
comercio internacional

Bilateralism and Regionalism:
Re-establishing the primacy of
Multilateralism a Latin American and
Caribbean Perspective

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Santiago, Chile, December, 2005

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United Nations Publication
ISSN printed version 1680-869X
ISSN electronic version 1680-872X

ISBN: 92-1-121573-0
LC/L.2441-P
Sales N°: E.05.II.G.187
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Printed in United Nations, Santiago, Chile

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Abstract

The slow advancement of the multilateral trading system has led to a wave of preferential trade agreements (PTAs) in Latin America and the Caribbean resulting in a web of bilateral and plurilateral PTAs, with countries both within and outside the region. More than 40 trade agreements now exist in the hemisphere, in addition to other arrangements that are now being negotiated or that will be negotiated before 2006. These agreements and their negotiation processes have generated centripetal and centrifugal forces that tend to unify and divide the regional integration process. While these agreements emerge as an opportunity for signatory countries, they also generate concerns in relation to such aspects as their consistency with multilateral commitments and the broadening and deepening of trade rules and disciplines beyond those being assumed in WTO. The disciplines contemplated in the areas of interest to industrialized countries tend to be “WTO-plus”, while the issues that affect Latin American and Caribbean signatories are often remitted to the multilateral negotiating forum. Hence, the multilateral level of negotiations cannot be simply replaced by a mix of bilateral and plurilateral negotiations. There is a call for a strong, complementary, mutually reinforcing process among the three (lateral, regional and multilateral) routes to liberalization and regulation. Bilateral agreements between countries or sub-regions could serve as “building blocks” when and if the precedents they establish are consistent with a comprehensive, balanced WTO that takes due account of the smaller economies’ vulnerabilities. This is also true in cases where the commitments made in certain disciplines included in bilateral and sub-regional agreements facilitate the adoption of multilateral rules in the

same disciplines. Otherwise, bilateral agreements could impede the construction of a development-oriented WTO, leaving the region with too extensive a web of hub-and-spoke agreements, with high associated costs of administration, transparency and efficiency.

Introduction

Recent experience in Latin America and the Caribbean shows that the growth of exports in goods and services is a necessary, albeit insufficient, condition for promoting economic growth with social equity (ECLAC 2002, 2001). Despite some success in diversifying trade by products and markets, the region's export competitiveness is still mostly based on price differentials rooted in static comparative advantages, with low value added and little technological or knowledge content.

Moreover, the foreign sector of the region has continued to be characterized by the vulnerability that arises from volatile capital markets, contracting demand in industrial countries and fluctuating commodity prices. This vulnerability has left Governments with a reduced capacity to introduce effective countercyclical policies and with huge balance-of-payments problems that ultimately compress imports and intraregional trade.

In the light of these circumstances, the Latin American and Caribbean region's trade agenda should not only be oriented towards enhanced market access to developed countries but should also focus on the supply-side constraints that impede diversification into, and the competitiveness of, technology-intensive goods and services sectors. This two-pronged approach, also consistent with the Doha Development Agenda, should in turn result in a multilateral and regional trading system that is more supportive of sustainable development, high-quality job creation and poverty reduction, while allowing the Latin American and Caribbean countries to manage policy and to build capable trade-related institutions.

The slow progress of the multilateral trading system has led to a wave of preferential trade agreements (PTAs) worldwide. The region continues to negotiate a web of bilateral and plurilateral PTAs, including the Free Trade Area of the Americas (FTAA),¹ with countries both within and outside the region. More than 40 trade agreements now exist in the hemisphere, in addition to other arrangements that are now being negotiated or that will be negotiated before 2006.² These agreements and their negotiation processes have generated centripetal and centrifugal forces that tend to unify and divide the regional integration process.

These agreements emerge as an opportunity for signatory countries, but they also generate concerns in relation to such aspects as their consistency with multilateral commitments and the broadening and deepening of free trade agreement (FTA) concessions beyond those being assumed in WTO (i.e., WTO-plus disciplines). The disciplines contemplated in the areas of interest to industrialized countries tend to be “WTO-plus”, while the issues that affect Latin American and Caribbean signatories are often remitted to the multilateral negotiating forum. Hence, the multilateral level of negotiations cannot be simply replaced by a mix of bilateral and plurilateral negotiations. There is a call for a strong, complementary, mutually reinforcing process among the three (lateral, regional and multilateral) routes to liberalization and regulation.

In order for these sub-regional, plurilateral and hemispheric agreements to become more compatible with the multilateral trading system, the multilateral system itself should become more supportive of development, taking into account structural and emerging asymmetries between developed and developing countries and among the latter countries as well. The rules should fully accommodate the "developmental, financial and trade needs" of developing countries and provide them with sufficient policy scope (UNCTAD 2003b, p.19). At the same time, the countries of the region should maintain a certain margin of flexibility within the WTO, sub-regional and FTAA disciplines to adopt active policies for productive development in order to increase their systemic competitiveness.

Open-trade policies can foster growth through greater productivity in investment and import competition, which can lead to a better allocation of resources and greater foreign investment flows aimed at capitalizing upon new trade opportunities. Nevertheless, it has to be complemented not only with better institutional environments and macroeconomic policies but also with public policies oriented towards a deep form of productive development (ECLAC 2004a). This is the essence of “Open Regionalism” that ECLAC has been endorsing over a decade.³

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