an expansion of trade flows.

A consensus emerged around the fact that it will not be easy in the short term to improve market access in the EU for the region's agricultural exports. The region should therefore actively prepare a negotiating agenda that might allow it to meet other more realistic goals in the financial, educational, cultural, development cooperation and environment fields and to make progress towards more balanced relations with the European Union.

One other aspect of the EU/LA relationship concerns Latin America's open regionalism. Points of view included both the need for further opening and further diversification of each sub-regions' external relations, thereby tending towards a greater balance in relations with third parties, as well as a concern on whether such opening might be detrimental to stronger regional bonds and to a greater and more effective regional negotiating power.

### **3. Strengthening Regional and Hemispheric Integration**

The many and fundamental challenges and uncertainties regional integration faces due to the FTAA, one of the most immediate conceptual and practical dilemma to be sorted out by

our continent's social scientists and politicians, were reviewed. It was agreed that the process of Latin American and Caribbean integration is at a turning point in which the achievements obtained at the sub-regional level must be made regional, an essential step in light of future hemispheric or multilateral negotiations, or risk losing effectiveness with partial agreements.

As regards sub-regional arrangements, several references were made to MERCOSUR, highlighting its achievements, among them: the Customs Union, the consolidation of a permanent institutional organization, its agreements with third parties, the simplification of procedures regarding across the border movements of people and goods, the harmonization of technical rules and regulations and the will to initiate macroeconomic coordination. Also, reference was made to the institutional differences between Brazil and Argentina, particularly as regards the treatment of imports, and to the delay in the establishment of the common external tariff and the trade liberalization program.<sup>18</sup> Nevertheless, it was acknowledged that MERCOSUR is the integration process that generates the most positive expectations within our region.

The Andean integration process was discussed, highlighting its limitations and possibilities. It was agreed that the goal of establishing a Common Market by the year 2005 is too ambitious, considering that after thirty years the Andean Community is still an imperfect customs union of three members, since Peru and Bolivia have not assumed similar obligations. As for services, all countries have initiated liberalization and privatization processes. Regarding the movement of capital strides have been made in coordinating supervisory systems and a certain convergence of national norms has been achieved. However, it is still necessary to define a common position that may reduce the possibility of unilateral actions regarding foreign direct investment.<sup>19</sup>

It was acknowledged that in order to strengthen sub-regional integration arrangements, financial cooperation, the harmonization of macroeconomic policies, a common foreign policy, the dispute settlement system and greater civil participation must be promoted.<sup>20</sup> More importance was assigned to the improvement of rules and institutions than to trade issues.

Compared with the strides made by sub-regional integration arrangements, it is disheartening to witness the stagnation of regional processes at a time when agreements are being entered

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*The process of Latin American and Caribbean integration is at a turning point in which the achievements obtained at the sub-regional level must be made regional, or risk losing effectiveness with partial agreements.*

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upon with third developed countries and groups of countries. If negotiations within ALADI do not conclude within the near future then it is possible that they will be considered under a wider scope such as the FTAA, given the latter's increasing dynamism. The question of whether ALADI member countries are willing to take a decisive step to transform sub-regional achievements into regional ones remained unanswered.<sup>21</sup>

Another problem that attracted attention was that of currencies' sovereignty and exchange rate stability. In view of the threats financial crises represent for productive economies, it was argued that a supra-national organization should be established to act when such crises occur. The experience of the euro, with its positive and negative effects on the members of the European Union was compared to the different monetary policies within sub-regional arrangements. The alternative of a common Latin American currency was also debated, together with the prerequisites that must be met for its adoption and the risks posed by the loss of monetary sovereignty.

#### **4. The Role of Integration in Regional Development**

The link between integration and development was a particularly polemic issue. Representatives from Latin American integration processes argued that the region couldn't develop without a coherent regional integration structure. They added that Latin America's future cannot be conceived as separate from regional integration and that should countries fail to consolidate their integration efforts within a short period of time, the process of globalization may later make such consolidation impossible.

To bolster the view that integration arrangements exercise a positive influence over Latin America's development, reference was made to the greater dynamism of intra-regional trade, compared with flows with trade flows with the rest of the world, the importance of trade between industries and the increase in the number of high aggregate value products in reciprocal trade.

This position was widely shared, however it was warned that the agendas of the different Latin American and Caribbean integration arrangements do not grant enough priority to some problems whose solution would greatly contribute to creating the conditions for development. These are: scientific and technical progress and the training of human resources to achieve more real competitiveness rather the false competitiveness based on lower labor costs and monetary devaluations.



The new economy issue is a priority of Europe's integration process. This implies the introduction of new technologies and making strides in the information process, issues that are not at the center of attention in our region's integration processes. Also, the problem of different development levels and the need for additional resources for more backward regions, or programs aimed at reducing poverty, have not been granted sufficient attention. When convergence is discussed generally reference is made to technical indicators at the macro level and the real nature of convergence is not analyzed.

And yet convergence causes many anxieties. It has been achieved on the basis of common traits of the neo-liberal model applied by most of the countries of the region (liberalization, deregulation, privatization, a decrease in the role of the state in the management of the economy and greater emphasis on market forces, etc.). Nevertheless, the policies and the instruments that have been applied do not necessarily coincide and this has caused much controversy, such as that resulting from Brazil's devaluation of the real and its negative effects on Argentina. The possibility of continued progress in the field of integration is increasingly doubtful without a specific type of convergence within each sub-group and the different regional arrangements.

This issue cannot be viewed as separate from that of supra-nationality, another challenge for some sub-regional arrangements, particularly MERCOSUR. The question of supra-nationality is not an easy one to solve. Should member countries cede their autonomy and decision making capacity to supra-national bodies, in exchange for a more dynamic integration process, or should they hold on to their historical independence and delay the implementation of joint agreements, fail to honor decisions or let differences between members be solved with time? To accept or reject supra-nationality, to what level and in which bodies, are questions whose solutions have not met with a consensus. However, most point to the need to improve regional integration's institutional mechanisms so that they may better face the challenges of globalization and insure member countries' basic interests.

It was also pointed out that, without renouncing the struggle for recovering internal sovereignty, this can be created on a wider level, strengthening regional integration between equals. This would grant countries the opportunity to establish priorities for the productive system through a process of re-industrialization.

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*The introduction of new technologies and making strides in the information process are issues that are not at the center of attention in our region's integration processes.*

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Within this context attention was called to the fact that should the current sub-regional integration arrangements blend with the FTAA project, then sovereignty will be subordinated to US interests and the more complex Latin American industries will be wiped out by competition from the USA and Canada.

The proposal was put forth to create new entities comprising integrated countries, based on supra-national understandings, in order to promote specific projects decided upon by all countries of the region. This would be something similar to the European Economic Community's initiatives regarding coal and steel, or nuclear research at the beginning of the fifties, when countries gave up part of their sovereignty for the benefit of all in view of the strategic importance of those products for the group's economy.

Similar projects were suggested for Latin America and the Caribbean in the areas of technological development, nuclear research, electric power interconnections between several countries, the creation of common air and maritime fleets, among others. A new dimension is thus granted to integration, one that transcends trade issues and expands the struggle for sovereignty to the sub-regional and regional level, increasing the region's international negotiating capacity. To summarize, this thesis proposes rescuing national sovereignty by sharing it through integration. This would allow Latin America to expand its auto determination regarding such issues as the size of the internal market, the external debt, the fiscal system, and industry guidelines, among others.<sup>22</sup>

Touching upon courses of action as alternatives to the neo-liberal position, some speakers questioned the idea that transnational enterprises are positive forces for development adding that communities, both local and regional, are the major agents for change.<sup>23</sup> The idea is not to separate the region from world trade but rather to develop a regional development project based on public policies that strengthen its independence and contribute to the establishment of a new world order.<sup>24</sup>

The positive effects integration arrangements experience as a result of their opening up to the world economy, particularly the challenges derived from competition, which lead to greater competitiveness, were also analyzed. In this regard, it was underlined that the vast number of agreements signed since the nineties do not envision closed or protected economies.<sup>25</sup>

## 5. Globalization and Regionalization

The analysis of the above issues led to a discussion on the link between globalization and regionalization. Some felt that both processes are complementary to each other, while others saw them as opposed. No consensus was reached on this matter.

Regarding small and vulnerable economies a proposal was presented to make possible their insertion into the world economy by using the advantages posed by regional cooperation. The difficulties these countries face in their international trade are due to the limited scope of their internal market, little diversification of exports, volatile income, weak road and transportation networks, a limited number of skilled human resources and institutional limitations. The overpowering weight of transnational enterprises and the major developing countries, which distorts competition, highlights these difficulties. In this regard, it was suggested to evaluate the possibility of those countries establishing competition policies and legal frameworks as part of their development strategies.

In view of the complexity of the issues related to a competition regime, its high costs and time required for its adoption, the meeting recommended the adoption of sub-regional and regional competition policies that may allow for an expansion of internal markets and economies of scale. This would increase the region's negotiating capacity and strengthen cooperation and coordination between the members of an area. The positive experience of CARICOM and the Andean Community in this regard was mentioned.<sup>26</sup>

After many fruitful hours of debate consensus was reached that regional integration may contribute to strengthening transnational capital, but also that among developing countries such processes could provide a way to face the threats of globalization (particularly those linked to external shocks and their pernicious effects on labor markets). They would also make it possible to take advantage, under better conditions, of the opportunities derived from globalization, such as the expansion of export markets, more competitive import prices and conditions, greater access to external financing, technology and new knowledge and ideas.

The way integration processes are designed will determine whether they will contribute or not to the progress of its members. Their influence on member countries' development will depend, to a great extent, on the objectives established, the actors that

will lead the process, the character of their institutions and the negotiating mechanisms adopted.

A greater integration among developing countries must be sought, as long as it contributes to put an end to these countries' growing marginalization from world markets, facilitates access to financial flows under better conditions and contributes to achieving a better position within the global production and service chain.

Within the world economy regional integration is a phenomenon that is growing in strength. It is hard to picture the future of developing countries without strong economic and social ties between them that may be strengthened in the short term before other processes with hegemonic pretensions render this coordination difficult. This is essential for Latin America and the Caribbean, a region that needs urgently to increase its external insertion and to stimulate economic growth. It is an important, even though insufficient condition for development.<sup>27</sup>

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## Notes

1. Cuba's National Economists' Association and the Latin American Economic System wish to thank the Center for International Economic Research of the University of Havana for its valuable contribution in the preparation of this document.
2. "Globalization and the Development Agenda", José Antonio Ocampo, presentation delivered at the III International Meeting of Economists on "Globalization and Development Problems", held in Havana on January 29-February 2, 2001.
3. Presentation "Developing Countries' Insertion into the Global Economy", Tugores, Ques, J.
4. Ibid.
5. UNCTAD (2000), **Action Plan**. TD/386, Bangkok, February, p.47.
6. Presentation, "The Institutional Challenges of Globalization and Developing Countries' Insertion", Andrés Solimano.
7. Relator's report, III Meeting.
8. Presentation, Gould, E – Dobbin, M.
9. Report by the International Trade Commission of the III Meeting. Antonio Romero, G.
10. "Alternative Macroeconomic Policies to Counter Economic Instability and for Sustained Growth". Presentation by Arturo Huerta G.

11. "Regulation and Control of International Financial Flows". A Presentation by Giambattista Negretti.

12. "The Tobin Tax (TT): Technical Feasibility and Use for a New International Cooperation Process". A Presentation by Leonardo Fernando Cruz.

13. "Latin American Development Banks in a Global World". A presentation by Rommel Acevedo.

14. "External Financing and Growth in Latin America: Recent evolution and Perspectives". A presentation by Luis Miotti and Carlos Quenan.

15. "The HIPC Initiative for Debt Reduction: A Solution or a Distraction?" A presentation by Marlen Sanchez.

16. "The Challenges of an Association Among Unequal Partners". A presentation by

Paul Lowenthal.

17. "Globalization, Integration and Neoliberalism. Prospects for Latin America". A presentation by Arturo Perales and Francisco Davila: "North-South Free Trade Agreements: Risks Faced by Developing Countries. The Mexican Case", by Odile Cartel.

18. Presentation, "Stabilization and Integration Policies". Celia Himmerfarb.

19. Presentation, "Limits and Possibilities of the Andean Integration Process". Alan Ferlie.

20. Presentation by Jorge Vega, in representation of the Secretary of the Andean Community of Nations.

21. "Integration's Crossroads". Presentation by ALADI's Secretary, Juan F. Rojas Penso.

22. Presentation. "Creating Sovereignty. The Growth

of National Sovereignty". Alfredo Calcagno and Eric Calcagno.

23. Presentation, "Regional Integration and Economic Globalization. A Problem-ridden Issue for Latin America and the Caribbean". Maribel Aponte.

24. Presentation, "Latin American Dependency". Carlos Eduardo Martins.

25. Presentation, "The Challenges of Globalization and Regional Economic Integration for Developing Countries". S. Bakhtiar.

26. Presentation, "The Insertion of Small and Vulnerable Economies into the World Economy. Advantages of Regional Cooperation for Trade and Competition". Ana Maria Alvarez.

27. Presentation, "Growth with Equity Versus Neo-Liberalism". Ricardo Ffrench-Davis.

# The Declaration on SELA's XXV Anniversary

## THE LATIN AMERICAN COUNCIL

**On the occasion** of the commemoration of the XXV Anniversary of the signing of the Panama Agreement, through which SELA was constituted by all the States of Latin America and the Caribbean,

### CONSIDERING:

That peace and democracy in the region allow for advancement toward the achievement of shared objectives, such as development, equity and the struggle against poverty;

That the integration of Latin America and the Caribbean is a foreign policy goal imbedded in the national identity of the countries of the region;

That the coordination of positions on economic issues in international forums is a necessary condition for the positive insertion of SELA Member States in the world economy;

That solidarity and cooperation conform the effective and adequate means to address the common problems that affect our societies;

That it is necessary to make the best possible use of the efforts and experiences attained in Latin America and the Caribbean to promote integration, economic growth, social justice and the cultural identity of the region;

That SELA, as a genuinely Latin American and Caribbean organization, is the appropriate forum for the search and achievement of our common objectives,

### DECLARES:

1. The Panama Convention, on the XXV Anniversary of its signing, remains totally relevant, and SELA, as the only entity of an exclusively Latin American and Caribbean scope, constitutes a valuable instrument for cooperation and coordination among the countries of the region and for the fostering of relations between these countries and the rest of the world.
2. The advancement and consolidation of peace and democracy

in Latin America and the Caribbean is an indispensable condition to promote economic development; strengthen the struggle against poverty; achieve a more equitable distribution of income; advance toward a higher degree of social justice and participation of societies in building their own destiny; and obtain greater well-being for its peoples.

3. The integration of Latin America and the Caribbean is an objective shared by the countries of the region, and encompasses political, social, economic, cultural and institutional aspects, regarding which actions should be undertaken and deepened.
4. The articulation and convergence of existing subregional agreements constitutes the most efficient way to improve integration and to advance toward a community of nations.
5. The participation of Latin America and the Caribbean in a globalized economy will be of greater benefit for its peoples if the countries of the region participate actively and in a coordinated manner in the design of the norms and practices that govern international economic relations.
6. Adequate treatment of the asymmetries and various levels of development achieved by the countries in their diverse aspects is indispensable in designing international economic relations, both on a global level as well as on an intra-regional level in order to establish a fairer and more lasting international economic order.
7. The creation of a South American free trade area, by means of an accord to this effect between the Andean Community of Nations (CAN) and the Common Market of the South (MERCOSUR), agreed at the Summit of South American Presidents in Brasilia on 1 September 2000, can be considered a significant step toward the integration of Latin America and the Caribbean through the articulation and convergence of the integration processes characteristic of the region.
8. Actions promoted by the Presidents of South America should be complemented with initiatives that fully involve all the nations of Latin America and the Caribbean. To this end, it is necessary to strengthen the institutional framework of the region by joining efforts; activating dialogue, consultation and cooperation mechanisms; and taking effective action for compliance with common projects agreed upon.

# The Santiago Declaration

1. The Xth Institutionalised Ministerial Meeting between the Rio Group and the European Union was held in Santiago, Chile, on 28 March 2001, in accordance with the Rome Declaration of December 1990 and the Final Declaration of the IXth Ministerial Meeting, held in Vilamoura on 24 February 2000.
2. The Rio Group delegation was led by Ms. María Soledad Alvear Valenzuela, Minister for External Relations of Chile and pro tempore Secretary of the Rio Group.  
The European Union delegation was led by Ms Anna Lindh, Minister for Foreign Affairs of Sweden and President-in-Office of the European Union. The European Commission was represented by Mr Chris Patten, Member.
3. In the context of the new relationship being created between the two regions, stemming from the First Summit of Heads of State or Government of the European Union and of Latin America and the Caribbean held in Rio de Janeiro, Brazil on 28 and 29 June 1999, the Xth Ministerial Meeting presented a format and content intended to facilitate the dialogue between the two sides and make it more dynamic.
4. Discussions at the Xth Ministerial Meeting concentrated on two main subjects: «The New Economy, the Technology Divide and Employment», presented by the Rio Group countries, and «The Sustainability of Democracy, Good Governance and Poverty Reduction», presented by the European Union countries.
5. With regard to the discussion of the first subject, the Ministers agreed that the process of globalisation has formed a world with realities very different from those which we had known in the past, which has affected both international relations and people's daily lives. In that way, the use of new technologies, the growth of trade, the increase in investments and the expansion of communications has opened up unimagined prospects for economic growth and progress for all of mankind. The Ministers also recognised that the opportunities provided



by economic and technological globalisation have been exploited by some countries and are mainly of benefit to a few firms and to higher-skilled workers. For that reason, the technology divide between the industrialised and the developing countries is even wider than that registered by the traditional indicators of productivity and socio-economic welfare.

The Ministers agreed that from this state of affairs it could be concluded that in Latin America the process of transition to an information society would require public-private coordination, which would seek to reduce inequality in the dissemination of the new information and communications technologies.

With that in view, the Ministers recognised the importance of broad and equitable access to the new information technologies. They therefore undertook to continue working to encourage and increase bi-regional cooperation so as to reduce differences in access and facilitate technology transfer to less-favoured regions.

The Ministers also stated their desire to enable wider sections of the public to enjoy the benefits of the new technologies. Governments undertook to develop cooperation programmes to design systematic policies of technology transfer and investment in areas such as telematics, the information society and distance education, so that these could have a positive effect on employment.

The Ministers recognised the role played by Information and Communication Technology (ICT) to foster democracy and development through the use of electronic devices in the public administration as an instrument to involve civil society in the policy debate through direct interaction.

6. With respect to the subject of «The Sustainability of Democracy, Good Governance and Poverty Reduction» as proposed by the European Union, Ministers highlighted the fundamental values of democracy and good governance as solid common bases for the partnership between the regions in an age of globalisation. The strengthening of democratic institutions, pluralism and the rule of law were highlighted as essential elements for preserving democracy, social development and for economic progress. The Ministers agreed that democracy has to be continuously strengthened and is a task that falls upon both governments and civil society.

The Ministers recognised the need for special joint efforts in their respective regions to honour their commitment to reduce poverty by half by 2015.

7. The Ministers stressed the importance of the Second Summit of Heads of State or Government of the European Union and of Latin America and the Caribbean, to be held in Madrid on 17 and 18 May 2002.

In that context the Ministers confirmed their commitment to a strategic partnership as agreed on at the First Summit, held in Rio de Janeiro in June 1999. The Ministers confirmed their commitment to the principles of the Rio Declaration and to the continuation of joint work by the Bi-regional Follow-up Group so as to continue their work in time with the priorities adopted by the Heads of State or Government, concentrating on co-operation steps to speed up the implementation of projects and make concrete progress with a view to the Madrid Summit.

The Ministers underlined the convergence of views achieved by both parties on a significant number of subjects of general interest and agreed to step up cooperation on all subjects of common interest within international fora.

8. The Ministers emphasised that respect for human rights, the rule of law and democratic institutions are essential to political stability and development in both regions and are mutually reinforcing. They also confirmed their Governments' commitment to representative and participatory democracy, political pluralism and full participation by civil society.

The Ministers highlighted the crucial role of international and regional systems for the promotion of human rights and fundamental freedoms and the importance of all countries cooperating with those systems.

9. The Ministers repeated their repudiation of all forms of racism and xenophobia and expressed their willingness to adopt policies designed to promote respect for the dignity and welfare of migrants; they also undertook to guarantee that the fundamental rights of migrants and their families would be protected. They also stressed the need to give particular importance to promoting equality between men and women and promoting and protecting the rights of the most vulnerable groups in society, in particular children, young people, the disabled, displaced persons, migrant workers and their families and indigenous populations and minorities.

10. The Ministers rejected any extraterritorial application of national laws that infringe international law and reaffirmed their desire to continue to work jointly to gradually develop national

and international provisions concerning the criminal responsibility of persons who have committed crimes against humanity.

Likewise, the Ministers reiterated their categorical rejection of all unilateral trade measures with extra-territorial effect as being contrary to international law and the rules of the WTO. They agreed that practices of this type posed a grave threat to multilateralism.

11. The Ministers reaffirmed the commitment of their Governments to continue developing policies designed to eliminate poverty, marginalisation and social exclusion and reduce socio-economic inequalities. Similarly, they stressed the need, against a background of increasing globalisation, for the developed countries and other significant players on the international scene to demonstrate their willingness to work together to devise a balanced and fair development strategy.

12. The Ministers welcomed recent progress in the process of bringing the two regions closer together, such as the entry into force of the Partnership Agreement with Mexico and the steps forward made in the negotiation of Association Agreements with Mercosur and Chile. Ministers agreed to make all the necessary efforts with the aim of concluding the above negotiations as soon as possible.

At the XVIIth Ministerial Conference of the San José Dialogue, the Ministers agreed on the need to continue analysing the current situation and the prospects for economic and trading relations, based on stability and predictability, which would have mutually beneficial results. On this basis, the Ministers agreed to establish shortly a joint technical working party in which interested Central American countries could participate.

The Parties welcomed the adoption of the terms of reference of the study to assess the current state of and prospects for economic and trading relations between the Andean Community and the European Union, and agreed on the need to accelerate the preparation of the study.

13. The Ministers recognised the importance of maintaining the high-level political dialogue on drugs between the two regions. They reiterated the importance of the principle of shared responsibility in addressing the worldwide problem of illegal drugs and of the crimes mentioned in the following paragraph. In that regard, they undertook to combat more efficiently

money laundering, chemical precursor trafficking and diversion, and arms smuggling and trafficking. It is also necessary to develop joint actions to strengthen alternative development and reduce consumption.

In that connection the Ministers expressed their support for the implementation of the Comprehensive Action Plan on Drugs between the European Union, Latin America and the Caribbean, adopted in Panama in April 1999, and stated their intention of strengthening the Bi-regional Coordination Mechanism. They also undertook to support the third High-Level Meeting of the Mechanism, to be held in Cochabamba, Bolivia, in June 2001.

14. The Ministers agreed on the need for further cooperation as regards civil security and consequently decided to give high priority to combating the movement of and trafficking in small arms, including by means of specific measures concerning the collection and destruction of such arms held by civilians. The Ministers also supported the work of the Preparatory Committee of the United Nations Conference on the Illicit Trade in Small Arms and Light Weapons.

The Ministers energetically condemned all forms of international organised crime and terrorism.

The Ministers expressed satisfaction with Central America's success in eliminating anti-personnel mines and appealed to the international community to continue supporting the mine clearance process until the region can be declared an area free of anti-personnel mines. Both sides expressed the need to continue humanitarian cooperation in respect of the rehabilitation of the victims of such devices.

In addition, the Ministers also expressed their support for a Third Meeting of the States Party to the Ottawa Convention, to be held in Nicaragua in September 2001.

15. The Ministers agreed on the need to join forces to reduce the vulnerability of the Latin American region, as recently highlighted by the earthquakes in El Salvador, and reaffirmed their commitment to cooperate very closely in preventing, mitigating and responding to natural disasters with specific measures.

16. The Ministers reiterated their commitment to applying the Rio Principles, the Agenda 21 and the multilateral agreements reached at the United Nations Conference on Environment

and Development, with the objective of achieving sustainable development in all respects: economic, social, environmental and cultural.

The Ministers also called upon the negotiating blocks at the Conference on Climatic Change to reach agreement promptly so as to implement the Kyoto Protocol, thus contributing to the protection of the global environment.

17. The Ministers stressed the importance of the World Trade Organisation (WTO) as the forum for furthering gradual and mutually advantageous multilateral trade liberalisation and establishing basic rules and principles for the international trading system, resulting in a more equitable distribution of the benefits of globalisation.

They also highlighted the need to make important progress in the ongoing mandated negotiations which include agriculture and services, as well as on the implementation of the agreements reached under the Uruguay Round.

In the prospect of the IV Ministerial meeting of the WTO in Qatar, the Ministers agreed to work further towards the launching of a new comprehensive round based on a balanced agenda taking adequate account of the interests of all the members of the Multilateral Trading System. This round must be directed at strengthening access to markets without excluding any sector, to develop and strengthen the rules and disciplines of the WTO and to promote a better integration of developing countries into the Multilateral Trading System. The Ministers also stressed the need to make progress on the WTO's cooperation schemes designed to strengthen the technical and institutional capacity of the developing countries and, particularly, of the least developed countries.

They also underlined the need for a transparent and inclusive preparatory process leading up to the fourth Ministerial meeting involving all members of the WTO and of the need for civil society to have appropriate access to information and to provide opportunity for dialogue prior to and during the conference.

18. The Ministers reiterated their conviction that promoting new productive investments constitutes a fundamental objective and agreed to promote the development of initiatives aimed at greater flow of interregional investments.

19. The Ministers stressed the importance of reforming and strengthening the structure of the international financial sys-

tem and called for a fair and lasting solution to the problem of foreign debt.

20. The Ministers highlighted the importance of promoting and stepping up exchange and cooperation between the civil societies of Latin America, the Caribbean and the European Union.
21. The Ministers reiterated their shared vision of the role of regional integration as a significant factor both for economic and social development and for consolidating the position of their respective regions on the international stage.
22. The Ministers agreed to hold the XIth Institutionalised Ministerial Meeting between the European Union and the Rio Group in Greece in 2003.
23. The Ministers expressed their thanks to the Government and the people of Chile for their hospitality and the excellent organisation, which has helped make the Xth Institutionalised Ministerial Meeting between the European Union and the Rio Group a complete success.

# The Caracas Declaration

The Presidents of Colombia, Andrés Pastrana, Mexico, Vicente Fox and Venezuela, Hugo Chávez, having convened for the first time at the dawn of the XXI Century in order to re-launch the Group of Three, have agreed on the following Declaration:

## The Caracas Summit Statement

We reiterate our commitment to democracy as the foundation of government based on the rule of law. We equally reiterate our conviction on the need to improve and strengthen our nations' political processes in order to achieve a more participatory democracy, in the understanding that the latter will contribute towards better governance and the greater well being of our peoples.

We reiterate our unswerving commitment in favor of strengthening the integration processes in which our countries are engaged, convinced as we are that such reinforcement will assist our nations' development and foster a more democratic, peaceful and equitable international system.

We shall endeavor to make good use of our region's strategic geographic location in order to foster the economic and social development of our peoples. We agree, in this regard, to renew the validity, dynamism and international projection of the Group of Three.

Taking into account the scope of potentialities of the Group and its prospects, as illustrated by, among others, the report presented by the Trilateral Study Committee, we concur on giving impetus to our undertakings on the basis of strategies that will allow for an effective process of political dialogue, consultation and coordination; for trilateral economic complementation; and for an ample recourse to cooperation.

We concur on the relevance of the political dialogue we have sustained during the present Summit, as well as on the need to strengthen our shared perceptions on the major issues inscribed in the regional and international agendas.

We underline the importance of the III Summit of the Americas, to be held in Quebec. The Quebec Summit represents an ideal opportunity to reaffirm the validity of democratic principles as a condition for inter-American coexistence, the promotion of

human rights as an international responsibility and the adoption of measures geared towards the creation of prosperity and fostering human development.

We take note of the progress made at the Meeting of Trade Ministers of the Hemisphere, held yesterday in Buenos Aires, Argentina.

We acknowledge the importance of the work undertaken by the Free Trade Treaty Administration Committee, as well as of the meetings held on the occasion of the Summit among representatives of business organizations, stock markets, and in particular, small and medium sized firms, a sector we consider strategic as regards the link between social and economic development. The results of such meetings represent an invaluable contribution by the private sector to the Group's goals, as well as towards facilitation of a wider and improved use of the economic complementation opportunities allowed for by the Treaty, understood as the fundamental pillar upon which this integration process rests.

We commit ourselves to a renewed cooperation among the three countries and, in a spirit of solidarity, to make such cooperation extensive to Central America and the Caribbean in common, mutually complementary or unilateral undertakings.

We shall promote and put into effect initiatives in the fields of education, science and technology, tourism, natural disaster and calamity prevention and preparedness, and the environment. Such initiatives are to be identified by the competent High Level Groups.

We take note of the report by the High Level Group on Energy. We instruct a reinforcement of the information exchange and policy coordination for energy markets stability therein recommended.

We acknowledge the report by the High Level Group on Culture and decide to reinforce policies in the field of culture as well as the wider promotion and marketing of our respective industries convinced as we are that culture-based goods and services are important assets for the development and well-being of nations.

We reiterate the importance we attach to the protection of the environment and to the sustainable use of natural resources. We instruct our national authorities in the field of the environment to reactivate the work of the High Level Group on the Environment and to prepare an Action Plan.

We have decided to strengthen the institutional framework of the Group in order to adapt it to the requirements and dynamics of the present international situation. To such end, and without regard to our common presence in other fora, we will meet on a



regular basis every two years in order to give guidance and strengthen the process, review progress towards our agreed goals and approve the biennial work program.

On the basis of the afore-mentioned we have agreed on the actions and measures for the reinforcement of the Group detailed in the annex to this declaration. We entrust the present Pro-Tempore Secretariat, under the guidance of the Ministers of Foreign Affairs, with the preparation of a Work Program to be presented in June to the up-coming Pro- Tempore Secretariat. Such Work Program shall include those priority goals and specific initiatives to be undertaken during the next two years.

The Presidents of Colombia and Mexico expressed their appreciation for the hospitality and courtesies extended to them during this meeting by the People and Government of the Bolivarian Republic of Venezuela, a meeting which marks the beginning of a new stage in the history of the Group of Three.

Signed in Caracas on April 8, 2001

# The Buenos Aires Declaration

1. We, the Ministers Responsible for Trade in the Hemisphere, representing the 34 countries participating in the negotiations of the Free Trade Area of the Americas, held our Sixth Ministerial Meeting in Buenos Aires, Argentina, on April 7th, 2001.
2. We take note of the significant progress made in the negotiations of the FTAA under the Chair of the Argentine Republic in this, the second eighteen-month stage of negotiations. We reaffirm the principles and objectives that have guided our work since the First Summit of the Americas, in particular, the basic principle of consensus in decision making within the FTAA process and the achievement of a balanced, comprehensive agreement that is consistent with the rules and disciplines of the World Trade Organization. We reaffirm that the result of the FTAA negotiations shall constitute a comprehensive single undertaking that incorporates the rights and obligations that are mutually agreed for all member countries. We reiterate that the FTAA can coexist with bilateral and sub-regional agreements, to the extent that the rights and obligations under these agreements are not covered by or go beyond the rights and obligations of the FTAA. In light of the progress achieved in the course of the negotiating process, we recommend to the Leaders, at the Third Summit of the Americas, that they direct us to ensure negotiations of the FTAA Agreement are concluded no later than January 2005 and to seek its entry into force as soon as possible thereafter, but in any case, no later than December, 2005.
3. We believe in the importance of trade liberalization, both globally and regionally, in generating economic growth and prosperity in the Hemisphere. In this connection, we consider important the strengthening of the ongoing trade integration processes within our Hemisphere, which can facilitate the achievement of full Hemispheric integration. We reaffirm our commitment to a more open and balanced global trading system and believe that the FTAA negotiations will facilitate

the achievement of this objective. Consequently, we reiterate our commitment to avoid, to the extent possible, adopting policies or measures that may adversely affect regional trade and investment and to avoid imposing further barriers to countries outside the Hemisphere.

4. At the Third Summit of the Americas, to be held in Quebec City, from April 20-22, 2001, our Heads of State and Government will review the progress we have made together both in addressing the challenges highlighted at the previous Summits of the Americas and in identifying new priorities for hemispheric action. We recognize the significant contribution that economic integration, principally through the FTAA, will make to the attainment of the broader objectives in the Summit of the Americas process, including strengthening democracy, creating prosperity and realizing human potential. We reiterate that the negotiation of the FTAA will continue to take into account the broad social and economic agenda contained in the Miami and Santiago Declarations and Plans of Action with a view to contributing to raising living standards, improving the working conditions of all people in the Americas and better protecting the environment. We reiterate that one of our general objectives is to strive to make our trade liberalization and environmental policies mutually supportive, taking into account work undertaken by the World Trade Organization and other international organizations, and to further secure, in accordance with our respective laws and regulations, the observance and promotion of worker rights, renewing our commitment to the observance of internationally recognized core labor standards, and acknowledging that the International Labour Organization is the competent body to set and deal those core labor standards.
5. We reaffirm our commitment, embodied in previous Ministerial declarations to take into account, in designing the FTAA, the differences in the levels of development and size of the economies of our Hemisphere to create opportunities for the full participation of the smaller economies and to increase their level of development. We recognize the broad differences in the levels of development and size of the economies in our Hemisphere and we will remain cognizant of those differences in our negotiations so as to ensure that they receive the treatment that they require to ensure the full participation of all members in the construction and benefits of the FTAA.

6. We reiterate the importance of cooperation to enable the strengthening of the productive capacity and competitiveness of those economies. Likewise, in the light of general principles which we have approved in the San Jose Ministerial Declaration, we reaffirm the need for technical assistance, as well as specific provisions to meet the needs of those countries with different levels of development and size of their economies; including the special needs of smaller economies, such as to enhance their capacity to secure the maximum benefits from their participation in the FTAA.
7. We recognize the importance of macroeconomic stability as a factor in providing certainty and predictability, which will facilitate the attainment of greater well-being, contribute to increased trade flows, economic integration and sustainable development. In this connection, we underscore the importance of developing greater hemispheric integration, in keeping with the objectives established at successive Summits of the Americas.
8. We consider that the Third Summit of the Americas is an opportunity to continue to build on the Plans of Action approved at earlier Summits, in order to strengthen the hemispheric cooperation programs, which facilitate the support of each country's effort on areas relevant to its effective participation in the negotiations and benefits of the FTAA.

### **Present and Future of the Negotiations**

9. We have reviewed the Report prepared by the Trade Negotiations Committee and, among the achievements of this second stage of negotiations, we should highlight, in particular: the development of a preliminary draft FTAA Agreement, resulting from the compilation of draft texts produced by the Negotiating Groups; the initiation of discussions on the overall architecture of an FTAA Agreement (general and institutional matters); progress in the reports on the interaction between trade and competition policy, including anti-dumping measures; on the inter-relationship between the Negotiating Groups on Market Access and Agriculture; and on the Treatment of differences in levels of development and size of economies in trade and integration agreements; the move of the Administrative Secretariat to Panama in fulfillment of the agreement at our Fourth Ministerial Meeting; progress in preparing an Organizational Manual for the Admin-

istrative Secretariat and progress in the implementation of the eighteen business facilitation measures approved at our Fifth Ministerial Meeting.

10. We appreciate the considerable work done by the Negotiating Groups in developing the draft texts. In the light of this progress we instruct the Negotiating Groups to intensify efforts to resolve existing divergences and reach consensus, with a view to eliminating the brackets from draft texts, to the maximum extent possible, to work on consolidating texts on the basis of the specific instructions included in Annex I and to submit to the TNC a new version of chapters on their respective areas no later than 8 weeks before our next meeting.
11. The Trade Negotiations Committee shall ensure that progress is made in all the Negotiating Groups, in conformity with the general principles agreed at our meeting in San Jose. In this regard, it shall assess the progress achieved in the Negotiating Groups with regard to the tasks assigned to them in Annex I to this Declaration and resolve any divergences that may exist in the recommendations, and shall instruct that market access negotiations be initiated no later than May 15, 2002.
12. We instruct the Trade Negotiations Committee to prepare a second version of the draft FTAA Agreement, including the chapters from each Negotiating Group and chapters covering general and institutional aspects, for our consideration at the next Ministerial Meeting.
13. We also instruct the Trade Negotiations Committee to continue its consideration of the treatment of the differences in the levels of development and size of the economies of the Hemisphere, including the smaller economies, and to provide, in this respect, ongoing guidance to the Negotiating Groups in their consideration of specific proposals submitted by countries or groups of countries in each of the substantive negotiating areas.
14. With the support of the Consultative Group on Smaller Economies and the Tripartite Committee, the Trade Negotiations Committee shall formulate, no later than November 1, 2001, some guidelines or directives on way of applying the treatment of the differences in the levels of development and size of economies.

15. In order to complete this work, we agree that the TNC should hold no less than three meetings over the next eighteen months, culminating in the next Ministerial meeting, to be held no later than October 31, 2002. The meetings will be held in Nicaragua, Venezuela, and the Dominican Republic, successively.
16. We considered and took note of the Report from the Trade Negotiations Committee and reaffirm its role as the executive body of the negotiating process. The overall management of the process includes, *inter alia*, guiding the work of the different FTAA entities, while striving to maintain steady progress in all negotiating areas, in accordance with their objectives and mandates; deciding on the overall architecture of the FTAA Agreement – general and institutional aspects -, supervising the general work of the Technical Committee on Institutional Issues; ensuring the transparency of the negotiating process; supervising the work of the Administrative Secretariat; supervising the work of the Administration and Budget Sub Committee; supervising requests made to the Tripartite Committee, establishing priorities, where necessary; supervising the implementation of approved business facilitation measures and continuing to analyze the treatment of differences in the level of development and size of the economies of the Hemisphere.
17. We reiterate our instructions to the Trade Negotiations Committee to continue to identify links between the FTAA entities, specifying the appropriate procedures for ensuring effective and timely coordination.
18. We instruct the Trade Negotiations Committee to assess, in consultation with the Negotiating Groups, and on an ongoing basis, the need to create new Negotiating Groups, based on the progress achieved by existing Groups, and to establish other Negotiating Groups or Sub Groups, where appropriate.

### **Business Facilitation**

19. We have received the report of the Ad-Hoc Group of Customs Experts and we take note of the progress achieved in implementing the business facilitation measures agreed upon at our previous meeting. We encourage countries to continue to work towards fully implementing these measures, supplemented by technical assistance and technical cooperation

plans, with the conviction that such measures shall contribute significantly to expediting transactions in the Hemisphere and to creating a more efficient and predictable business environment.

20. In this regard, we welcome the approval of the Multilateral Investment Fund (MIF) Technical Cooperation Project, - which comes under the authority of the Inter-American Development Bank - which will contribute towards facilitating the implementation of customs measures, taking into account the differences in the levels of development and size of the economies, including the smaller economies.
21. We have also received the report of the Tripartite Committee on transparency-related business facilitation measures, and we ratify the importance of full and ongoing implementation of these measures. We encourage the Governments to submit the information necessary to keep the FTAA official web page up-to-date, providing business communities and other interested parties rapid and effective access to the information.

#### **Rotation of Chairs and Vice-Chairs**

22. We appreciate the work of the Chairs and Vice-Chairs of the Negotiating Groups, Consultative Group, and Committees in this second stage of negotiations. Their professional work and dedication contributed significantly to the progress made to date. Consistent with the rotation guidelines agreed upon at our Fourth Meeting, we hereby approve a new list of countries that shall serve as Chairs and Vice-Chairs of the different FTAA entities in the third eighteen-month phase of negotiations, which is attached hereto in Annex II.

#### **Transparency and Participation of Civil Society**

23. At the Santiago Summit, Leaders instructed FTAA negotiators to ensure that the negotiating process was transparent and that negotiations were conducted so as to build broad public understanding of and support for the FTAA. Consistent with this mandate, and in keeping with our commitment to transparency, we have agreed to publicize the draft FTAA Agreement in the four official languages, after the third Summit of the Americas. We believe that the dissemination of this text will alleviate considerably public concerns about the FTAA and will establish new standards of transparency in

trade negotiations. Likewise, we agreed on disseminating, after each Summit of the Americas, the results achieved in the negotiating process.

24. We reaffirm our commitment to the principle of transparency in the FTAA process and recognize the need for increasing participation of the different sectors of civil society in the hemispheric initiative. We are grateful for the contributions made by civil society in this stage of the negotiations of the FTAA and urge civil society to continue to make its contributions in a constructive manner on trade-related issues of relevance to the FTAA. We appreciate the recommendations on this issue area submitted by the Trade Negotiations Committee for our consideration.
25. We consider that the Committee of Government Representatives on the Participation of Civil Society is an important mechanism for fulfilling the commitment to transparency and we welcome the report which presents the range of viewpoints received during this stage from individuals and organizations from the Hemisphere.
26. In this connection, we instruct the Committee of Government Representatives on the Participation of Civil Society to foster a process of increasing and sustained communication with civil society, to ensure that civil society has a clear perception of the development of the FTAA negotiating process. To this end, we instruct this Committee to develop a list of options for the consideration and decision of the Trade Negotiations Committee at its next meeting, which could include dissemination programs in smaller economies, which could be funded by the Tripartite Committee or other international sources of funding.
27. We further instruct the Trade Negotiations Committee to analyze the possibility of incorporating more information on the FTAA process in the official web page, including the dissemination of the second Report of the Committee of Government Representatives on the Participation of Civil Society.
28. We also instruct the Committee of Government Representatives to forward to the Negotiating Groups the contributions submitted by civil society which refer to their respective issue areas, and those related to the FTAA process in general.



29. We are grateful for the recommendations made by the Sixth Americas Business Forum, which, like those made in previous fora, serve as valuable input to the negotiations.
30. We take note of the fora and seminars on FTAA negotiations that different civil society organizations have carried out in the countries of the region and we invite them to present the conclusions of their work to the Committee of Government Representatives on the Participation of Civil Society.

### **Electronic Commerce**

31. We are also grateful for the new report of the Joint Government-Private Sector Committee of Experts on Electronic Commerce. We shall forward their recommendations to the competent government authorities and make them available to the wider public. We agree that the joint committee should continue to meet with a view to making further recommendations on issues under its mandate and presenting us with a new report at our next meeting. We instruct the Committee on Electronic Commerce to delve further into its review of specific issues on its work agenda, to identify new issues relating to this subject, including mechanisms for reducing the growing digital divide between the countries of the Hemisphere.

### **Consultative Group on Smaller Economies**

32. We have received the report of the Consultative Group on Smaller Economies and are grateful for its recommendations on activities and work to be completed in the future work of the Group, with the aim of successfully treating the differences in the level of development and size of the economies of the Hemisphere. We recall that considerations related to differences in the levels of development and size of the economies of the Hemisphere must be taken into account within the context of each Negotiating Group. We instruct the TNC to examine ways to strengthen the flow of information between the Negotiating Groups and the CGSE on issues arising relevant to the interests and concerns of smaller economies, so that the CGSE can adequately fulfill its mandate. We appreciate the considerable progress made in developing a data base containing the technical assistance needs and sources of technical assistance for smaller economies and are grateful for the further efforts made to enhance the system.

**Tripartite Committee**

33. We appreciate the analytical, technical and financial contributions made by the Tripartite Committee – made up of the Inter-American Development Bank, Organization of American States and the United Nations Economic Commission for Latin America and the Caribbean – to the different FTAA entities. We acknowledge that this support has been important to the conduct of the negotiations to date, and we encourage these institutions to continue to collaborate in the process of Hemispheric integration.

**Administrative Secretariat**

34. We recognize the logistical support for negotiations provided by the Administrative Secretariat. We are grateful to the Government and community of Florida for the substantial support afforded the Administrative Secretariat for the period it was located in Miami as well as to the Government and community of Panama for the efforts made to enable the effective establishment of the Administrative Secretariat in Panama until February 2003.

35. We take note of the moving of the Administrative Secretariat to Panama, in accordance with the agreement reached in our Fourth Ministerial Meeting, and of the progress in preparing a Procedural Manual for the Administrative Secretariat.

36. We thank the Tripartite Committee for its support in setting up the Administrative Secretariat in its new venue.

**Acknowledgements**

37. We thank Guatemala, Barbados and Peru for organizing the meetings of the Trade Negotiations Committee and the Republic of Argentina for serving as Chair of the FTAA during this second phase of negotiations and for the organization of this Sixth Ministerial Meeting. We shall meet once again in Ecuador, no later than October 2002.

**Annex I****Instruction to the Negotiating Groups****General Instructions**

1. We instruct the Negotiating Groups to continue working under

the general principle that any delegation has the right to present the text proposals it deems relevant for the effective progress of the process, which may eventually be placed in brackets.

Most Ministers recognize that the issues on environment and labour should not be utilized as conditionalities nor subject to disciplines, the non compliance of which can be subject to trade restrictions or sanctions.

2. We instruct the Negotiating Groups that the proposed texts already submitted and future texts should not render ineffective the obligations to be assumed by countries in relation to those substantive issues or areas on the FTAA negotiations agenda.
3. We instruct those Negotiating Groups which are drafting special dispute settlement provisions to submit their proposals to the Negotiating Group on Dispute Settlement in order that the Negotiating Group on Dispute Settlement may consider, in coordination with these Negotiating Groups, the compatibility of the provisions with the rules drafted in this area and present their conclusions to the Trade Negotiations Committee for its consideration, or to the Technical Committee on Institutional Issues, where appropriate.
4. We reiterate to the Negotiating Groups the obligation to consider proposals which ensure the treatment of the differences in the levels of development and size of the economies of the Hemisphere; in particular, the situation of smaller economies, through considerations of proposals submitted by the countries or groups of countries.

#### **A) Market Acces**

1. We instruct the Negotiating Group on Market Access to submit to the Trade Negotiations Committee, in coordination with the Negotiating Group on Agriculture recommendations on the methods and modalities for tariff negotiations by April 1, 2002 to be considered by the TNC at its first meeting following that date, in order to initiate negotiations no later than May 15, 2002.
2. We instruct the Negotiating Group on Market Access to determine, by the deadline of April 1, 2002, the timetable and modalities for establishing FTAA rules of origin, to be evalu-

ated by the TNC at its first meeting following that date in order to initiate negotiations no later than May 15, 2002.

3. We instruct the Negotiating Group on Market Access to accelerate the process of identifying non-tariff measures, so as to have, by April 1, 2002, a preliminary inventory of such measures, in order to establish a methodology, including a schedule, where appropriate, for the elimination, reduction, definition, further definition, further disciplining and / or prevention of non-tariff barriers.
4. We instruct the Negotiating Group on Market Access to work, in coordination with the Negotiating Group on Agriculture and the Tripartite Committee, to ensure that the Hemispheric Data Base is fully operational by November 1, 2001.
5. We instruct the Negotiating Group on Market Access to intensify the negotiation of a safeguards regime applicable to the goods of the Hemisphere and to submit to the Trade Negotiations Committee, by the deadline of April 1, 2002 a report on the progress made in this issue area.
6. We instruct the Negotiating Group on Market Access to work in coordination with the Negotiating Group on Agriculture, when they deem it necessary, to address issues of common interest

## **B) Agriculture**

1. We instruct the Negotiating Group on Agriculture to submit to the Trade Negotiations Committee, in coordination with the Negotiating Group on Market Access, recommendations on the methods and modalities for tariff negotiations by April 1, 2002, to be evaluated by the TNC at its first meeting following that date, in order to initiate negotiations May 15, 2002.
2. We instruct the Negotiating Group on Agriculture to submit to the Trade Negotiations Committee, recommendations on the scope and methodology for eliminating export subsidies affecting trade in agricultural products in the Hemisphere by the deadline of April 1, 2002, to be evaluated by the TNC at its first meeting following that date.
3. We instruct the Negotiating Group on Agriculture to submit to the Trade Negotiations Committee, by the deadline of April 1, 2002, recommendations on the types of measures and the

methodology for the development of disciplines to be adopted for the treatment of all the other practices that distort trade in agricultural products, including those which have an equivalent effect to agricultural export subsidies, for evaluation by the TNC at its first meeting following that date. Such recommendations shall not preclude in any way the discussion of all the elements and subjects which delegations deem necessary for addressing all such practices.

4. We instruct the Negotiating Group on Agriculture to accelerate the process of identifying non-tariff measures so as to have, by April, 2002, a preliminary inventory of such measures, in order to establish a methodology, including a schedule, where appropriate, for the elimination, reduction, definition, further definition, further disciplining and / or prevention of non-tariff barriers.
5. We instruct the Negotiating Group on Agriculture to work, in coordination with the Negotiating Group on Market Access and the Tripartite Committee, to ensure that the Hemispheric Data Base is fully operational by November 1, 2001.
6. We instruct the Negotiating Group on Agriculture to establish a process of notification and counter-notification of sanitary and phytosanitary measures and to submit to the Trade Negotiations Committee, by the deadline of April 1, 2002 recommendations on the treatment to be adopted in order to prevent these measures from becoming unjustified obstacles to trade in the hemisphere.
7. We instruct the Negotiating Group on Agriculture to develop mechanisms to facilitate the full implementation of the WTO SPS Agreement in the Hemisphere.

### **C) Investment**

1. We instruct the Negotiating Group on Investment to submit to the Trade Negotiations Committee its recommendations on modalities and procedures for negotiations by April 1, 2002, for evaluation by the TNC at its first meeting following that date, in order to initiate negotiations no later than May 15, 2002.

### **D) Subsidies, Antidumping and Countervailing Duties**

1. We instruct the Negotiating Group on Subsidies, Antidumping and Countervailing Duties to intensify its work of identifying

options for deepening, where appropriate, existing disciplines on subsidies in the WTO Agreement on Subsidies and Countervailing Measures, and to submit to the Trade Negotiations Committee recommendations on methodologies for deepening disciplines on subsidies by the deadline of April 1, 2002, for evaluation by the TNC during its first meeting following that date.

2. We instruct the Negotiating Group on Subsidies, Antidumping and Countervailing Duties to intensify its efforts to reach a common understanding with a view to improving, where possible, the rules and procedures for the operation and enforcement of trade remedy laws, so as not to create unjustified obstacles to free trade within the Hemisphere, and to submit its recommendations on the methodology to be used to achieve this objective by the deadline of April 1, 2002, for evaluation by the Trade Negotiations Committee at its first meeting following that date.
3. We instruct the Negotiating Group on Subsidies, Antidumping and Countervailing Duties to identify, based on the Study on the Interaction Between Trade and Competition Policies (document FTAA.ngadvc/inf/07Cor.1), any areas that may merit further consideration by the Trade Negotiations Committee and to present its results to the Trade Negotiations Committee by the deadline of April 1, 2002.

#### **E) Competition Policy**

1. We instruct the Negotiating Group on Competition Policy to intensify its efforts to resolve the four research questions identified in Proposal For Further Work by the Tripartite Committee on the Study on Competition Policy in Smaller Economies and Economies Without Competition Regimes (FTAA.ngcp/w/56/Cor.1), following an agreed methodology.
2. We instruct the Negotiating Group on Competition Policy to identify, based on the Study on Antidumping and Regional Trade Agreements (document FTAA/ngcp/inf/17/Cor.2), any areas that may merit further consideration by the Trade Negotiations Committee and to submit its results and / or conclusions to the Trade Negotiations Committee by the deadline of April 1, 2002.

#### **F) Services**

1. We instruct the Negotiating Group on Services to submit to

the Trade Negotiations Committee, its recommendations on modalities and procedures for negotiations by April 1, 2002, for its evaluation by the TNC during its first meeting following that date, in order to initiate negotiations no later than May 15, 2002.

#### **G) Government Procurement**

1. We instruct the Negotiating Group on Government Procurement to identify, by the deadline of April 1, 2002 the scope and details of the statistical information that countries should make available for exchange among themselves and to support their negotiations.
2. We instruct the Negotiating Group on Government Procurement to submit recommendations to the Trade Negotiations Committee on the guidelines, procedures and deadlines for negotiations, by April 1, 2002, for their evaluation by the TNC during its first meeting following that date, in order to initiate negotiations no later than May 15, 2002.

#### **H) Dispute Settlement**

1. We instruct the Negotiating Group on Dispute Settlement to submit to the Technical Committee on Institutional Issues, its preliminary views on the institutions that will need to be established to adequately implement the dispute settlement mechanisms established in the FTAA.

## The Declaration of Quebec City

We, the democratically elected Heads of State and Government of the Americas, have met in Quebec City at our Third Summit, to renew our commitment to hemispheric integration and national and collective responsibility for improving the economic well-being and security of our people. We have adopted a Plan of Action to strengthen representative democracy, promote good governance and protect human rights and fundamental freedoms.<sup>3</sup> We seek to create greater prosperity and expand economic opportunities while fostering social justice and the realization of human potential.

We reiterate our firm commitment and adherence to the principles and purposes of the Charters of the United Nations and of the Organization of American States (OAS).

Our rich and varied traditions provide unparalleled opportunities for growth and to share experiences and knowledge and to build a hemispheric family on the basis of a more just and democratic international order. We must meet the challenges inherent in the differences in size and levels of social, economic and institutional development in our countries and our region.

We have made progress in implementing the collective undertakings made at Miami in 1994 and continued at Santiago in 1998. We recognize the necessity to continue addressing weaknesses in our development processes and increasing human security. We are aware that there is still much to be achieved if the Summit of the Americas process is to be relevant to the daily lives of our people and contribute to their well-being.

We acknowledge that the values and practices of democracy are fundamental to the advancement of all our objectives. The maintenance and strengthening of the rule of law and strict respect for the democratic system are, at the same time, a goal and a shared commitment and are an essential condition of our presence at this and future Summits. Consequently, any unconstitutional alteration or interruption of the democratic order in a state of the Hemisphere constitutes an insurmountable obstacle to the participation of that state's government in the Summit of the Americas process. Having due regard for existing hemispheric, regional and sub-regional mechanisms, we agree to conduct consultations in the event of a disruption of the democratic system of a country that participates in the Summit process.



Threats to democracy today take many forms. To enhance our ability to respond to these threats, we instruct our Foreign Ministers to prepare, in the framework of the next General Assembly of the OAS, an Inter-American Democratic Charter to reinforce OAS instruments for the active defense of representative democracy.\*

Our commitment to full respect for human rights and fundamental freedoms is based on shared principles and convictions. We support strengthening and enhancing the effectiveness of the inter American human rights system, which includes the Inter-American Commission on Human Rights and the Inter-American Court of Human Rights. We mandate the XXXI General Assembly of the OAS to consider an adequate increase in resources for the activities of the Commission and the Court in order to improve human rights mechanisms and to promote the observance of the recommendations of the Commission and compliance with the judgments of the Court.

We reaffirm our commitment to maintain peace and security through the effective use of hemispheric means for the peaceful resolution of disputes and the adoption of confidence- and security-building measures. In this regard, we support and commend the efforts of the OAS. We reiterate our full adherence to the principle that commits states to refrain from the threat or use of force, in accordance with international law. In conformity with the principles of international humanitarian law, we strongly condemn attacks on civilian populations. We will take all feasible measures to ensure that the children of our countries do not participate in armed conflict and we condemn the use of children by irregular forces. We reaffirm that the constitutional subordination of armed forces and security forces to the legally constituted civilian authorities of our countries, as well as respect for the rule of law on the part of all national institutions and sectors of society, are fundamental to democracy. We will strive to limit military expenditures while maintaining capabilities commensurate with our legitimate security needs and will promote greater transparency in the acquisition of arms.

We reiterate our commitment to combat new, multi-dimensional threats to the security of our societies. Foremost amongst these threats are the global drug problem and related crimes, the illicit traffic in and criminal use of firearms, the growing danger posed by organized crime and the general problem of violence in our societies. Acknowledging that corruption undermines core democratic values, challenges political stability and economic growth and thus threatens vital interests in our Hemisphere, we pledge to reinvigorate our fight against corruption. We also

recognize the need to improve the conditions for human security in the Hemisphere.

We renew our commitment to the full implementation of the Anti-Drug Strategy in the Hemisphere, based on the principles of shared responsibility, a comprehensive and balanced approach, and multilateral cooperation. We welcome the development of the Multilateral Evaluation Mechanism and reiterate our commitment to make this mechanism, unique in the world, one of the central pillars in effective hemispheric cooperation in the struggle against all the factors that constitute the global drug problem. We express our support for effective alternative development programs aimed at the eradication of illicit cultivation and will strive to facilitate market access for products resulting from these programs.

We acknowledge that another major threat to the security of our people is HIV/AIDS. We are united in our resolve to adopt multi-sectoral strategies and to develop our cooperation to combat this disease and its consequences.

We reaffirm the importance of an independent judiciary and our determination to ensure equal access to justice and to guarantee its timely and impartial administration. We commit ourselves to increase transparency throughout government.

Free and open economies, market access, sustained flows of investment, capital formation, financial stability, appropriate public policies, access to technology and human resources development and training are key to reducing poverty and inequalities, raising living standards and promoting sustainable development. We will work with all sectors of civil society and international organizations to ensure that economic activities contribute to the sustainable development of our societies.

We welcome the significant progress achieved to date toward the establishment of a Free Trade Area of the Americas (FTAA), including the development of a preliminary draft FTAA Agreement. As agreed at the Miami Summit, free trade, without subsidies or unfair practices, along with an increasing stream of productive investments and greater economic integration, will promote regional prosperity, thus enabling the raising of the standard of living, the improvement of working conditions of people in the Americas and better protection of the environment. The decision to make public the preliminary draft of the FTAA Agreement is a clear demonstration of our collective commitment to transparency and to increasing and sustained communication with civil society.

We direct our Ministers to ensure that negotiations of the FTAA Agreement are concluded no later than January 2005 and

to seek its entry into force as soon as possible thereafter, but in any case, no later than December 2005.\* This will be a key element for generating the economic growth and prosperity in the Hemisphere that will contribute to the achievement of the broad Summit objectives. The Agreement should be balanced, comprehensive and consistent with World Trade Organization (WTO) rules and disciplines and should constitute a single undertaking. We attach great importance to the design of an Agreement that takes into account the differences in the size and levels of development of participating economies.

We acknowledge the challenge of environmental management in the Hemisphere. We commit our governments to strengthen environmental protection and sustainable use of natural resources with a view to ensuring a balance among economic development, social development and the protection of the environment, as these are interdependent and mutually reinforcing. Our goal is to achieve sustainable development throughout the Hemisphere.

We will promote compliance with internationally recognized core labor standards as embodied in the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work and its Follow-up adopted in 1998. We will consider the ratification of or accession to the fundamental agreements of the ILO, as appropriate. In order to advance our commitment to create greater employment opportunities, improve the skills of workers and improve working conditions throughout the Hemisphere, we recognize the need to address, in the relevant hemispheric and international fora, issues of globalization related to employment and labor. We instruct the Inter-American Conference of Ministers of Labor to continue their consideration of issues related to globalization which affect employment and labor.

Recognizing the importance of energy as one of the fundamental bases for economic development, the region's prosperity and improved quality of life, we commit to pursuing renewable energy initiatives, promoting energy integration and enhancing regulatory frameworks and their application, while promoting the principles of sustainable development.

Democracy and economic and social development are interdependent and mutually reinforcing as fundamental conditions to combat poverty and inequality. We will spare no effort to free our fellow citizens from the dehumanizing conditions of extreme poverty. We commit to further efforts to reach international development goals, especially the reduction by 50% by the year 2015 of the proportion of people living in extreme poverty.

We commit ourselves to promote programs for the improvement of agriculture and rural life and agro business as an essential contribution to poverty reduction and integral development.

We commit to strengthening hemispheric cooperation and national capacities to develop a more integrated approach to the management of natural disasters. We will continue to implement policies that enhance our ability to prevent, mitigate and respond to the consequences of natural disasters. We agree to study measures to facilitate timely access to financial resources to address emergency needs.

We recognize the cultural and economic contributions made by migrants to receiving societies as well as to their communities of origin. We are committed to ensuring dignified, humane treatment with appropriate legal protections, defense of human rights, and safe and healthy labor conditions for migrants. We will strengthen mechanisms for hemispheric cooperation to address the legitimate needs of migrants and take effective measures against trafficking in human beings.

Progress towards more democratic societies, growing economies and social equity relies on an educated citizenry and a skilled labor force. We have agreed to a series of policies to improve access to quality education through teacher training, education in civic values and the use of information technologies both in our classrooms and in measuring progress toward achieving these goals. Improved education policies and increased investment in our education systems will help reduce income disparities and close the digital divide in our Hemisphere.

Our collective hemispheric efforts will be more effective through innovative uses of information and communications technologies to connect our governments and our people and to share knowledge and ideas. Our statement, *Connecting the Americas*, underscores this conviction.

We emphasize that good health and equal access to medical attention, health services and affordable medicine are critical to human development and the achievement of our political, economic and social objectives.

We reaffirm our commitment to protect the human rights and fundamental freedoms of all, including those who are vulnerable, marginalized, disabled or require special protection. We are committed to the eradication of all forms of discrimination, including racism, racial discrimination, xenophobia and other related intolerance in our societies, as well as to the promotion of gender equality, and to achieving the full participation of all

persons in the political, economic, social and cultural life of our countries.

We will work to ensure that the input from the Indigenous Conclave of the Americas, held in Guatemala, and the Indigenous Peoples Summit of the Americas, held in Ottawa, is reflected in the implementation of the Summit of the Americas Declaration and Plan of Action. We support efforts towards early and successful conclusion of negotiations on the Proposed American Declaration on the Rights of Indigenous Peoples, which will promote and protect their human rights and fundamental freedoms.

We consider the cultural diversity that characterizes our region to be a source of great richness for our societies. Respect for and value of our diversity must be a cohesive factor that strengthens the social fabric and the development of our nations.

The principal responsibility for the coordination and implementation of the attached Plan of Action resides with our governments. Ministerial meetings are producing significant results in support of Summit mandates. We will continue to develop this cooperation.

We value the active support of the Organization of American States and its specialized organs, particularly the Pan American Health Organization, the Inter-American Institute for Cooperation on Agriculture and the Inter-American Children's Institute, as well as the Inter-American Development Bank, the Economic Commission for Latin America and the Caribbean and the World Bank. We call upon these institutions and other regional and international organizations to establish greater coordination for support to the implementation and follow-up to the Plan of Action of this Summit.

The OAS has a central role in the implementation of the decisions of the Summits of the Americas. We instruct our Foreign Ministers, at the next General Assembly, to advance and deepen the process of reform in the OAS, supported by appropriate resources, to improve its functioning and to enable the Organization to better implement our Summit mandates.

We welcome and value the contributions of civil society, including business and labor organizations, to our Plan of Action. We affirm that openness and transparency are vital to building public awareness and legitimacy for our undertakings. We call upon all citizens of the Americas to contribute to the Summit process.

We, the Heads of State and Government of the Americas have accepted the offer of the Government of the Republic of Argentina to host the Fourth Summit of the Americas.

The Summits of the Americas exist to serve people. We must develop effective, practical and compassionate solutions for the problems that confront our societies. We do not fear globalization, nor are we blinded by its allure. We are united in our determination to leave to future generations a Hemisphere that is democratic and prosperous, more just and generous, a Hemisphere where no one is left behind. We are committed to making this the century of the Americas.

\* Venezuela reserves its position.

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- **Otto Boye**  
*Integration: Now or Never*
  - **Gerardo Noto**  
*Integration and Institutionalilty*
  - **Juan Mario Vacchino**  
*The South American Summit and the Development of Utopia*
  - **Telasco Pulgar**  
*Integration as a Social Development Alternative*
  - **Permanent Secretariat, SELA**  
*Integration, a Road to Latin America and the Caribbean's Insertion into Globalization*
  - **Alfredo Eric Calcagno and Eric Calcagno**  
*Dollarization as a Political Problem*
  - **Richard L. Bernal**  
*Sleepless in Seattle*
  - **Roberto Verrier**  
*III International Meeting on Globalization and Development*
  - **Robert Solow**  
*Some General Principles to Reach Sustained Development*
  - **José Antonio Ocampo**  
*Globalization and the Agenda for Development*
  - **ANEC-AEALC**  
*In Search of the Lost Consensus on Integration, Development and Globalization*
  - *The Declaration on SELA's XXV Anniversary*
  - *The Santiago Declaration*
  - *The Caracas Declaration*
  - *The Buenos Aires Declaration*
  - *Declaration of Quebec City*