

# New Trends in Latin American Foreign Trade: The LAIA and Its Work

## I. Origins and Purposes

### A. FROM LAFTA TO LAIA

The Latin American Integration Association (LAIA) was established by the Treaty of Montevideo of 1980, to replace the Latin American Free Trade Association created in 1960.<sup>1</sup> All the countries that were members of LAFTA (Argentina, Brazil, Bolivia, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela) became members of LAIA and, therefore, for all practical purposes, the LAIA is a continuation of LAFTA.

The demise of LAFTA is due to the imposition of obligations that most of its members were not willing to perform. Under LAFTA, its members were required to grant yearly multilateral reductions to the tariffs applicable to imports from other member countries in order to eliminate by 1972 all tariffs applicable to their reciprocal imports. This, however, did not reflect the real aim of its founders (Argentina, Brazil, Chile and Uruguay) which only wanted to maintain, through a tariff preference, the "de facto" preference that they had been granting for years to each other through the administra-

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1. There are hundreds of published articles about LAFTA and LAIA. Many of the best are published in *DERECHO DE LA INTEGRACIÓN*, a collection of 24 semi-annual volumes published since 1967 by the Inter-American Development Bank (IDB) and the Institute for Latin American Integration (INTAL) in Buenos Aires, Argentina, and in *INTEGRACIÓN LATINOAMERICANA*, a monthly review also published by the Institute of Latin American Integration in Buenos Aires since March, 1976. The IDB and INTAL published various other relevant collection of articles about LAFTA, including *LA INTEGRACIÓN LATINOAMERICANA EN UNA ETAPA DE DECISIONES*, Buenos Aires, 1974, and *DIMENSIÓN JURÍDICA DE LA INTEGRACIÓN*, Buenos Aires, 1973. On the purposes of the creation of LAFTA, see G. MAGARIÑOS, *La ALALC: la experiencia de una evolución de 11 años*, in *LA INTEGRACIÓN LATINOAMERICANA EN UNA ETAPA DE DECISIONES*, 105. On the coincidence of these purposes with the results effectively obtained see the LAIA Document ALADI/SEC/SS/Estudio 5, 18.

tion of exchange controls, and that they could no longer maintain, in part because of the opposition of the International Monetary Fund (IMF).

The only available solution to this opposition then appeared to be the creation of an "interim agreement leading to the establishment of a Free Trade Zone" under Art. XXIV.4 of the General Agreement of Tariffs and Trade (GATT),<sup>2</sup> and this was what the founders of LAFTA declared to be doing. The unexpected adhesion of Mexico to LAFTA, in 1960, and later that of other South American countries, expanded the original reach of LAFTA and, gradually, many of the smaller countries turned the theoretical objectives of the Treaty of 1960 into their national policy.

But Argentina, Brazil and Mexico never changed their policies, and only four years after its formal birth LAFTA had ceased to operate according to its rules. Not by chance, the interruption in the performance of duties imposed by the Treaty occurred where the major countries wanted—at the point of establishment of an area of trade preferences able to restore their reciprocal trade to its traditional levels.

Twenty years of conflicts and frustrations, however, and the growing opposition between the "Six" (Argentina, Brazil, Chile, Mexico, Paraguay and Uruguay) that wanted to grant trade preferences to each other without automatically benefitting the "Andeans," and the member countries of the Andean Pact (Bolivia, Colombia, Ecuador, Peru and Venezuela) that wanted to withdraw the concessions granted multilaterally in the early sixties to limit their reach to the other "Andean" countries, led in 1980 to an agreement to dismember LAFTA and renegotiate what remained.

The 1979 Decision of the Contracting Parties of the GATT approving an Agreement on "Differential and More Favorable Treatment, Reciprocity and Higher Participation of the Developing Countries"<sup>3</sup> that allows the developing countries to grant limited trade preferences to each other, eliminated the problem that the founders of LAFTA had faced in 1960, and permitted them to agree on the Treaty of Montevideo of 1980 that, in substance, organizes the granting of limited trade preferences between its member countries.

## B. FROM 1980 TO 1984

The renegotiation of the concessions granted from 1960 to 1980 was certainly not easy. The member countries of LAFTA reviewed the concessions granted to over 10,600 products, 2,362 of which were withdrawn

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2. Provisional Application of October 20, 1947 (Parts I-III) 61 Stat. A 2051, T.I.A.S. No. 1700, 55 U.N.T.S. 308; *entered into force* Jan. 1, 1948. Part IV, dealing with developing states, was added in 1965; T.I.A.S. No. 6139, *entered into force*, June 27, 1966.

3. Of Nov. 28, 1979, ¶ 2 (c).

between 1980 and 1984. During the renegotiation, however, 1,082 new concessions were granted, probably offsetting the net effect of the withdrawals.

The most dramatic result of the renegotiation was, as expected, the decrease in the concessions granted between the Andean and non-Andean countries: the Andean Countries withdrew 49 percent of the concessions granted to the "Six", and these withdrew 75 percent of the concessions formerly benefitting the "Andeans"<sup>4</sup> The renegotiation of the "historic patrimony" of LAFTA did not include over 3,500 concessions resulting from the twenty-four "Industrial Complementation Agreements" signed under the Treaty of 1960 that, according to a decision taken in 1964, only benefit their member countries.

Each of these "industrial complementation agreements" eliminates or greatly reduces the tariffs and restrictions applicable to one industrial "sector," including computers, office machines, chemical products, electronic and communications products, home appliances, drugs and pharmaceuticals, photographic equipment and copiers, light bulbs, electric generators, etc. Multinational corporations that have plants in the largest countries and are flexible enough to accommodate themselves to these Agreements, are the major users of their preferences, but this mechanism is almost unanimously supported by the industrialists of the "Six," who view them as an instrument that allows businessmen to participate directly in the negotiation and regulation of the regional trade of their own products.

Almost all these Agreements have Argentina, Brazil and Mexico as parties, alone or with Uruguay or Chile. The Andean countries have a minimal participation in them, and as the "Six" always agreed in maintaining their validity, they were not subject to renegotiation as was the rest of the "historic patrimony" of LAFTA.

### C. A CRITICAL YEAR

When the Ministers of Foreign Affairs of the eleven countries of LAIA met for the second time in the life of the Association in April, 1984<sup>5</sup> they were, in fact, signalling that the revision of the work done in the twenty preceding years had come to an end, and that it was already time to begin thinking of the future. A big change had occurred, however, since the meeting of 1980.

4. The most extensive analysis of the results of this renegotiation is made by the Secretariat of LAIA in the LAIA Document, ALADI/CM/II/di2.

5. The first meeting was held in August, 1980, immediately after the signature of the Treaty of Montevideo of 1980 that created the Latin American Integration Association (LAIA), and was basically devoted to organizing the renegotiation of the "historic patrimony" of LAFTA and setting the rules for the future negotiations. The second meeting convened also in Montevideo, seat of the Association, on April 27-28 of 1984.

All the LAIA countries were facing, at the time of this second meeting, the deepest economic crisis of their recent past, and most, if not all, were being forced to produce trade surpluses to repay their international debts. Many of their major exports, however, face restrictions in the developed markets of the North, that severely restrict or directly forbid the importation of most agricultural products, and in varied ways hamper or limit the imports of other Latin American products. Furthermore, the sale of the subsidized surpluses produced by the agricultural policies of the developed countries have become a serious obstacle to the export of Latin American agricultural products to Third World markets that once supplied with the surpluses of the North are unavailable as consumers.

In terms of trade policy, this situation has led to the growth of political support for what could be called "defensive integration,"—the reinforcement of preferential trade ties between Latin American countries—not necessarily as a step towards a Latin American Common Market, in which almost nobody ever believed, but as a measure to open markets for exports at a time when the rest of the world appears to become each day less dependable.

The Ministers of LAIA countries apparently felt this change in the "informed opinion" of their countries, and reversed the twenty-year-long process of internal conflict and confrontation mentioned above. In fact, only four years before, the same Ministers had met in Montevideo for the exclusive purpose of dismantling the structure of the Latin American Free Trade Association and dividing what remained. The double effect of the conflict between the Andean countries and those of the "Group of the Six" and of the devastating policies applied in the Southern countries by the "Chicago Boys,"<sup>6</sup> had, by 1981, all but destroyed any feeling of unity between LAIA countries.

The sole fact that there was support for the convening of a meeting of the Council of Ministers of Foreign Affairs of LAIA countries was a sign that something had changed. This Council—the highest organ of LAIA—had met only once before, to establish the rules for the revision of what had been agreed before the creation of LAIA. But that process was in 1984 all but finished, and a new meeting of the Council had no options other than new regional protectionism. The Ministers of Foreign Affairs did, in our opinion, move definitely in that direction.

It is too soon to know whether this apparent change in the position of the LAIA countries towards each other will ultimately end in concrete and

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6. Liberal, monetarist Economists, mostly educated in the United States and followers of the doctrines of Milton Friedman, that dominated the Ministries of Economy of Argentina, Chile and Uruguay since the mid-seventies, and were strongly influential in most other Southern countries by that time.

relevant results, but the intention of increasing the preferential character of the inter-Latin American trade, in a way reserving the LAIA markets to LAIA exports, was manifest during 1984, and the decisions taken during this period were clearly conducive to this end.

## II. LAIA in Operation

### A. THE "PLAN OF ACTION" OF QUITO

In early 1983, the Government of Ecuador asked the Permanent Secretary of the Latin American Economic System and the Executive Secretary of the U.N. Economic Commission for Latin America for the preparation of a "set of proposals directed to developing the capacity of response of the region [to]. . . the international economic crisis that in an unprecedented and singular way affects Latin America. . ." <sup>7</sup> These proposals were submitted to the Heads of State, or their personal envoys, of most of the countries of Latin America and the Caribbean who, in January, 1984, met in Quito. The "Declaration" and "Plan of Action" approved in this meeting contained the usual vagaries of statements of this type, particularly in view of the wide differences of the participating countries, which were politically as different as Cuba and Chile and culturally as separated as Argentina and Jamaica. Some of the recommendations of the "Plan of Action" of Quito, however, that could be taken and implemented by the more homogeneous countries of LAIA, were received and approved by the Council of Ministers of Foreign Affairs of the Latin American Integration Association.

### B. NON-TARIFF BARRIERS IN INTER-REGIONAL TRADE

The "Plan of Action of Quito" stated that its signatories "Adopt the compromise of not introducing, after this date, new non-tariff barriers to imports originating in Latin America or the Caribbean; and to eliminate or limit the ones in existence in a progressive manner, through negotiations whose criteria, terms and procedures we [assume the] compromise to adopt during this year." <sup>8</sup>

The problem created by non-tariff barriers was not new to the members of LAFTA/LAIA. In fact, under the Treaty of Montevideo of 1960 that created LAFTA, the member countries were not supposed to apply to the products receiving preferences any other barriers or restrictions than those specifically declared applicable at the time of their negotiation. This was

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7. Letter of the Minister of Foreign Affairs of Ecuador to the General Secretary of LAIA (February 27, 1984) (transcribed in the Doc. ALADI/CR/di 109, at 2-3.)

8. II Plan de Accion de Quito 1, from LAIA doc. ALADI/CR/di 109, at 17.

applied during the late sixties, but the decay in the cooperative will during the late sixties and the seventies resulted in the application of a wide number of such restrictions to most, if not all, the negotiated concessions.

After the Treaty of 1980, the LAIA Secretariat started a slow process to obtain information about the non-tariff barriers in existence. The Secretariat first asked the member countries to inform it of all such restrictions, but many countries never supplied that information, and those that supplied it simply indicated that they had no restrictions in force. Faced with this, the LAIA Secretariat compiled the information, thereby confirming the existence of thousands of non-tariff barriers affecting most of the existing concessions.

At this point, most expected the LAIA to start a slow process of discussion that would probably never end. However, three months after the approval of the "Plan of Action" of Quito, the Ministers of Foreign Affairs of LAIA approved a Resolution that completely forbade the imposition of new non-tariff barriers, and imposed the obligation to eliminate all those actually in force within a three-year period. This Resolution is applicable to non-tariff barriers of any nature—whether administrative, financial, or other—through which any member country could impede or make more difficult its imports, and provides that the member countries "may not establish new non-tariff restrictions to the importation of products originated in the Region, nor intensify or expand the ones in force."<sup>9</sup>

As for the elimination of the existing barriers, Art. 2 of the Resolution provides that "the member countries will eliminate, through negotiations, and in a maximum period of 3 years, the non-tariff barriers that are in force at this date. . . ." This elimination will be made "through negotiations," which implies that the elimination of the barriers may be conditioned to the granting of some form of reciprocity, but the imposition of a maximum period of three years for completing this process limits the bargaining power of the countries now applying these barriers. The Resolution also requires that all member countries of LAIA inform the Association of the non-tariff barriers they have in force no later than by the end of June, 1984, providing that any measure not expressly communicated would not be applicable to inter-regional trade.<sup>10</sup>

As a Resolution of LAIA, it is only applicable to its member countries which, with the exception of Mexico, are all from South America. Contrary to what is customary in LAIA rules, its application is not restricted to the

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9. Art. 2, Resolution 5(II).

10. All LAIA countries submitted these communications, and some conflicts have already occurred. It was recently known, for instance, that Colombia's list, submitted on June 26, 1984, does not make any reference to the Special Importation Systems authorized by Art. 12 of the Act of Dec. 28, 1983 and Decree 370 of Feb. 15, 1984 under which the importation of certain products is only allowed if the importer also exports Colombian goods for similar values.

products that have been negotiated in LAFTA/LAIA and receive trade preferences by the importing country, but to all products of regional origin, whether or not negotiated. It is difficult to evaluate the relevance of this Resolution in the context of Latin American foreign trade. In fact, even if LAIA countries have traditionally exempted LAIA imports from most of their general import restrictions, Resolution 5 (II) represents the abandonment of the discretion with which the Countries have adopted these decisions in the past, and attempts to obtain, in a very short period, the elimination of non-tariff barriers to all inter-LAIA imports, and their automatic exemption from the measures that will surely be created in the future. In the context of the present situation of Latin America, Resolution 5 (II) probably has the unsuspected potential of trade deviation and may turn itself into the most efficient trade preference within Latin America.<sup>11</sup>

### C. THE REGIONAL TARIFF PREFERENCE

Article 4 of the Treaty of Montevideo of 1980 provides that "the area of economic preferences will include among other measures, a regional tariff preference," which is defined by Art. 5 as a "preference. . . that will be applied with reference to the level [of tariffs] applicable to third countries." Resolution V, of the First Meeting of Council Ministers of Foreign Affairs, convened in August of 1980, established that the Regional Tariff Preference will "a) apply if possible to the whole of the tariff universe; b) will not imply a consolidation of tariffs"; and that "i) the tariff barriers of any nature will be eliminated through a program with the purpose of making effective the Regional Tariff Preference."

The Regional Tariff Preference was, then, supposed to be "a multilateral trade mechanism, whose instrumental purpose is the establishment of a preference in the benefit of the Region with relation to the tariff treatments applied by the member countries to the imports of the whole of the tariff

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11. An interesting measure of the relevance of non-tariff barriers in LAIA countries is provided by a recent study by the LAIA Secretariat Doc. (ALADI/SEC/dt. at 60, *Elementos de juicio para el establecimiento de un programa de negociaciones para la eliminación de restricciones no arancelarias*) that reviewed the restrictions to imports in all member countries. This study found that Argentina forbids the importation of 23 percent of all Tariff items, and requires previous authorization for the importation of another 29 percent; Brazil forbids the importation of 42 percent of all tariff items, including 86 percent of all agricultural products, 93 percent of textiles and 80 percent of paper and wood products; Colombia requires previous authorization for about 60 percent of all tariff items; Ecuador forbids the importation of 30 percent of all tariff items, including 71 percent of agricultural goods and foodstuffs; Mexico requires previous authorization for the import of 82 percent of all tariff items; and 27 percent of all tariff items imported into Venezuela face "significant" non-tariff barriers. Imports into Bolivia and Paraguay were found to face "significant" direct non-tariff barriers and exchange restrictions, and only the imports into Chile, Peru and Uruguay were considered not subject to significant non-tariff restrictions.

universe."<sup>12</sup> Despite all these references to Regional Trade Preference, its own multilateral character, opposed to the view of most of the member countries of the Treaty of 1980, created doubts on future implementation. In an earlier article, this author wrote "the enthusiasm of the countries towards its application, . . . appears to be more than mild, and goes from the position of those willing to accept a 'symbolic preference' economically irrelevant and with the exclusive purpose of demonstrating some degree of regional solidarity, to that of those who consider it useless to make efforts for the benefit of a symbol, and in final terms, are not even concerned about this preference."<sup>13</sup>

A few days before the formal convening of the Second Meeting of Ministers of Foreign Affairs in April 1984, the member countries of LAIA approved the establishment of the Regional Tariff Preference, providing that it will enter in force on the 1st of July of 1984. This Regional Tariff Preference (RTP) consists in the concession, to any and all imports originated in the countries of LAIA, of a reduction of tariffs expressed as a percentage of the general tariff applied to similar products originated in non-member countries. This reduction is expressed as a percentage of the general tariff, according to the following scheme:

<i>Country granting the concession</i>	<i>Recipient Country</i>	<i>Relatively less developed Countries</i>	<i>Countries of intermediate development</i>	<i>Other Countries</i>
Relatively less developed countries		5	3	2
Countries of intermediate development		7	5	3
Other Countries		10	7	5

The commercial value of this preference, of course, depends on the magnitude of the tariff applicable to third country imports. According to these figures, for instance, the average import to Brazil of products of LAIA origin would receive, through the RTP, a tariff reduction of 5.8 points when the goods originate in Paraguay, Ecuador or Bolivia; of 3.7 points when the goods originate in Uruguay, Chile, Peru, Colombia or Venezuela; or of 2.7 points when they originate in Argentina or Mexico.

The level of this RTP was the result of compromise. In fact, Mexico proposed the establishment of a general RTP of 50 percent as a way of

12. Doc. ALADI/CEC/Estudio 3, at 9.

13. Ferrere, 65 REVISTA DE COMERCIO EXTERIOR 13 (1983).

adopting a preferential level able to divert trade from the very beginning. The majority of the countries of LAIA, on the contrary, preferred to establish a minimal preference that would allow the initial functioning of the RTP without putting it in danger because it was too ambitious.<sup>14</sup> This last position finally prevailed, and the preference established is considered "minimal," but not "symbolic," and the countries expect to increase its level through scheduled, mandatory renegotiations.<sup>15</sup>

The Agreement, however, provided in Article 8 that "Every member country may submit a list of products that will be exempted from (the application of) the regional tariff preference, within a term of 60 days. . . ." All member countries eagerly did so, exempting thousands of products from the RTP.<sup>16</sup> The medium-sized and small countries submitted the thickest lists of exemptions, but a concrete evaluation of the relevance and effects of these lists has not yet been made. If sheer volume is to be considered, Ecuador submitted 221 pages of exceptions, while Brazil's list covers only 43 pages, Mexico's 73 and Argentina's 87.

An interesting by-product of this Agreement results from Article 7 that simply provides that: "In the subject of non-tariff barriers what was provided in Resolution 5(II) of the Council of Ministers will be applicable." As most products traded between LAIA countries are included in this RTP, this rule is equivalent to providing that only the non-tariff barriers in existence on April 27, 1984 and that have been included in the lists submitted to the LAIA Secretariat by mid-1984 may be legally applied to this trade, and that even these barriers are to be eliminated in three years, according to Resolution 5(II).<sup>17</sup>

#### D. FINANCIAL COOPERATION WITHIN LAIA

Resolution X (II) of the Second Meeting of Ministers of Foreign Affairs of LAIA was probably the most publicized of those adopted during this meeting.<sup>18</sup> Under the Treaty of 1960, the countries of LAFTA created,

14. INFORMACIONES ALAOI, March 9, 1984, at 317-318.

15. Art. 10 of the Regional Agreement on the Regional Tariff Preference provides for the revision of the RTP in the yearly Conferences of LAIA.

16. The lists of exceptions submitted by the member countries are published as Doc. ALADI/CR/di at 118 to 118.10.

17. This, in fact, already resulted from the Resolution 5(II), as was said in Chapter 3 above. However, saying that "negotiated" products may not be subject to new non-tariff barriers is much more easily acceptable under "orthodox" LAIA thinking, than to say that these barriers may not be applied even to products that have never been negotiated, or have been exempted from the RTP, as it technically results from Resolution 5(II). Because of this, this rule should be much more frequently—and successfully—invoked and accepted in the case of products covered by the RTP, than in the case of goods exempted from it.

18. This subject is thoroughly treated in LAIA Docs. ALADI/CAF/M/V/dt 1; ALADI/SEC/di 137; ALADI/ASD/ 2o./IV/comision; ALADI/ASD 2o./IV/Consejo and ALADI/CAF/M/V/informe.

beginning in 1965, a system of compensation for the payment of imports, to minimize the use of foreign currencies in their reciprocal payments. This system functioned through a network of bilateral agreements between the central banks of the countries of LAFTA, each of which granted to each other a credit equivalent to approximately four months of its exports to the recipient country. This network of agreements allowed the central banks to compensate every four months the balances resulting from their reciprocal trade, paying in foreign currencies only the balance resulting after the multilateral compensation. Its success is demonstrated by the reduction to approximately 25 percent the amount of foreign currency effectively used for the payment of imports originating in the other countries. This system was supplemented, after 1969, by the "Agreement of Santo Domingo" directed to assist the central banks facing short term liquidity problems that could prevent them from participating in the process of multilateral compensations.

During the decade of the seventies, 82 percent of the trade of LAFTA countries was channelled through this system. After 1979, the mechanism became another victim of the financial crisis affecting all the countries of the Region, and the resources of the "Agreement of Santo Domingo," supposedly established to assist the countries facing balance of payment problems, proved to be insufficient to perform this purpose. In 1981 the volume of trade channelled through these agreements fell from its historic average of 84 percent, to 77.5 percent and fell again to 65.3 percent in 1982.

Faced with this, in 1983 the General Secretariat of LAIA prepared a project for a "Monetary Agreement—LAIA" to establish an organic system to facilitate the multilateral compensation of balances of trade between its member countries, and to finance certain balance of payment problems. This system was supposed to function through a multilateral clearing house, an international means of payment, and a fund for financial cooperation.

The multilateral clearing house was to function similarly to the present Agreements on Payments and Reciprocal Credits, with the only difference being that the channelling of the operations through the mechanism would become mandatory, and that the payment of the resulting balances would be made, in part, through the "Latin American Monetary Units" (LAMU).

The LAMU could be a unit of account, similar to the Special Drawing Rights issued by the IMF, and would also be used as a reserve asset by the member countries and as a unit of account in their interregional operations. Its value would probably be established in relation to the value of the U.S. dollar and would be used for the payment of a still undefined percentage of the resulting balances of the multilateral compensations. This LAMU would be issued for approximately 1 to 1.2 billion dollars, and would probably be assigned to the LAFTA countries on the basis of their interregional trade, or their quotas in the IMF. The project of the LAIA Secretariat ultimately

included the establishment of a Fund for Financial Cooperation that would unify all the presently existing mechanisms of multilateral support for the coverage of transitory balance of payment difficulties.

In February, 1984, the project was submitted for the consideration of the Advisory Commission on Financial and Monetary matters of LAIA, composed mostly of technical advisors to the Central Banks of the countries of the Region. The Advisory Commission had a less than enthusiastic reaction to the project considering that it was "improbable to obtain through the trade negotiations, a change in the short term in the reciprocal exchanges in a way that it would be compatible with the stable functioning of the proposed monetary agreement," and that "it is possible that the countries having deficits in their global balance of trade would result having a positive balance in the Region, and accordingly will be forced to finance the other countries showing deficits."<sup>19</sup>

Despite this, the subject was submitted again to the Second Meeting of Ministers of Foreign Affairs of LAIA, which rejected the position of the Advisors of the Central Banks, reaffirmed the importance of this system of financial cooperation and established priority for its strengthening to: "a) reduce the illiquidity of convertible currencies existent in the Region, with the support and protection of the development of the interregional trade, b) obtain the maximum economy in the use of the convertible currencies, c) promote the financial cooperation with the purpose of reducing the difficulties in the international payments at the regional level of the member countries, and d) obtain financial resources from outside the Region that could provide additional liquidity to the financial mechanism of LAIA and accordingly facilitate the expansion of interregional trade."<sup>20</sup>

The Council of Ministers decided, finally, that the Secretariat of LAIA during 1984 should restructure the proposed Monetary Agreement—LAIA, with the purpose of again submitting it to the Council of Monetary and Financial Matters of the Association.<sup>21</sup>

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19. Doc. ALADI/CAF/M/V/informe, at 12.

20. Resolution X (II), Art. 1.

21. The Sixth Meeting of the Advisory Commission on Monetary and Financial Affairs and Seventh of the Council of Financial and Monetary Matters of LAIA (held in Puerto Plata, Dominican Republic, from September 12 to September 17, 1984) did not return to the subject of the Monetary Agreement—LAIA. In fact, the only activity reported on this subject at the time of this writing (February, 1985) was the apparently futile attempt made in June by a "Consulting Mission" of the LAIA Secretariat to obtain resources from the Interamerican Development Bank, the World Bank and other financial institutions. The Council on Financial and Monetary Matters adopted, in its meeting of Puerto Plata, a Resolution (CFM/Resolución 32) asking the Secretariat of LAIA to prepare a document detailing the position of the IDB and the World Bank on the obtention of external resources to strengthen the payments and compensation mechanism of LAIA and to submit it to an Advisory Group in early 1985 (on this subject see SINTESIS ALADI (October-December 1984), at 9).

The subject to this Monetary Agreement—LAIA received wide coverage by the specialized press, probably going beyond its real importance. What was probably not stressed enough, however, is the effect of the presently existing system of compensation of payments for the countries participating in the system. As mentioned before, this mechanism reduces to approximately 25 percent the need for convertible currencies for the payment of imports between its member countries, and its use is presently mandatory in most countries of LAIA for trade with the other parties of these Agreements.<sup>22</sup> These Agreements also contain, in all cases, a guarantee by each of the participating Central Banks, of the transferability and convertibility of the currencies used in the trade covered by the Agreement. The combined effect of all these provisions is to substantially decrease or minimize the difficulties and costs involved in the payment of imports between the countries participating in these agreements, to a point in which businessmen come to separate the trade conducted in “agreement currency” from that conducted in other terms, assuming that only the first cases will be conducted free from obstacles and delays.

#### E. THE RELATIVELY LESS DEVELOPED COUNTRIES

Articles 9, 15, 16 and 17 of the Treaty of 1980, and Resolutions 3, 4 and 6 of the First Meeting of Ministers of Foreign Affairs of LAIA, celebrated immediately after the signature of the Treaty, clearly impose the obligation to treat differently the “different levels of development” of the member countries.

Brazil, Argentina and Mexico always opposed the practical application of this principle with respect to the “medium-sized countries,” as was required by the members of the Andean Pact, and this came close to producing a formal division of LAIA during a memorable meeting held on May 15, 1981.<sup>23</sup> Even if the division did not formally take place, the reciprocal withdrawal of concessions made by the Andean and non-Andean countries immediately after this meeting was connected to this basic disagreement, and from then on the participation of the Andean countries in the activities of LAIA was minimal until 1984.

The application of the rule of differential treatment to smaller countries has, however, been more peacefully accepted. Resolution III of the First Council of Ministers of Foreign Affairs of LAIA provided that “member

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22. At present the use of this mechanism for inter-LAIA payments is mandatory in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Uruguay voluntarily channels all its LAIA payments through this mechanism.

23. No records were kept about this meeting, most of which was held on a Friday night and Saturday morning. The most extensive reconstruction of these discussions appears in the newsletter, 11 INFORMACIONES ALADI No. 230 (1981).

countries shall approve negotiated lists of products, preferably manufactured, originated in each relatively less developed country which it will be granted, without reciprocity, a complete elimination of customs tariffs and other restrictions by all the member countries of the Association."<sup>24</sup> Despite this, Brazil maintained that the position of these countries had already been contemplated in the Lists of Non-Extensive Concessions of Article 32 (A) of the Treaty of 1960, later included in the "renegotiation of the historic patrimony," and that it was then not adequate to grant them any further benefit. Finally, after three years of negotiations, all LAIA countries, including Brazil, approved three "Regional Agreements" of "Opening of Markets," favoring Bolivia, Ecuador and Paraguay.<sup>25</sup>

Under these Agreements, Bolivia received concessions benefiting 98 products, only 8 of which are basic raw materials. The Andean countries gave concessions to all these items, while Argentina gave concessions to only 32, Brazil to 26, Chile to 6, Mexico to 28, Paraguay to 28 and Uruguay to 8. Ecuador, on its turn, received concessions from the Andean countries on 69 products, but only on 28 from Argentina, 27 from Brazil, 6 from Chile, 23 from Mexico, 26 from Paraguay and 14 from Uruguay. Paraguay, being the only non-Andean country of this group, received 69 concessions from Argentina, 28 from Bolivia, 21 from Brazil, 22 from Colombia, 10 from Chile, 26 from Ecuador, 22 from Peru, 14 from Uruguay and 22 from Venezuela.

All products included in these Agreements receive a complete exemption of tariffs and other barriers. Many of the concessions granted, however, are limited by a quota. The concessions under these Agreements may not be withdrawn, and will remain in force so long as the recipient country qualifies as "relatively less developed." Resolution 7 of the Second Council of Ministers of Foreign Affairs, held in May, 1984, required every country granting concessions under these Regional Agreements, to expand their list of concessions in order to include at least 20 percent more products by the end of 1984. According to this mandate, but not after extensive discussions and some tolerated overstatement of percentages, the Conference of Evaluation and Convergence that met in September of 1984 approved three "Additional Protocols" to the Regional Agreements on Opening of Markets, that are supposed to expand the original preferences to Paraguay, Bolivia and Ecuador by the mandatory 20 percent.<sup>26</sup>

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24. Resolution III, par. 4.

25. The Treaty of 1980 defines the "Agreements of Regional Reach" as those having as members all the member countries of LAIA.

26. Docs. ALADI/AR.AM/3.1 (Paraguay), ALADI/AR.AM/2.1 (Ecuador) and ALADI/AR.AM/1.1 (Bolivia).

## F. GOVERNMENT PURCHASES

The "Plan of Action of Quito" stated that its signatories agree to "promote, through bilateral or multilateral agreements, based on the [trade] integration agreements, operative mechanisms that would permit to benefit from the States purchasing capacity, orienting our imports to regional providers," and that the signatories "agree in the necessity of applying, when the purchase of goods and services are to be made through public bids, a regional preference in the benefit of the Latin American companies and Caribbean suppliers."<sup>27</sup>

The "Plan of Action of Quito" put the Latin American Economic System (SELA) in charge of conducting the studies and preparing the proposals conducive to this end, and the subject was not taken by the Council of Ministers of LAIA. In September, 1984, however, the possibility of approving a regional preference for Government purchases through public bids was privately discussed between the delegations that took part in the Conference of Evaluation and Convergence of LAIA, even though those discussions were not reported in the documents of the Conference, nor resulted in any formal decision.

This subject is, at present, in the minds of all the Permanent Delegations of the Member Countries of LAIA and will almost surely be on the agenda of the meetings to be held in 1985.

## III. The Future of LAIA

The LAIA is far from paralyzed, even if its projects have to be taken in the appropriate perspective. Inter-Latin American trade has traditionally been, and still is, marginal for the countries of the Region, being in all cases a relatively minor percentage of their total trade. This, however, has been changing, as the regional markets began absorbing a progressively larger percentage of the regional exports and at present the LAIA markets absorb almost half of all export of regional industrial goods.<sup>28</sup> For the industrial sectors of LAIA countries, then, economic integration may be seen as an opportunity or as a threat, but not as something marginal or irrelevant.

In policy terms, the principle that other Latin American countries have to be treated in a different and most favorable way than any other country when regulating the access of imports to local markets is accepted throughout LAIA. It is reflected in a wide number of ways, most of which are LAIA

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27. Plan de Accion de Quito, II.2, d, from LAIA Doc. ALADI/CR/di 109, at 18. It is obvious that this policy goes directly against the rules of the "Agreement on Purchases by the Public Sector", prepared during the Tokyo Round of the GATT, and open for signature since 1980.

28. ALADI, *Estadísticas de Comercio Exterior 1970-1982*.

rules. None of these regulations is, by itself, dramatic, but their total effect is increasingly evident.

Whether this process will continue probably does not depend on the LAIA countries. History shows that LAIA countries' major trade partners are not in the Region, but in the industrialized North. These countries of the North progressively close their markets to all Latin American exports that are not minerals, tropical goods or handicrafts, but give trade preferences to African, Caribbean and Pacific Basin countries that compete with Latin America, and dump their agricultural production in third world markets. Thus, the feeling has continued to grow that only other Latin American markets give certain opportunities of trade expansion.

It is not by chance that while international trade grew, during the seventies, most Latin American countries paid only lip service to regional economic integration. But as soon as the trend was reverted, LAIA countries started to look inwards again. The development of the concept of "defensive integration" corresponds to this period and the not too implicit threats recently made by the Region's creditor of cutting the debtor countries from international trade gave a new dimension to this idea. The tendency towards a growing "regional protectionism" appears to have increased, and only time will tell where it will lead.

