I. LATIN AMERICAN INTEGRATION ASSOCIATION AND ITS RELEVANCE TO INTRA-REGIONAL TRADE

A. Introduction

With the Latin American Free Trade Area (ALALC; see Chapter 1, Section III) moribund and the Andean Pact (see Chapter 1, Section IV) struggling to survive by the end of the 1970s, the Spanish-speaking countries of South America, Brazil, and Mexico met in the Uruguayan capital in 1980 to try to reinvigorate the Latin American economic integration process. As a result of their efforts, a new Treaty of Montevideo was signed creating the Latin American Integration Association (or, as it is better known by its Spanish and Portuguese acronym, ALADI).

ALADI sought to avoid some of the major problems the ALALC encountered, due to its multilateral character, by focusing on more modest bilateral trade agreements. The National and Common Lists of the old ALALC were therefore abandoned in favor of so-called agreements of partial reach in which two member states would agree to reduce or eliminate tariff barriers and quantitative restrictions on specified products traded amongst them. The treaty creating ALADI also provided for Economic Complementation Agreements or Acuerdos de Complementación Económica (ACEs). These agreements could be either bilateral or multilateral in scope and were intended to stimulate more extensive forms of economic cooperation among the signatory states beyond preferential tariff arrangements on a limited group of products.

Although the Treaty of Montevideo of 1980 established no supranational oversight bodies or financial institutions to fund development projects, it did retain and strengthen the central clearing house mechanism established within the ALALC framework in 1965. In addition, Article 35 provided for the establishment of various new institutional bodies including a Committee of Representatives that was given the task of, among other things, resolving disputes arising among the member states. In addition, most decisions of the institutional bodies now required only a two-thirds majority in order to be approved (thereby replacing the unworkable unanimous voting arrangements of the old ALALC).

Despite the reforms introduced by the new Treaty of Montevideo, it failed to immediately revive the movement toward greater Latin American economic integration. For one thing, the reform effort coincided with the sharp rise in
international oil prices that affected the Latin American countries differently and the type of economic policies they pursued. The economies of the net petroleum producers boomed, leading to an increased demand in imports that was further boosted by a rise in the value of their currencies. This situation was soon followed by the Mexican debt default, which halted all bank lending to the region that could have helped those non-oil-producing Latin American countries to finance (over the short term at least) higher energy costs. Instead, they responded to the credit squeeze by devaluating their currencies in an effort to increase exports and therefore revenue. These devaluations led to suddenly cheaper goods flooding the markets of the oil-producing countries that threatened to undermine their national production, while most of their exports to the regional market became that much more uncompetitive. The oil producers responded with safeguards and non-tariff measures, throwing their non-oil-producing ALADI partners further into recession. The end result was that whereas total intra-ALADI trade had reached an historical high of almost U.S.$12 billion in 1981, by 1983 total intra-ALADI had dropped to around U.S.$7 billion. Intra-ALADI trade thereafter remained stagnant until the beginning of the 1990s.

B. Latin American Integration Association Today

The current membership of ALADI consists of Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. ALADI is the organization that oversees the bilateral trade agreements that any of these 12 countries may have with each other or with countries in Central America and the Caribbean. All the recent multilateral economic integration programs in South America, such as MERCOSUR (Common Market of the South in English or MERCOSUL in Portuguese) and the G-3 Accord, also fall under the institutional and legal framework of ALADI. Even the Andean Community, although technically not falling under the ALADI umbrella, for many years adhered to many ALADI norms, including Resolution 78 (eventually superseded by Resolution 252), which dealt with rule of origin requirements. In actual practice, however, the newer trade agreements under ALADI have strayed, sometimes dramatically, from the norms established under ALADI. For example, neither MERCOSUR nor the G-3 Accord adhere to ALADI’s rule of origin requirements.

The Council of Ministers of Foreign Affairs, ALADI’s highest institutional body, met in Mexico City in April 1990 with the goal of introducing modifications that would better facilitate ALADI’s ability to handle the renewed increases in intra-regional trade flows. One of the important technical reforms adopted two months later was the setting of a minimal, across-the-board preferential tariff schedule under which goods would be traded among the member states that were not already subject to other, pre-negotiated duties. In addition, the list of items exempt from the general preferential tariff schedule (and also not subject to any specifically pre-negotiated duty rate), was set at: 1,920 products in the case of Bolivia, Ecuador, and Paraguay; 960 products in the case of Colombia, Chile, Peru, Uruguay, and Venezuela; and 480 goods in the case of Argentina, Brazil, and Mexico.