

ANDEAN COMMUNITY TRADE FLOWS AND POLICIES IN THE NINETIES (**)

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RESUMEN

El propósito de este artículo es explicar por qué los países miembros de la Comunidad Andina (CAN) han tardado tanto para completar la Zona de Libre Comercio Andina y han aplazado repetidas veces el plazo para conformar la Unión Aduanera Andina. Con base en cifras comerciales completas para el período 1990-1996 y el soporte de información cualitativa de primera mano, el análisis de los patrones de comercio de los países de la CAN y de su pendular proceso de toma de decisiones conduce a dos resultados principales. Primero, que la gran prioridad de los países de la CAN ha sido mejorar sus chances individuales de negociar acuerdos ventajosos con sus principales socios comerciales, todos los cuales están fuera de la CAN. Esta orientación comercial centrifuga se refleja en la falta de cohesión mostrada por la CAN en política comercial durante el período analizado. Segundo, que tanto los gobiernos como los empresarios de los países de la CAN dependen demasiado de las exportaciones primarias, razón por la cual han tendido a subestimar la importancia del mayor valor agregado que tiene el comercio intra-CAN. El artículo finaliza con algunos apuntes conceptuales sobre las diferencias entre liberalización e integración, así como sobre las interacciones entre multilateralismo y regionalismo, de los que el autor concluye que los países en desarrollo, como son los que pertenecen a la CAN, tienen en verdad mucho que ganar, tanto económica como políticamente, si profundizan adecuadamente los procesos de integración subregional entre ellos.

ABSTRACT

The purpose of this paper is to explain why the member countries of the Andean Community (AC) have taken so long to complete the Andean Free Trade Area and have repeatedly delayed the deadline for achieving the Andean Customs Union. Based on a full set of trade data for the 1990-1996 period and with the support of first-hand qualitative information, the analysis of the AC countries trade patterns and of their stop and go decision-making process arrives to two main findings. First, that the top priority for the AC member countries has been to improve their individual chances to negotiate favorable agreements with their major trading partners, which are all outside the AC. This centrifugal trade orientation is reflected in the AC's lack of cohesion on trade policy matters during the period of the study. Second, that both governments and businesses of the AC member countries rely too heavily on primary exports and tend so to underestimate the importance of the higher value-added content of the intra-AC trade. The paper ends with some conceptual remarks on the differences between liberalization and integration, as well as on the interactions between multilateralism and regionalism. From which the author concludes that developing countries, such as those belonging to the AC, have indeed much to gain, both in economic and political terms, of duly deepening the subregional integration processes among themselves.

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Trade realities and trade policies obviously influence each other, but in ways that are at times far from obvious. Trade and other real interdependencies among the Andean Community (AC) countries have expanded quite well during the current decade as trade regimes become more open and conducive to rapid liberalization through preferential trade agreements. Yet the AC has encountered greater than expected difficulty in completing its sub-regional Free Trade Area (FTA), and its goal of becoming a Customs Union remains as only partially accomplished.

Curiously enough, AC countries do not seem very uncomfortable with this. Since the early nineties one after another they have negotiated, mostly unilaterally, all sorts of FTAs with other countries in the Latin American and Caribbean region, and they continue to do so. They all actively participate in the round of continental meetings aimed at preparing the Free Trade Area of the Americas (FTAA). And besides Peru, which will become an Asia Pacific Economic Cooperation (APEC) member this year, all of its Andean partners sharing the Pacific coast would certainly like to do the same as soon as possible. As for the AC integration process, they have rather opted for emphasizing its political dimensions as well as for upgrading its institutional system.

To what extent may all of this be explained by differences in the patterns of AC countries trade and other economic flows by regions?; or by centrifugal forces arising from economically stronger sub-regions with, thus far, better performing integration efforts (e.g. MERCOSUR) and above all from "mega"-regions implementing "light integration" (i.e. non EU -style) projects (e.g. NAFTA, FTAA, APEC)?; or by a combination of those factors? Surely, questions like these cannot be duly answered with economics reasoning alone. Politics has a lot to do with it, of course. However, the following pages are rather modestly restricted to raising some issues

related to the trade (in goods) aspects of the matter.

Accordingly, the patterns of the AC trade by regions in the nineties are summarized in Section I. In Section II some current features of the AC trade policy are discussed. And the final section offers a few remarks on some regional and interregional issues highly relevant to the AC perspectives. The special occasion for which these pages have been prepared explains the many particular references therein made to AC trade with the Asia-Pacific region.

I. Andean Trade Flows by Regions: 1990 – 1996¹

1.1 General features

The fact that deserves to be first brought out is the high concentration of AC trade flows in the very American continent to which that sub-regional grouping belongs. More than 60% of either total exports or total imports of the five AC member countries taken together are made to or from the Americas (Table No. 12). It is, therefore, quite understandable that FTAA prospects had immediately become the key factor determining the behavior on integration matters of most of AC member countries since that continental project was first announced by the USA in the early nineties. Meaning by such a behavior the above all search for improving their individual position *vis-a-vis* the prospective FTAA and their related doubts about the convenience of bringing the AC beyond the FTA stage up to the one of a cohesive Customs Union. That translated into their hurry for unilaterally undertaking FTAs negotiations with non-AC countries of America, starting with those better placed *vis-a-vis* the prospective FTAA.

Table No. 1
ANDEAN COMMUNITY: TRADE FLOWS BY REGIONS, 1990-1996

	EXPORTS (*)						IMPORTS (*)				TRADE ACCOUNT Accumulated in 1990-1996		
	Amounts		Shares		Growth		Amounts		Shares			Growth	
	1990-91	1995-96	1990-91	1995-96	1990-1996	1990-91	1995-96	1990-91	1995-96	1990-91		1995-96	1990-1996
WORLD	30,018	41,395	100.0%	100.0%	5.5%	19,977	37,561	100.0%	100.0%	11.1%	34,487		
AMERICAS	18,262	27,179	60.8%	65.7%	6.9%	12,611	24,460	63.1%	65.1%	11.7%	20,334		
NAFTA	14,108	18,571	47.0%	44.9%	4.7%	8,605	15,544	43.1%	41.4%	10.4%	21,408		
MERCOSUR	910	1,533	3.0%	3.7%	9.1%	1,737	2,810	8.7%	7.5%	8.4%	-8,131		
ANDEAN COMMUNITY	1,571	4,690	5.2%	11.3%	20.0%	1,571	4,690	7.9%	12.5%	20.0%	0		
CHILE	488	707	1.6%	1.7%	6.4%	327	848	1.6%	2.3%	17.2%	-33		
CENTRAL AMERICA AND CARIBBEAN	1,186	1,678	4.0%	4.1%	6.0%	372	569	1.9%	1.5%	7.3%	7,090		
APEC	16,361	21,876	54.5%	52.8%	5.0%	10,856	20,840	54.3%	55.5%	11.5%	12,059		
ASIA-PACIFIC	1,763	2,447	5.9%	5.9%	5.6%	1,921	4,416	9.6%	11.8%	14.9%	-10,046		
JAPAN	1,029	1,112	3.4%	2.7%	1.3%	1,324	2,418	6.6%	6.4%	10.6%	-8,027		
CHINA	108	407	0.4%	1.0%	24.8%	27	354	0.1%	0.9%	53.8%	514		
NIE's	522	706	1.7%	1.7%	5.1%	381	1,255	1.9%	3.3%	22.0%	-1,794		
ASEAN	68	172	0.2%	0.4%	16.9%	51	196	0.3%	0.5%	25.3%	47		
OCEANIA (**)	36	50	0.1%	0.1%	5.5%	139	193	0.7%	0.5%	5.6%	-785		
EUROPEAN UNION	5,575	7,002	18.6%	16.9%	3.9%	4,516	6,896	22.6%	18.4%	7.3%	1,439		

(*) Annual average per two-year periods in US\$ millions and percentages.

(**) Australia and New Zealand.

Source: General Secretariat of the Andean Community.

Made by: Program on Economics and Management in Asia-Pacific (PEGAP), Universidad del Pacifico (Lima-Peru).

NAFTA alone accounts for more than 40% of AC total exports and imports alike, which makes it the single main regional trade partner of the AC as a whole, followed far distantly by the EU, the own AC, Asia-Pacific and MERCOSUR, in this order. However, the share of NAFTA in AC trade flows has been declining during the first half of the nineties, whereas the Americas overall share has gone up along the same period. So this is mostly the result of the growing relative weight of the intra-AC sub-regional trade as well as, though to a lesser extent, of MERCOSUR (as a market for AC exports) and Chile (on both sides of the AC trade account). The importance of the South American market is then on the rise for most AC countries. This being a trend that, besides acting as an additional factor explaining the behavior mentioned in the previous paragraph, on its own right stimulates -and at the same time is stimulated by- the various sorts of integration agreements existing or in the making among South-American countries (the AC countries included).

On the other hand, Table No. 1 also shows that even though the EU is still the second regional trade partner of the AC as a group, its relative importance is declining as a source for AC imports. Simultaneously, it is precisely as a supplier that Asia-Pacific is gaining weight, particularly due to the dynamism of AC imports from the Newly Industrialized Economies (NIEs), China and ASEAN. These last two are also on the rise as markets for AC exports. As for Japan, it remains as the AC larger trade partner in Asia but its relative weight is receding on both sides of the AC trade account.

In short, AC trade flows are now relatively less directed to its main traditional partners (NAFTA and EU) and relatively more directed to South America and the Asia-Pacific region (except Japan). This trend being more pronounced on the importing side of AC trade. Concurrently, South America and Asia-Pacific are the only two regions with whom the AC has accumulated a deficit in its trade account during the 1990-1996 period. The overall sur-

plus in the AC trade account with the world is still mostly due to Venezuelan exports of crude oil and oil products, to the USA in particular.

Having said this, it must not be forgotten that in absolute terms NAFTA continues to be, and by far, the dominant trade partner of the AC as a group. The total (exports plus imports) AC trade with NAFTA is five times that with the Asia-Pacific region (Japan included) and so it accounts for as much as 80% of the AC trade with APEC as a whole. That is, for the AC taken as a group, the transpacific component of its trade with APEC is still very low.

Since it is already official that Peru will this year be formally incorporated into APEC membership³, it is worth briefly focusing on the main differences between the regional distribution of Peruvian trade flows and the one of the whole AC trade seen above. The main distinctive features being that Peru trade flows are more diversified by regions and that there is a higher relative importance of Asia-Pacific within them, especially so on the exports side (Table No. 2). In fact, NAFTA weighs significantly less in the Peruvian trade flows than it does for the AC as a group. It falls to third place as a regional market for Peruvian exports and on the imports side it is a supplier of equal importance than South America on quantitative terms.

In reference to Asia-Pacific, it is the second largest regional destination of Peruvian exports. It is also the only one regional partner gaining ground on both sides of Peruvian trade. Additionally, it is one of the two (together with the EU) regional partners with whom Peru has accumulated surpluses in its trade account during the 1990-1996 period. Moreover, Peruvian trade flows are increasingly diversified within the Asia-Pacific region. This has been so, not as much at the expense of Japan (which in fact is gaining weight as a source of Peruvian imports) but rather due to quite high growth rates in Peruvian trade with most of the other partners in Asia Pacific. Up to the point that Peru is already selling very similar amounts to China, to the NIEs as a whole, and to Japan.

Table No. 2
PERU: TRADE FLOWS BY REGIONS, 1990-1996

	EXPORTS(*)						IMPORTS(*)						TRADE ACCOUNT Accumulated in 1990-1996
	Amounts		Shares		Growth		Amounts		Shares		Growth		
	1990-91	1995-96	1990-91	1995-96	1990-1996	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96	1990-1996	
WORLD	3,321	5,638	100.0%	100.0%	9.2%	2,724	7,679	100.0%	100.0%	18.9%	-5,074		
AMERICAS	1,201	2,005	36.2%	35.6%	8.9%	1,793	4,820	65.8%	62.8%	17.9%	-10,853		
NAFTA	757	1,177	22.8%	20.9%	7.6%	875	2,396	32.1%	31.2%	18.3%	-4,245		
MERCOSUR	114	242	3.4%	4.3%	13.4%	402	755	14.8%	9.8%	11.1%	-2,810		
ANDEAN COMMUNITY	242	412	7.3%	7.3%	9.3%	405	1,312	14.9%	17.1%	21.7%	-2,979		
CHILE	56	128	1.7%	2.3%	14.8%	87	284	3.2%	3.7%	21.8%	-671		
CENTRAL AMERICA AND CARIBBEAN	33	48	1.0%	0.8%	6.3%	25	74	0.9%	1.0%	20.2%	-148		
APEC	1,415	2,543	42.6%	45.1%	10.3%	1,243	3,899	45.7%	50.8%	21.0%	-3,949		
ASIA-PACIFIC	599	1,237	18.0%	21.9%	12.8%	281	1,218	10.3%	15.9%	27.7%	963		
JAPAN	328	385	9.9%	6.8%	2.7%	132	468	4.8%	6.1%	23.5%	96		
CHINA	95	349	2.9%	6.2%	24.1%	18	215	0.7%	2.8%	50.6%	819		
NIE's	149	340	4.5%	6.0%	14.7%	60	376	2.2%	4.9%	35.6%	109		
ASEAN	21	148	0.6%	2.6%	38.5%	22	69	0.9%	0.9%	19.7%	289		
OCEANIA (**)	5	16	0.1%	0.3%	21.6%	46	89	1.7%	1.2%	11.5%	-350		
EUROPEAN UNION	884	1,462	26.6%	25.9%	8.7%	530	1,369	19.5%	17.8%	17.1%	2,061		

(*) Annual average per two-year periods in US\$ millions and percentages.

(**) Australia and New Zealand.

Source: General Secretariat of the Andean Community.

Made by: Program on economics and Management in Asia-Pacific (PEGAP), Universidad del Pacifico (Lima-Peru).

Thus, the more balanced distribution by regions of Peruvian trade flows means, among other things, that in the case of Peru the process of trade diversification away from main traditional partners (the USA, mostly) is far more advanced than at the whole AC level. It follows that already now Peru has to consider the Asia-Pacific and South American regions as important trade partners on their own merits. Therefore, for Peru its upcoming APEC membership is a deserved certification of its long-standing transpacific projection as well as a fine opportunity to further deepen its balanced approach on trade matters⁴.

1.2 Main differences among AC countries

The differences detected above between the regional trade patterns of Peru and the whole AC are clearly indicative that there must be significant differences in the same kind of patterns among the AC five member countries. Table No. 3 registers them. Here it is made evident the high concentration in NAFTA of the exports of Venezuela in particular, and also of Ecuador and Colombia (that is, of the three AC member countries located in the northern part of the AC sub-region). This explains the dominant position of NAFTA as a market for the AC as a group, inasmuch as those three AC countries are responsible for about 84% of the whole AC total exports to the world. That also helps to explain why Venezuela and Colombia led from the very early nineties the sort of behavior mentioned in the first paragraph of sub-section 1.1 and which will be further discussed in Section II.

On the other hand, the 'Mediterranean' position of Bolivia has much to do with the high importance of South America as a market for its exports. So it is not surprising that Bolivia had been the first AC member country in signing an association and FTA aimed agreement with MERCOSUR.

As for Peru, aside from what has been said before, it becomes noticeable now the

sharp contrast between the 21.9% share that the Asia-Pacific region holds as a market for Peruvian exports and the corresponding shares in the exports of the other AC member countries. These are considerably lower: on the 8%-5% range for Colombia and Ecuador, and 1.5% or less for Venezuela and Bolivia. Moreover, when exports and imports flows are added up, the Asia-Pacific region accounts for 18.4% of the Peruvian total trade with the world. Next, and far behind, comes the corresponding share in Colombian trade (9.3%). The relatively high importance of Asia-Pacific as trade partner is thus a distinct feature of Peruvian regional trade patterns compared to those of the other AC countries. It is therefore not surprising that Peru had placed a top priority to its entering into APEC.

Colombia is also a major player in the AC trade with Asia-Pacific. In fact, as Tables No. 4 and 5 show, Colombia is the main importer from Asia-Pacific region (and, within it, from Japan, the NIEs and ASEAN) while Peru is the main AC exporter to that region as a whole. Peru is also the main AC exporter to each of the countries or country groups within that region but Australia and New Zealand ("Oceania"). Both Peru and Colombia are the only two AC countries increasing their shares in the exports and imports flows of AC trade with Asia-Pacific. Furthermore, if those two trade flows are counted together, Colombia is a close second to Peru as main trade partners of Asia-Pacific region in AC sub-region (their aggregate shares in that transpacific trade being 33% and 35.8%, respectively). However, Colombia holds the first place as AC trade partner with regard to Japan only, while Peru holds the same condition in a more diversified way regarding all of the other Asia-Pacific countries or country groups shown in the aforementioned tables. Anyway, all this means, among other things, that at the AC level Colombia is certainly becoming the stronger candidate to belong to APEC sometime in the future.

Table No. 3

REGIONAL DISTRIBUTION OF THE EXPORT FLOWS OF ANDEAN COMMUNITY MEMBER COUNTRIES: 1990-1996

	VENEZUELA		COLOMBIA		ECUADOR		PERU		BOLIVIA	
	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96
WORLD	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
NAFTA	54.7%	56.9%	39.9%	38.1%	49.3%	39.9%	22.8%	20.9%	20.0%	22.6%
MERCOSUR	2.3%	4.0%	1.2%	1.8%	0.7%	3.2%	3.4%	4.3%	34.9%	13.8%
ANDEAN COMMUNITY	3.0%	8.8%	8.2%	18.6%	7.1%	8.5%	7.3%	7.3%	8.0%	19.8%
EUROPEAN UNION	12.9%	9.7%	27.9%	24.2%	12.8%	19.3%	26.6%	25.9%	28.5%	20.4%
APEC	59.0%	59.4%	46.6%	44.8%	63.2%	55.6%	42.6%	45.1%	24.8%	25.9%
ASIA-PACIFIC	3.4%	1.5%	4.4%	5.1%	10.6%	8.0%	18.0%	21.9%	1.0%	0.6%
JAPAN	2.4%	1.2%	3.5%	3.5%	2.0%	2.8%	9.9%	6.8%	0.3%	0.3%
CHINA	0.0%	0.0%	0.1%	0.2%	0.0%	0.8%	2.9%	6.2%	0.0%	0.0%
NIE's	0.7%	0.3%	0.5%	1.2%	8.0%	4.0%	4.5%	6.0%	0.2%	0.1%
ASEAN	0.2%	0.0%	0.1%	0.1%	0.0%	0.1%	0.6%	2.6%	0.5%	0.2%
OCEANIA (*)	0.1%	0.0%	0.1%	0.1%	0.5%	0.4%	0.1%	0.3%	0.0%	0.1%

(*) Australia and New Zealand.

Source: General Secretariat of the Andean Community.

Made by: Program on Economics and Management in Asia-Pacific (PEGAP), Universidad del Pacifico (Lima-Peru).

Table No. 4
ANDEAN COMMUNITY EXPORTS BY REGIONS, 1990-1996: Shares of Andean Countries

	VENEZUELA		COLOMBIA		ECUADOR		PERU		BOLIVIA		ANDEAN COMMUNITY (*)	
	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96
WORLD	54.0%	48.0%	23.0%	24.4%	9.1%	11.1%	10.9%	13.5%	2.9%	3.0%	30,451	41,683
NAFTA	63.8%	61.4%	19.8%	20.8%	9.7%	9.9%	5.4%	6.3%	1.3%	1.5%	14,107	18,571
MERCOSUR	42.0%	51.7%	9.2%	11.6%	2.2%	9.8%	12.5%	15.7%	34.1%	11.1%	910	1,534
ANDEAN COMMUNITY	31.0%	37.4%	36.6%	40.3%	12.5%	8.4%	15.4%	8.8%	4.5%	5.2%	1,571	4,691
EUROPEAN UNION	38.2%	27.6%	35.0%	35.2%	6.4%	12.7%	15.9%	20.9%	4.5%	3.6%	5,575	7,002
APEC	59.3%	54.4%	19.9%	20.8%	10.7%	11.8%	8.6%	11.6%	1.3%	1.5%	16,361	21,876
ASIA-PACIFIC	31.5%	12.6%	17.3%	21.3%	16.7%	15.2%	34.0%	50.6%	0.5%	0.3%	1,763	2,447
JAPAN	38.5%	21.5%	23.8%	32.0%	5.5%	11.6%	31.9%	34.6%	0.2%	0.3%	1,029	1,112
CHINA	2.7%	0.7%	8.9%	4.6%	0.0%	8.9%	88.3%	85.7%	0.0%	0.1%	108	407
NIE's	22.0%	8.4%	6.5%	17.0%	42.5%	26.4%	28.6%	48.1%	0.4%	0.1%	523	706
ASEAN	46.4%	3.2%	14.0%	7.7%	1.7%	1.6%	31.1%	86.1%	6.7%	1.4%	68	172
OCEANIA (**)	24.8%	1.1%	19.4%	28.2%	41.7%	37.5%	13.5%	31.6%	0.6%	1.6%	36	50

(*) Annual average per two-year periods in US\$ millions and percentages.

(**) Australia and New Zealand.

Source: General Secretariat of the Andean Community.

Made by: Program on Economics and Management in Asia-Pacific (PEGAP), Universidad del Pacifico (Lima-Peru).

Table No. 5
ANDEAN COMMUNITY IMPORTS BY REGIONS, 1990-1996: Shares of Andean Countries

	VENEZUELA		COLOMBIA		ECUADOR		PERU		BOLIVIA		ANDEAN COMMUNITY (*)	
	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96	1990-91	1995-96
NAFTA	53.0%	34.0%	25.4%	38.3%	8.8%	9.5%	10.2%	15.4%	2.5%	2.8%	8,605	15,544
MERCOSUR	34.0%	28.2%	19.2%	24.7%	10.5%	9.0%	23.2%	26.9%	13.2%	11.3%	1,737	2,810
EUROPEAN UNION	49.7%	27.0%	25.0%	40.0%	10.3%	9.4%	11.7%	19.8%	3.3%	3.9%	4,516	6,896
APEC	48.8%	29.5%	26.0%	37.9%	10.0%	10.0%	11.5%	18.7%	3.8%	3.8%	10,856	20,840
ASIA-PACIFIC	35.9%	16.9%	29.1%	39.4%	14.6%	10.6%	14.6%	27.6%	5.8%	5.5%	1,921	4,416
JAPAN	31.1%	15.9%	36.4%	45.1%	15.2%	11.8%	10.0%	19.3%	7.2%	7.8%	1,324	2,418
CHINA	2.1%	0.1%	8.9%	35.1%	4.7%	0.2%	68.9%	60.7%	15.4%	3.9%	27	354
NIE's	47.2%	22.1%	16.4%	32.8%	17.8%	12.7%	15.9%	30.0%	2.7%	2.4%	381	1,255
ASEAN	35.5%	12.8%	6.4%	44.2%	10.7%	5.7%	46.5%	35.4%	0.9%	2.0%	51	196
OCEANIA (**)	57.5%	30.5%	5.9%	14.1%	2.8%	6.6%	33.4%	46.4%	0.5%	2.4%	139	193

(*) Annual average per two-year periods in US\$ millions and percentages.

(**) Australia and New Zealand

Source: General Secretariat of the Andean Community.

Made by: Program on Economics and Management in Asia-Pacific (PEGAP), Universidad del Pacifico (Lima-Peru).

Another interesting and related feature has to do with how trade flows with Asia-Pacific countries are distributed within AC sub-region. Trade flows with Asia-Pacific countries of higher level of development and/or of older trade dealings in the AC sub-region (Japan, the NIEs and Oceania) are distributed somehow more evenly among most of the AC countries (especially so among Peru, Colombia and Venezuela, which are the three larger AC economies). In contrast, those trade flows with Asia-Pacific countries still at the developing stage and/or of recent trade incursion in AC sub-region are quite concentrated in one or two AC countries. As a matter of fact, Peru is largely the main player in AC trade with China (accounting in aggregate for the 74% of it) as well as in AC trade with ASEAN as a group (the corresponding share being 59%).

In short, the main differences in the regional trade patterns of AC member countries can be summarized as follows. The three northern AC countries are biased towards North America and mostly towards USA, significantly so in the case of Venezuela. South in AC sub-region, geography plays a crucial role in determining South American bias of Bolivia's trade flows. As for Peru, besides having a more diversified trade pattern by regions, the special importance of Asia-Pacific in it stands out as its most distinct feature. And there are signs that Colombia is on the move towards the same direction.

Let's see now how these differences have been reflected in recent AC trade policies.

II. Andean Trade Policies: Key Developments in the Nineties

The extent in that trade policies are merely passive followers of trade realities or rather try to change their course in a desired direction depends above all on government choices and businesses decisions. In order to unveil the rationale of those choices regarding AC, two interrelated processes are crucial: the problems that sub-region is facing up till now

to become a Customs Union and the preference of its member countries for unilaterally negotiating FTA aimed agreements with non-AC countries in the region. This section deals with recent developments in both processes.

In order to interpret them duly, the previous section findings must be correctly taken into account. In spite of the rapid growth (at an average annual rate of 20%) achieved by trade flows among AC countries in the current 1990-1996 period, the share of that intra-AC trade in AC total trade with the world is still at the 11.9% level. This share is low even by regional standards (for instance, the similar ones in MERCOSUR and the Central American Common Market-MCCA are about twice as much). Of course, an AC sub-regional market so comparatively undersized cannot be able of generating centripetal forces strong enough to effectively counterweight the centrifugal forces coming from the main AC trade partners in other regions. The same can be said when aggregate economic size differences are brought into the picture. For the sake of comparison, it just has to be mentioned that the GDP of MERCOSUR is around five times the AC one. Needless to mention the abysmal size gaps in relation to developed regions or countries.

Thus, a reasonable hypothesis could be that AC trade policy's dilemmas and stop-and-go implementation style are indicative of perceptions so far prevailing in the AC countries that their sub-regional integration is not worth enough, in economic terms at least. As a consequence of such under-estimation, AC countries would have *ex-ante* a high propensity to subordinate the proper consolidation of the AC integration to the requirements of extra-AC links or projects, particularly so when their main third parties are involved.

Besides size and regional trade patterns, the product structure of trade also gives valuable clues to understand the rationale of policy choices. On qualitative terms, the intra-AC trade is very important indeed, due to the high proportion of non-traditional or manu-

factured exports as well as of intra-industry trade within it⁵. In fact, exports of the manufacturing sector account for about 63% of total intra-AC exports and, in this respect, the AC is well on line with regional standards (the similar ratio being also at the 60% range in the cases of MERCOSUR and MCCA). In contrast, primary sector exports account for as much as 80% of total AC exports to the world, a very high ratio without doubt (for instance, the similar ones of the MCCA and MERCOSUR are 72% and 51%, respectively). Even though it is true that most of the AC non-traditional exports are processed products based on natural resources, it is also true that from the point of view of industrialization and competitiveness goals they represent a qualitative step forward⁶.

Therefore, a complementing hypothesis could be that the role granted to the AC integration *vis-a-vis* the links with main third regions or countries is also indicative of AC countries policy choices (supported, of course, by specific business interests) on industrialization paths and development strategies. More specifically, of choices about if it is worth to do the progression from low to high value added activities, and about how to do it. These, in the case of primary exporting (and net services-and-capital importing) economies such as the AC members, often lie behind the otherwise rather Byzantine oppositions between the insertion into the world economy and the integration with particular regions or sub-regions.

2.1 Andean Customs Union or Andean FTA?

According to the "Barahona Act" enacted early December 1991 by the Andean Presidential Council, AC was supposed to do a crucial step towards becoming a Customs Union on January 1st, 1992 with the entering into force of its Common External Tariff (CET). But the ensuing technical and ministerial meetings in charge of implementing that political mandate were unsuccessful. Therein,

AC countries put forward different interests and claims that, though divergent at first glance, did converge into making the Andean Customs Union a political vision not yet duly accomplished up to now⁷.

On one hand, the two AC countries at that time in better economic shape (Venezuela and Colombia) had shown, ever since the pre-Baharona meetings, a clear preference for not going much beyond the FTA stage at the sub-regional level. This was probably because a sub-regional FTA fitted better with the FTA agreements that they had been unilaterally negotiating with the non-AC countries better placed in the FTAA perspective (Mexico and Chile). Presumably also because they felt that an Andean FTA was good enough for them in order to capture most of the sub-regional market, in the short term at least.

In turn, the other three AC countries had their own claims regarding the CET under discussion. Bolivia had been allowed to keep its national tariff on the grounds of its 'Mediterranean' location. Peru wanted the same, arguing that its flat-looking national tariff was more suited for the insertion into the world market than the four-level-plus-exemptions structure envisioned for the Andean CET. Ecuador pushed for obtaining a preferential treatment by which it would charge tariffs lower than the CET to a given list of products.

Thus, formal negotiations on CET matters reached a deadlock early in 1992⁸. After some tense months, a number of Decisions were taken at a meeting of the AC Ministerial Commission held in August of that year, by which each of AC countries finally got much of what they had been asking for but at the expense of AC consolidation. Peru, in particular, who at that time was still in bad economic shape and assailed by terrorism, got a temporary dispensation from its FTA and CET commitments at AC level. Instead, Peru was allowed to sign bilateral trade agreements with each of its AC partners. These were "administered trade" type of agreements, covering limited lists of products which could be periodically expanded on the basis of product-

by-product negotiations, except for the one signed with Bolivia, which established an almost full bilateral FTA with only three products exempted.

These arrangements paved the way for the Andean FTA, which was so able to come into force for all AC countries but Peru in May 1993. Since then, a zero tariff applies to trade among Bolivia, Colombia, Ecuador and Venezuela, for all products complying with the sub-regional rules of origin. That is, a tariff-level jump or at least 50% of sub-regional content in value, existing also some specific rules of origin for a number of products with significant weight in the intra-AC trade. Remaining non-tariff barriers were also eliminated on the same date, although some technical and sanitary norms are reportedly used at times as masked barriers.

Four years later, Peru again started to launch its FTA commitments *vis-a-vis* the three northern AC countries (as said before, there was already an almost full bilateral FTA between Bolivia and Peru). Eight lists of products with different paces of tariffs dismantling were negotiated in mid-1997, the longest one going until the year 2005. A zero tariff was applicable to the first list (and the largest in number of products) from August 1st, 1997 onwards, subject to a simultaneous approval by Peru and each of the three AC countries with which the bilateral "administered trade" agreements had been in force. Although the full incorporation of Peru into Andean FTA is still an unfinished process, it is fair to mention that as much as 80% of its trade with AC partners flows already entirely free from tariffs and non-tariff barriers.

As for the Andean CET, it had to wait until January 1995 to be since entered into force by the three northern AC countries (Bolivia kept its own national tariff, but from then on any change of it involves a process of sub-regional consultations and negotiations). Such a relevant step was finally taken, probably in the light of the ups-and-downs in the FTAA perspectives and as a self-respect answer to the positive demonstration-effect arising from

the MERCOSUR own CET approval. Clearly, AC was suffering from a huge loss of credibility due to its internal problems and lack of resolution to meet its most fundamental commitments. Only Peru has so far continued to keep itself out of CET commitment, in part because the approved Andean CET is quite riddled with bullets.

In fact, many products have been assigned to CET four basic levels (5, 10, 15 and 20 per cent) without due compliance with the processing degrees criteria that in principle justifies those different basic levels. Besides them, there is a zero-level CET list (composed by products of the printing, health and social sectors) and there is also a list of around 500 products to which Ecuador can charge tariffs up to 5 percentage points lower than the applicable CET. In addition, there are the special CET levels for some products of the agriculture and automotive sectors, as well as four lists of exemptions. These lists were initially on the range of about 250 products each for Colombia and Venezuela, and on the range of about 400 products each for Bolivia and Ecuador, but they are in the process of being gradually phased out up to their elimination programmed for the end of 1998. On top of all this, there is the case of the many capital goods and inputs not produced in andean sub-region. These can be subject to tariffs lower than the applicable CET, down on the 5% or even zero ranges, being the specific levels fixed by AC countries each at their own will.

It follows that it is hardly surprising that there is no reliable data yet on the proportion of AC trade effectively covered by its CET. More fundamentally, it also follows that the existing Andean CET cannot be considered as truly common, but rather as an incipient communal exercise which, if duly improved, may hopefully engender a real CET sometime in the future. Therefore, AC has not achieved its goal of being a Customs Union yet. It remains as an advanced FTA with a CET very imperfect in structure and not common in the way it is implemented.

2.2 Trade Negotiations with Non-AC Countries in the Region: unilaterally or as a group?

Since USA first announced the FTAA project at the beginning of this decade, most countries of Latin American and Caribbean region assessed their individual positions *vis-a-vis* that project and each started or accelerated the implementation of the necessary measures to improve its own in the best possible way. One of those measures taken was the negotiation of FTAs and other sorts of new preferential agreements among them. These would be conveniently presented as “ante-chambers” or “building-blocks” of the prospective FTAA.

Among AC countries, Venezuela and Colombia were the first to run into that path and, to start with, they chose (or rather were they chosen by?) Mexico and Chile, the two countries better placed in the FTAA perspective. In 1991, both AC countries entered into negotiations with Mexico in order to form a trilateral FTA under the “Group of the Three” label, and Venezuela went for a bilateral FTA with Chile. They did so unilaterally, that is, without complying with the requirements and procedures established for the matter at AC level and, what’s more, those planned FTAs were initially conceived as of the full type and due to be completed in a relatively short term. Enough to justify a growing concern for the fate of the sub-regional preferential margins as well as for the lack of the trust and cohesion needed to build up the Andean Customs Union.

A top-level reaction came with the “Barahona Act”, where the political preference for the negotiations as a group with third countries in the region was stated. However, the reluctance to duly implement that act had a lot to do with the on-going unilateral negotiations, which were increasing in number as time elapsed and finally achieved to prevail over AC goals and norms. In August 1992, AC Ministerial Commission enacted the Decision

322, by which AC countries gave themselves the authorization to get rid of their sub-regional commitments in order to pursue negotiations individually, whenever this may suit them.

In contrast to the hurried and purely unilateral mode of the aforementioned negotiations, the pace *vis-a-vis* MERCOSUR has been rather slow and AC is acting as a group in at least a part of its on-going negotiations with that sub-region. In fact, the respective initial consultations were exchanged since mid-1994 and the first preliminary meetings date from early 1995. It had to be so, in part, because in those years MERCOSUR was reaching its “Treaty of Asuncion” deadlines and, in such a context, the trade preferences established by existing agreements with Latin American countries, the Andean included, had to be revised. In part, also, AC countries had to finally look in that direction due to the growing importance of their trade flows with MERCOSUR countries and in the light of this sub-region strengthened reputation as it successfully achieved its FTA and CET goals.

As for the negotiating mode of the on-going AC-MERCOSUR dealings, MERCOSUR does it all as a group, as should be. AC, on the other hand, is negotiating as a group the trade and trade-related norms and rules of the projected agreement. But AC countries will negotiate the tariffs and other specific aspects individually (although in consultation with their AC partners, is being said), each with the whole MERCOSUR (that is, the “four-plus-one” format). From the point of view of AC credibility, there is a progress compared to what happened in other cases. For MERCOSUR, it is an advantage and a way of reducing the problems that would have been created by entirely separate negotiations with each of AC countries. For both parties, it is a cautious process that, among other things, gives them the needed time to calmly evaluate the possible scenarios of integration in the region, regarding the FTAA in particular.

III. An Open Question and some Provisional Remarks

It is not only during this decade that AC countries have behaved as if their Andean sub-regional integration was more of a sort of political utopia than a project with significant economic value in itself. Nor has it been the only developing country grouping behaving that way either. History, together with Social Psychology and of course Politics, should join Economics in order to really understand why this is so. Fortunately, such an enormous analytical effort is not indispensable in order to tackle the line of argument more frequently put forward to justify that behavior during this decade. The argument rightly starts by taking due notice of the context marked by a growing globalization of markets, the launching of very large (“mega”) regional liberalization processes (such as APEC and FTAA), and most countries (the developing ones included) striving for being better insert into the world economy. From all that, however, the argument hastily arrives to the conclusion that developing country sub-regions (such as the AC) do not have an economic mission other than to put themselves at the humble service of those contextual trends. Which in practice means having just “light” agendas and existing only until they are overtaken by a developed country-led “mega” region. Thus, a pertinent question arises: do developing countries sub-regions still have, in such a context, a meaningful economic value of their own?

A good attempt at answering this question would involve the handling of much more facts and factors than the few examined in this modestly focused paper. It makes sense to conclude this paper with some provisional remarks on related issues, open to further research and debate. As economic theory rightly postulates (though assuming some ideal conditions), the pursuit of an open trade system through global multilateralism (that is, without discrimination) is in principle the first-best solution for the world economy as a

whole and especially so for the small (“price-taking”) economies, which are mostly developing countries. Yet regionalism (and even bilateralism, for the matter) are integral parts of the concrete mode of functioning of world markets, where preferences (i.e. discriminations) of many sorts abound. Development (and competitiveness, certainly, but in order to be developed or to stay developed) is most quoted as the ultimate goal justifying such apparent contradiction. What actually happens in the real world economy, then, is that the search for an open global system of free trade surely goes on, but in ways indicative of that it is constantly adjusted to perceived development requirements. The adjustment rarely works the other way around, either because markets and policies fail or because there is a need for better understanding what rational economic agents (“illustrated egoists”) do effectively maximize.

The road to economic development passes through sustained economic growth, higher income levels and better quality of life. This has to be based on a permanent upgrading of the country’s productive capacity of goods and services guided by competitive advantage principles (“competitive industrialisation”). For this to be possible, policies have to be market-friendly and efficiently managed. They must also have the overriding task of promoting the generation and preservation of solid and centripetal forces of economic strength and dynamism. In a world of scale economies, very few countries (city-states, mostly) can last as wonder players in the individual game of exploitation of small economy advantages. The majority of countries do not have another choice than to compromise and form economic groupings, where larger grounds for anchoring and leveraging their development ambitions could be jointly build up. This is increasingly done by developed countries, in order to maintain and expand their lead. Economic groupings have also been formed by developing countries, with a view on jointly becoming a big (“price-making”) economy in order to ensure for

themselves the main ensuing benefits, which are clearly shown by both economic theory and practice.

More often than not, economic groupings take the form of Preferential Trade Agreements (PTAs). PTAs of all sorts (including the nowadays widely publicized FTAs) mean discrimination and so they are not free trade strictly speaking⁹. Thus, when the multilateral trade system acknowledges the right of PTAs to exist, it is in passing recognizing that free trade is a necessary but not sufficient condition for development. It is neither at any time the highest priority issue in the agenda of the real world economy. However, since the discrimination intrinsic to any PTA generates a loss of welfare to the world economy as a whole, World Trade Organization (WTO) should not be too lenient in the granting of the exception from the global Most Favored Nation (MFN) clause. A congruent criteria could be that the granting be limited to PTAs having not only low levels of discrimination plus a trade-creating net effect, but having also, and above all, credibility in regard to the common project of becoming a single economic entity. Otherwise, there would not be a good enough economic reason to accept the bypassing of free trade.

For sure, the required assessment would be anything but an easy task, though due to political reasons mainly because technically it is a worth trying and feasible task. It is not too difficult to assess the credibility of the claimed "developmental affinities"¹⁰ by checking at how far the group is ready to go with its common project. After all, what should count is the depth of the commitments, the seriousness of their scheduled implementation and, of course, their results. For instance, a first and basic test for the PTA to deserve the granting of the exception from the global MFN clause could be its neat functioning as a Customs Union. This would clearly demonstrate the grouping's resolve of becoming a single economic entity at a programmed time in the future¹¹. In other words,

the world community of nations should accept a PTA only if it is really aimed at economic integration, strictly speaking. When the purposes of an economic grouping are basically liberalization (of trade and related matters, irrespectively of how broadly defined) and / or cooperation, it should not take the form of a PTA.

Some may call the above a dream. Obsolete integration orthodoxy, others. And yet, the larger part of world trade flows in harmony with the preceding criteria¹². In fact, there is the example of the European Union, the most advanced PTA, which has since the sixties well earned the right to be there. There is also the example of APEC, which does not aim at integration and, congruently, it does not pretend to function as a PTA. In contrast, there are many inconsistencies in the PTAs existing in other areas of the world, especially so in the American continent. The time is quite overdue for WTO to start seriously monitoring them. Particularly for all the sub-regions in Latin America and Caribbean, it is of utmost relevance the format that FTAA will finally have. Will it be a FTA, as its name disturbingly announces, and so a PTA without strict integration commitments? Or will it instead be an APEC-like regional free trade system without discrimination? FTAA formal negotiations have yet to start, and so there is still time to do things properly.

Be the outcome as it may, the remarks made above suggest that developing countries sub-regions continue to have, a priori, a very important development-creating economic meaning. AC, in particular, still has the time to make its existence economically valuable enough for its member countries and admissible for the world economy at large. For that, it has to become a real Customs Union and to negotiate entirely as a group with third countries or groups of countries. But, would these efforts make sense considering that FTAA may be in force in few more years? Well, even if the outcome of FTAA negotiations determines that most

of the intra-AC trade preferences have to disappear some time in the future, that would not necessarily mean the end of AC economic story. Many other economic issues will continue to be negotiated, for sure. More fundamentally, the dynamic pace of change of the world economy is giving new grounds for updated definitions and appli-

cations of preferences as an integration tool. There are no insurmountable technical obstacles to solving those delicate issues. To face them successfully, what AC countries need the most is the resolve to prove with actions that their "development affinities" are not just nice words and empty claims.

NOTES

1. See Annex.
2. All the Tables shown in Section I of this paper have been calculated with data from Secretaría General de la Comunidad Andina (1997a, 1997b, 1997c and 1997d).
3. Peru, Russia and Viet Nam were incorporated as APEC members at the Ministerial Meeting held in Kuala Lumpur on November, 1998, what brought up the total number of APEC members from 18 to 21 economies.
4. González-Vigil, Fernando, "Relaciones del Perú con los países del Asia Pacífico", in *Análisis Internacional*, vol. 5, Lima: Centro Peruano de Estudios Internacionales, January-March 1994, pp. 85-113.
5. Fairlie, Alan, *Las relaciones Grupo Andino - Mercosur: opciones de integración para el Perú en un contexto de apertura*, Lima: Pontificia Universidad Católica del Perú, Fondo Editorial, 1997; Araoz, Mercedes, Carlos Casas and Carlos Carrillo, "Determinantes del comercio internacional peruano: aplicación a los acuerdos de integración", in *Boletín de Opinión*, No. 33, Lima: Consorcio de Investigación Económica, January 1998, pp. 28-38.
6. Araoz, Mercedes, "La integración como instrumento para incrementar la competitividad en un mundo globalizado: perspectivas en la Comunidad Andina", in *Capítulos del SELA*, vol. 49, Caracas: Secretaría Permanente del Sistema Económico Latinoamericano, March 1997, pp. 73-85.
7. Basombrío, Ignacio and Fernando González-Vigil, *El Perú y el Grupo Andino: elementos para un debate nacional*, Lima: Centro Peruano de Estudios Internacionales, 1993.
8. González-Vigil, Fernando, "La crisis actual del Grupo Andino: el arancel cero intrasubregional y el arancel externo común", in *Moneda*, vol. 46-47, Lima: Banco Central de Reserva del Perú, April-May, 1992, pp. 43-44.
9. Bhagwati, Jagdish, "Fast Track to Nowhere", in *The Economist*, October 18th, 1997, pp. 21-23.
10. Saavedra-Rivano, Neantro, "Is Economic Integration an Economic Process?", *Collected Memoranda of an International Roundtable on Regional Integration and Economic Development*, Tsukuba: APEC Study Center of the University of Tsukuba, February 28-March 1, 1998.
11. González-Vigil, Fernando, "Integración latinoamericana: ¿Uniones Aduaneras o Zonas de Libre Comercio?", in *Política Internacional*, vol. 32, Lima: Academia Diplomática del Perú, April-June, 1993, pp. 73-83.
12. As much as 60.7% of world trade, according to 1996 figures. This percentage results from adding the share of European Union in world trade (37.7%) to the combined share of those APEC economies that do not take part in a PTA (23.0%), that is, excluding ASEAN (AFTA) plus "Oceania" (CER) plus all American members of APEC.

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ANNEX

DATA TABLES

Explanatory Notes

Some of the following tables contain data of trade flows aggregate by regions, subregions or economy groupings. Since some countries or economies do belong to more than one grouping, the sums of the corresponding trade flows do exceed the totals. On the other hand, notwithstanding the growing membership of some groupings during and after the studied period (1990-1996), the data here shown has been arranged in a way suitable for the purpose of this study, so as to include the following countries or economies:

NAFTA:

Canada, Unites States and Mexico.

MERCOSUR:

Argentina, Brazil, Paraguay and Uruguay.

AC:

Bolivia, Colombia, Ecuador, Peru and Venezuela.

APEC (18):

Australia, Brunei, Canada, Chile, China, Chinese Taipei, Hong Kong, Indonesia, Japan, Korea (South), Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Thailand and United States.

NIE's:

Chinese Taipei, Hong Kong, Korea (South) and Singapore.

ASEAN (5):

Brunei, Indonesia, Malaysia, Philippines and Thailand.

Oceania:

Australia and New Zealand

European Union (15):

Austria, Belgium, Denmark, Finland, France, Germany, Greece, Holland, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden and United Kingdom.