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Free Trade Agreements in South America.

TRENDS, PROSPECTS AND CHALLENGES

BANCO DE DESARROLLO DE AMÉRICA LATINA

Free Trade Agreements in South America.
Trends, prospects and challenges

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Miguel Rodríguez Mendoza

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Foreword

Productive transformation has been one of the areas that CAF, as the development bank of Latin America, has fostered as a necessary condition for reaching a high and sustainable level of development in the region.

The experience and expertise generated in each project over the last few decades have made the Institution a Latin American point of reference in areas of competitiveness, corporate governance, local and business development, and productive inclusion.

The public policies necessary to drive productive transformation are based on the development of those capabilities aimed at the implementation of good practices and specific supports for improving business management and productivity. Thus, CAF makes its knowledge and expertise available and offers efficient support to a variety of sectors while, at the same time, it creates documentation and does research on success stories that are relevant to the region.

"Public Policy and Productive Transformation" consists of a series of policy documents aimed at disseminating those experiences and success stories in Latin America as an instrument for spreading the knowledge that CAF makes available to the countries in the region so that better practices with respect to business development and productive transformation can be implemented.

L. Enrique García
Executive President

Executive summary

The negotiation of regional or bilateral free trade agreements has become a distinctive feature of international economic relations and Latin America is not an exception. Most of these agreements began to be negotiated in the mid-1990´s and their number has not stopped rising since then. This study offers a global panorama of the different trade agreements signed by the countries of South America within and outside of the region, especially the free trade agreements negotiated by Colombia, Chile and Peru. The main aspects, content and current status of these agreements are discussed, as well as their similarities and differences, the dynamics of trade among the countries involved and the different initiatives and negotiations now underway.

Key words: Free trade agreements, FTA, Trade, WTO, ALADI, CAN

Introduction

The negotiation of regional or bilateral free trade agreements has become a distinctive feature of international economic relations and Latin America is not an exception. In fact, in addition to a broad network of trade agreements among practically all the countries of the region, generally signed on the basis of the preferences which they mutually grant to one another as members of the Latin American Integration Association (ALADI in its Spanish initials), trade treaties have also been concluded with developing nations like China, Thailand, Singapore and other Asian States, as well as industrialized countries, among which we find the United States, the European Union, South Korea and Australia, among others. Most of these agreements began to be negotiated in the mid-1990´s and their number has not stopped growing since then. At the moment there are several trade agreements which are in the course of negotiations, especially with Asian countries.

Many of these agreements not only include provisions for the liberalization of reciprocal trade through the elimination of tariffs and other restrictive trade measures - their main and most obvious objective – but also commitments on matters like the treatment of foreign investment, government procurements, the trade in services, the easing of trade activities and intellectual property, among others. In this way, a fabric of international norms and regulations, negotiated on a bilateral or regional basis, has been established which complements the commitments assumed by those countries within the framework of agreements on regional integration, like the Andean Community, or on a multilateral level, the World Trade Organization (WTO). In South America, which is the geographical focus of this study, different approaches to the negotiation of trade agreements coexist.

First, its countries have signed a broad range of trade agreements with each other, which are heirs of the ALADI agreements, some of which – the most recent ones – pursue the liberalization of the trade of goods among the participant countries and aim at other commercial areas related to investments and intellectual property. These agreements include, among others, the main blocks of regional economic integration: the Andean Community and Mercosur. Second, countries like Colombia, Chile and Peru have been individually carrying out a very active policy for the negotiation of free trade agreements (TLC, the Spanish initials for the term, FTA in English) and have concluded bilateral or pluri-lateral negotiations with numerous developed and developing countries in other regions, especially Asia. In general, these agreements aim at the rapid liberalization of the trade of goods, include the trade in services and their treatment of regulatory matters is much broader and sophisticated than that of those which they have signed with other Latin American countries. Finally, the member countries of Mercosur – Argentina, Brazil, Paraguay and Uruguay – only negotiate "en bloc" with third-party countries. However, very few of these agreements have been finalized so far, that is, ones which exclusively deal with the trade of goods and do not include a complete liberalization of trade among the participants, nor regulatory matters.

The purpose of this study is to present a global panorama of the different trade agreements signed by the countries of South America within and outside of the region, especially the FTAs negotiated by Colombia, Chile and Peru. It discusses the main aspects of these agreements, their contents and current status, as well as their similarities and differences, the dynamics of trade among the countries involved and the different initiatives and negotiations now underway. This study basically sets out to analyze recent trends in the negotiation of FTAs, evaluate their perspectives and discuss the opportunities and challenges which the countries of the region face in ensuring that these trade agreements maximize their contribution to the economies of the participatory countries. The sub-regional focus of this study – South America – thus omits the very rich experience of Mexico, the pioneer of negotiating trade agreements between developed and developing countries, in the form of the North American Free Trade Agreement (NAFTA), the first agreement of this type; and also that of Costa Rica, a country which has been very active in negotiating trade agreements with developed countries.

Following the introduction, this study is divided into three main sections. Section II details the agreements and negotiations undertaken among the countries of South America, highlighting the important degree of liberalization in the intra-regional trade of goods which these agreements have led to. Section III mainly deals with the FTAs signed by Colombia, Peru and Chile with emerging countries, like China, or industrialized ones, like the United States and the members of the European Union. The study also discusses the agreements reached by Mercosur and the negotiations currently underway with the European Union, as well as some recent initiatives, like the Trans-Pacific Partnership Agreement (TPP), which is currently under negotiation. Finally, Section IV offers some reflections on the consequences of the proliferation of bilateral trade agreements for the process of regional integration and for the participation of these countries in the multilateral trade system.

“Regionalism” in South America

General features

Global trends in preferential[1] agreements are thoroughly discussed in a recent study by the WTO. According to this study, there are currently more than 300 preferential trade agreements , of which more than 200 have been negotiated since 1990. All of the countries of the WTO[2]– with the exception of Mongolia – have signed at least one of these agreements and such agreements are being made between developed and developing countries ever more frequently. The geographical coverage of these agreements varies.

Some are intra-regional agreements (signed between countries from a single region) and others are inter-regional ones (their members belong to different groups or regions). Some are bilateral agreements and others are pluri-lateral ones. Some propose the establishment of customs unions and others seek the establishment of free trade areas. In the line with the distinction established by Robert Lawrence[3], we may say that there are shallow agreements, since they only seek the elimination of tariffs or the reciprocal granting of tariff preferences, whereas others are deeper, since they include commitments of a regulatory kind in different fields (investments, intellectual property, the resolution of disputes, etc.).

The WTO estimates that nearly half of global flows of trade take place among countries which have established preferential trade agreements[4] with each other. This high percentage reflects the number and growing importance of the regional agreements which currently exist, although it sets forth a qualification by stating that only 16% is really preferential trade, because a high percentage of most favored nation (MFN) tariffs are set at zero[5]. This aggregate analysis, however, does not take into account the specific characteristics of nations nor the fact that the aspects the agreements regulate are not only related to tariffs. In South America, for example, Chile has

1 There is no single terminology to designate trade agreements signed by countries outside of the WTO. The classic distinction between free trade agreements and customs unions -- which is also seen in Article XXIV of the GATT, 1994 – has given way to a rather vague terminology which tries to describe the dissimilar contents of a wide range of agreements. This terminology tends to distinguish those agreements from multilateral agreements, hence the indiscriminate use of expressions like “regional” or “inter-regional” or “intra-regional” or “preferential” agreements, the latter being widely used in the WTO´s latest annual report to refer to trade agreements signed outside of the multilateral ambit.

2 WTO, World Trade Report 2011, The WTO and preferential trade agreements: from co-existence to coherence, 2011

3 Lawrence, R.Z., Regionalism, Multilateralism and Deeper Integration, Washington, DC: Brooking Institution, 2006.

4 WTO, op.cit., pp. 65-66, Tables B.6 and B.7.

5 To reach these estimates, the report takes into account the imports made by 20 countries which, taken together, were responsible for 90% of global imports in 2008. According to the report, the fact that half of world trade does not pay tariffs (the MFN tariff is zero) and that the most protected products are excluded from many “preferential” agreements means that the corresponding rate of preferential trade is very low, that is, 16%. In this estimate, the European Union, the most preferential of all preferential agreements, is regarded as a single country.

finalized trade agreements with practically all of its trading partners and Peru is advancing a similar strategy. For those countries, therefore, their preferential trade agreements regulate practically the whole of their foreign trade. The global trends described in the WTO report are also found in the trade agreements signed in Latin America.

According to the WTO, the countries of South America have signed a total of 65 trade agreements, of which 54 have been negotiated with other developing countries, within and outside of the region, and 11 with developed countries[6]. According to the study, 15 of the existing trade agreements have been negotiated with Asian countries, most of them quite recently, and this shows the importance which those countries have attained in regional trade. The number of agreements recorded by the WTO are those which are reported to that body, so the figure may differ from the ones recorded by other entities, like the Inter-American Development Bank (BID[7], in its Spanish initials) or ALADI.

Tables 1 and 2 make use of diverse sources, and include trade agreements signed by the countries of South America among themselves (Table 1) and with third-party countries (Table 2). As we have stated, there is a broad fabric of bilateral and pluri-lateral agreements among the South American countries, which, in some cases, seek the establishment of customs unions, and, in others, the liberalization of all or nearly all of reciprocal trade. Generally but not exclusively, these agreements have been signed within the framework of ALADI (see Table 1), whose founding agreement -- the 1980 Treaty of Montevideo – allows its member countries an ample discretionary power in the management of their reciprocal trade relations[8]. Thus, the Mercosur is the result of an Agreement for Economic Complementation (ACE 18) signed within the framework of ALADI, while the Andean Community has no formal link with the latter, even though the Andean Community is likewise an agreement for economic integration among a group of member countries of ALADI (currently, Bolivia, Colombia, Ecuador and Peru), which have signed trade agreements with practically all of the States which belong to ALADI. The "pluri-lateral" trade agreements which link the countries of the Mercosur with the Andean countries and Chile have also been signed within the framework of ALADI.

By the same token, the network of trade agreements signed by South American States with countries outside of the region, both developing and developed ones, is very broad. Nevertheless, the situation varies in accordance with the case of each nation. Colombia, Chile and Peru are the only ones in the sub-region which have signed trade agreements with third-party countries (see Table 2). In this group, Chile has been the most active, although Peru too has developed a very aggressive policy of negotiating FTAs. In the case of Mercosur, its members have rejected

6 WTO, op.cit., Table B.1., p. 57

7 Inter-American Development Bank (IDB): http//iadb.org/dataintal/Default.aspx.

8 The current member countries of the ALADI are Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela.

TABLE 1. TRADE AGREEMENTS BETWEEN THE COUNTRIES OF SOUTH AMERICA

	Merco	Bol	Chile	Col	Ecu	Perú	Ven
Mercosur	ACE 18 *	ACE 36	ACE 35	ACE 59	ACE 59	ACE 58	
Bolivia	ACE 36		ACE 22	CAN **	CAN **	CAN **	
Chile	ACE 35	ACE 22		ACE 24	ACE 65	ACE 38	ACE 23
Colombia	ACE 59	CAN **	ACE 24		CAN **	CAN **	
Ecuador	ACE 59	CAN **	ACE 65	CAN **		CAN **	
Perú	ACE 58	CAN **	ACE 38	CAN **	CAN **		
Venezuela	***		ACE 23				

*The ACE 18 is the legal instrument by which Mercosur was established in 1991.

** The Andean Community of Nations (CAN, in its Spanish initials), was established in 1967 and initially known as the Andean Sub-regional Integration Agreement or, simply the Andean Pact. It originally had six members: Bolivia, Colombia, Chile, Ecuador, Peru and Venezuela. Chile withdrew in 1974 and Venezuela renounced the agreement in 2006.

*** Venezuela has been marginalizing itself from trade agreements with the countries of the region. Since it withdrew from the CAN, it has signed preferential agreements with its member countries, bilaterally negotiated and not subject to any institutional discipline. Its membership in Mercosur has not yet come about and although it formed part of the ACE 59, negotiated by Colombia, Ecuador and Venezuela with the countries of Mercosur, it withdrew from it, supposedly to give more coherence to its plan to enter Mercosur. As a result of this situation, the only trade agreement of a certain significance which Venezuela maintains is with Chile, signed in 1991 within the framework of the ALADI.

bilateral negotiations and have decided that they should be undertaken by the group as whole. The bloc has signed preferential agreements with Israel, Egypt and the Palestinian Authority, and is currently negotiating a trade agreement with the European Union and several Middle Eastern countries.

The trade agreements of the Latin American countries also reflect global trends with regard to the typology of these agreements. Some (the majority) are bilateral and these include the FTAs – which have a very comprehensive scope and set of norms – signed by Peru, Colombia and Chile with the United States and the European Union; and the bilateral agreements signed with Asian countries, especially by Chile and Peru, which have a more limited scope with regard to regulatory commitments but are very ambitious with regard to their levels of opening trade and eliminating tariffs. These agreements also have a strong potential, given the economic dynamism of this region. Other agreements are "pluri-lateral", like the Trans-Pacific Strategic Economic Partnership Agreement (P-4), negotiated by Chile, New Zealand, Brunei Darussalam and Singapore, which is now being broadened to include other countries, including the United States, within the framework of the negotiations for the Trans-Pacific Partnership Agreement (TPP).

The difference between bilateral and pluri-lateral agreements is seen in the agreements among the countries of South America. From this standpoint, Mercosur´s agreements with other ALADI countries (Chile and the Andean countries) would be pluri-lateral ones, while Chile´s agreements with the ALADI countries outside of Mercosur are bilateral ones.

TABLE 2. TRADE AGREEMENTS BETWEEN SOUTH AMERICAN COUNTRIES AND THIRD-PARTIES

	Chile	Colombia	Perú	Mercosur
AELC*	X	X	X	
Canada	X	X	X	
European Union	X	X	X	Under negotiation
United States	X	X	X	
Korea	X	X	X	
Turkey	X	X		
China	X		X	
P-4	X			
Japan	X		X	
Australia	X			
Vietnam	X			
Thailand	Under negotiation		X	
TPP	Under negotiation		Under negotiation	
Singapore	X		X	
Malaysia	X			
Israel				X
Egypt				X
Palestinian Aut.				X

* European Free Trade Association

Many agreements are intra-regional ones (among the countries of Latin America) but many others are also inter-regional (they include countries from other continents, like the P-4 and the bilateral agreements signed by Chile and Peru with countries like Japan, China, Australia and others). Also, as in the rest of the world, the contents of the region´s trade agreements vary. In general, the agreements among countries of the region, with the exception of Mercosur and the CAN, may be regarded as shallow ones, insofar as they only cover the liberalization of the tariff universe, with exclusions, or are limited to the reciprocal granting of a small number of trade preferences, but do not go very far in regulatory matters. By contrast, with the countries outside of the region, the agreements of the South American countries are more ambitious and include important (deep) regulatory commitments, especially the agreements signed with the United States or the European Union.

To sum up, the sub-region of South America lacks a common approach in its trade agreements with third-party countries, due to the differences in their economic strategies and policies. Thus, it should not surprise us that the countries which are most active in the negotiation of trade agreements are also the ones whose economies are most open to trade and investments (like Colombia, Chile and Peru), nor that the countries which reject these kinds of negotiations – by virtue of their governing economic model – are also the ones which carry out more protectionist policies and favor the internal market and protection of local industry over access to external markets (as in the case of Bolivia, Ecuador and Venezuela). In an intermediate position we find the countries of Mercosur, since, while they apply policies to open up their economies, their interest in conserving their Tariff Union and protecting their enlarged market has been a decisive factor in their strategy for trade negotiations, especially due to the influence Brazil exerts on this grouping.

Trade agreements between the countries of South America

The trade agreements among the countries of South America have traditionally been linked, as is natural, to their efforts at economic integration, which have been a constant feature of their economic policies since the middle of the previous century. In 1961, the Latin American Free Trade Association (ALALC, in its Spanish initials) was established and in 1980 it was replaced by the Latin American Integration Association (ALADI). In 1967, the Andean Sub-regional Integration Agreement -- better known as the Andean Pact – was negotiated, a customs union initially made up of Bolivia, Colombia, Chile, Peru, Ecuador and Venezuela. In 1991, the Mercosur was established, a customs union made up of Argentina, Brazil, Paraguay and Uruguay, in the same period that the Andean Pact was reactivated and modernized, and transformed into the Andean Community of Nations. The main driving force of the process of regional integration from the mid-1990´s onwards was focused on the policies for opening up their economies undertaken by almost all of the Latin American countries in order to confront their foreign debt problems. These policies quickly facilitated the liberalization of foreign trade within the CAN and Mercosur, stimulated reciprocal trade – although important fluctuations in that trade have recently occurred – and have served as the basis for the establishment of free trade agreements within and outside of the region.

In recent years, "commercial" integration among the countries of Latin America has become a matter of secondary importance. Although the mechanisms for integration and cooperation among the countries of Latin America have proliferated, they are the kind which are more oriented towards political relations, with a meager interference, let alone interest in economic and/or commercial matters. The summit meetings of the Union of South American Nations (Unasur, in its Spanish initials), the ALBA (the Spanish initials for the Bolivarian Alliance for the Peoples of Our America, also known as the Peoples´ Trade Treaty), the Rio Group and others normally conclude by establishing new parameters for the process of regional agreement -- like the recent launching of the Community of Latin American and Caribbean States (CELAC, in its Spanish initials).[9] At those events little mention is made of commercial matters and regional strategies for the liberalization or deepening of trade. Perhaps one exception is the resolution adopted by the ALADI ministers in 2004, following a prior Unasur decision to advance towards the establishment of a Free Trade Area among the countries of the ALADI. However, this decision has not yet been fully implemented.

The CAN and the Mercosur are the only schemes for economic integration which exist in South America and although both have recently gone through very difficult stages – Venezuela´s exit from the CAN; the tensions between Brazil and Argentina and between Uruguay and Argentina; and the most recent impasse involving Paraguay and Mercosur – their member countries continue to grant them a great importance, especially in the case of Mercosur. Beyond these schemes of integration, among its members and other countries of the region, there is a very broad fabric of trade agreements. This has mainly taken place within the framework of the ALADI, whose legal system facilitates and stimulates the establishment of preferential agreements among its member countries. The ALADI offers a wide range of possibilities to its member countries for the reciprocal granting of trade advantages, ones which they have taken a broad advantage of. In fact, the 1980 Montevideo Treaty establishes two main schemes for agreements among the members of the ALADI: agreements of a "regional" scope (which involve all of the countries) and agreement of a "partial" scope (signed between two or more member countries). Within these two modalities there are several categories of agreements, like the Regional Tariff Preference and Lists of Access to Markets (which favor the less developed countries of the ALADI: Bolivia, Ecuador and Paraguay) in the case of the agreements of a regional scope; and the Economic Complementation Agreements in the case of the agreements of a partial scope.

According to the Secretariat of the ALADI, a total of 214 trade agreements have been signed among its members since the 1980 Montevideo Treaty came into force[10]: some are of a regional scope and most are bilateral agreements. Many of these agreements are no longer in force or have been subsumed in more ambitious ones. Most included tariff preferences for a small number of products and did not aim at the elimination of tariffs, but the granting of preferential margins on existing tariffs. As we have said, the most ambitious are the ones known as Economic Complementation Agreements (ACEs, in their Spanish initials), of which 58 are currently in force, but not all of them have the same economic importance and their contents vary a great deal. The most significant Complementation Agreements began to be negotiated in the 1990´s and in contrast with other trade agreements signed within the framework of ALADI, most of them aim at the gradual elimination of tariffs in reciprocal trade and some have a more advanced treatment of subjects like services, investments and intellectual property, among others.

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9 The CELAC was created at the 2nd American and Caribbean Summit on Integration and Development (CALC), held at Cancún, Mexico on February 22-23, 2010 and led to a summit meeting held in Caracas in December, 2011.
10 ALADI, *Evolución del Comercio Negociado*, 1993-2010, ALADI/SEC/Study 200, December 23, 2011.

TABLE 3. NUMBER OF ITEMS LIBERATED IN 2010[11]

Beneficiaries

Grantors

	Arg	Bra	Par	Uru	Chi	Bol	Col	Ecu	Per	Ven	Mex	Cub	Avera
Argentina		6546	6124	6146	6411	6325	1775	1866	1535	1679	1418	347	3652
Brazil	6545		6135	6146	6411	6325	3964	2655	2368	2658	487	1019	3974
Paraguay	6123	6123		6123	6411	6325	1006	1058	1007	1083	104	373	3249
Uruguay	6443	6443	6111		6411	6325	1566	834	4234	827	5701	397	4117
Chile	6398	6398	6398	6398		6543	6329	6320	6250	6301	6453	393	5835
Bolivia	6019	6019	6019	6019	400		6550	6550	6550	6550	6339	200	5201
Colombia	1015	2659	2351	2582	6263	6550		6550	6550	6550	6015	488	4325
Ecuador	1672	1745	1240	1476	6319	6550	6550		6550	6550	81	262	3545
Peru	706	677	585	3866	6248	6550	6550	6550		6550	126	120	3503
Venezuela	1209	1671	1633	1252	6300	6550	6550	6550	6550		27	201	3499
Mexico	1599	490	1222	6043	6457	6334	6014	144	164	27		28	2593
Cuba	1217	1768	515	394	992	190	495	476	145	354	45		599
Average	3541	3685	3485	4222	5329	5870	4214	3596	3809	3557	2436	348	

The coloring indicates whether the degree of liberation is less than 50% (dark), between 50% and 90% (light) or 100% (white).

Source: compiled by the General Secretariat of the ALADI on the basis of the commitments assumed up to May, 2008.

These ACEs, which the Secretariat of the ALADI also calls Free Trade Agreements are those which, along with the CAN, have been included in Table 1. They include the agreements signed among the members of the Mercosur among themselves (ACE 36), and with Chile (ACE 35), Bolivia (ACE 36), Colombia and Ecuador (ACE 59) and Peru (ACE 58); and the agreements signed by Chile with Bolivia (ACE 22), Colombia (ACE 24), Ecuador (ACE 65), Peru (ACE 38) and Venezuela (ACE 23). These ACEs and the CAN have been the main stimulants for the liberalization of intra-regional trade in recent times. All of them have led to the elimination of tariffs in reciprocal trade or, in the case of the most recent, they are on the way to doing that, as can be seen in Table 3, which

10 This table registers the NALADISA 2002 items, that is, in accordance with the nomenclature of the ALADI. For Mexico and Cuba, the original source was used.

shows, in terms of the bilateral relation, the percentage of items freed by virtue of the existing agreements. The exception to these observations is Venezuela -- the country which withdrew from the Group of 3 (which had joined it to Mexico and Colombia) and the CAN, and recently applied for membership in Mercosur – which is in the process of adjusting its agreements with the members of both integration schemes[12]. The member countries of the CAN, for their part, have signed ACEs with all the other members of ALADI, but not among themselves, because they are linked by their own agreements under the CAN.

In short, it may be said that the trade among the countries of South America is generally free of tariff obstacles. Within the Mercosur and the CAN there are free trade zones, with very few exceptions, and the programs for dismantling tariffs foreseen in the ACEs signed by Chile with Mercosur, the countries of the CAN and Venezuela, respectively, have been finalized, leaving very few products outside of the schemes for liberalizing trade. Finally, with regard to ACEs number 58 and 59, signed by Peru, Colombia and Ecuador with the Mercosur countries, they are the most recent and thus the timetable for dismantling tariffs is still in its early stages. One way of looking at this process for liberalizing intra-regional trade is shown in Graph 1, which displays the total number of items with a zero tariff in intra-ALADI trade.

While a little more than 20% of regional trade was free of tariffs in the mid-1990´s (the blue line), by 2010 this percentage rose to nearly 60%, and if the trade among the ALADI countries linked by the more advanced ACEs is taken on its own, this percentage currently rises to more than 70% (the red line).

Graph 2, for its part, shows the relationship between all of the exchanges among the ALADI countries and their "preferential" trade, that is, the kind that takes advantage of the concessions negotiated in the framework of the agreements. According to this graph, the amount of regional trade which benefited from the tariff preferences negotiated under the agreements was USD 97.8 billion in 2010, which amounts to more than 77% of total inter-regional trade, and between 2004 and 2008, grew at a cumulative annual rate of 24.4%, then fell in 2009 due to the effects of the international economic crisis and significantly rose again, to 35%, in 2010.

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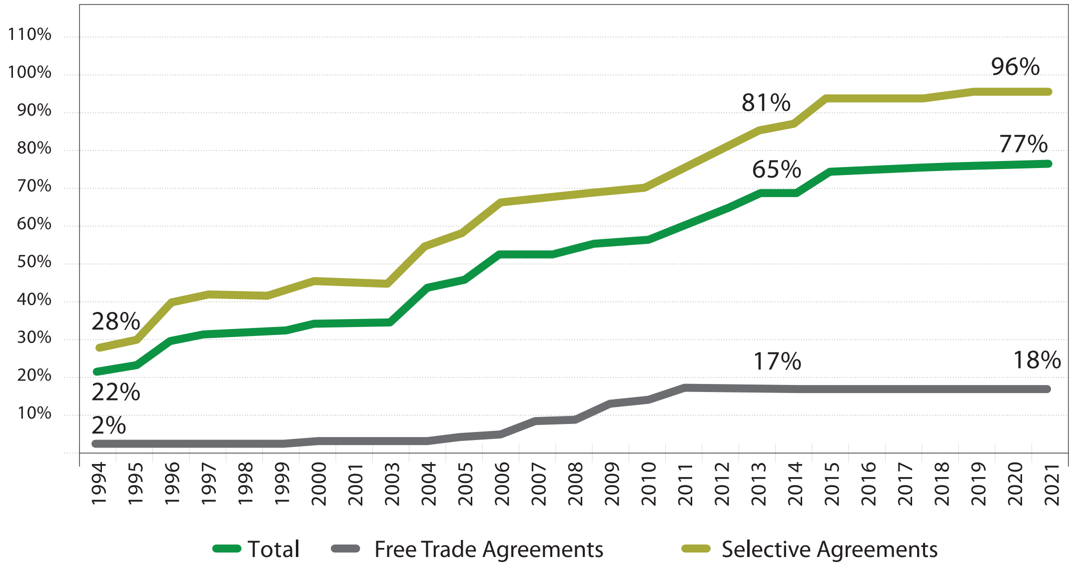
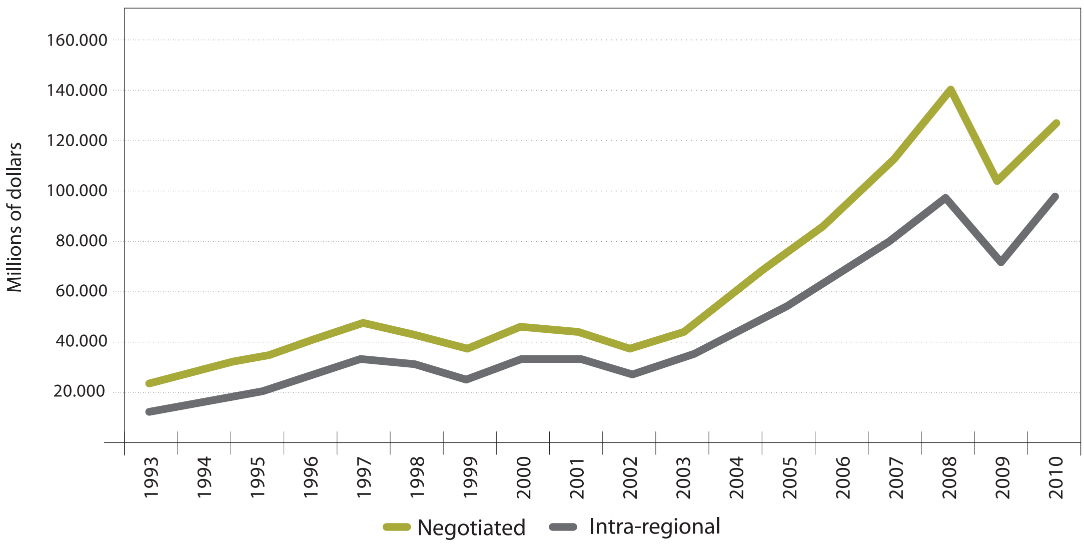
12 During a period of five years, from the time Venezuela withdrew from the CAN, the trade commitments it assumed in the framework of that integration scheme remained in force. That ended in 2011, and since then Venezuela´s trade relations with its former CAN partners have been based on bilateral agreements whose content is not very transparent. As for its relations with Mercosur, in 2011 Venezuela withdrew from ACE 59, which it had signed with Mercosur along with Colombia and Ecuador in expectation of its full entry into that regional bloc.

GRAPH 1. ALADI: EVOLUTION OF ITEMS LIBERATED IN INTRA-REGIONAL TRADE



Source: ALADI

GRAPH 2. EVOLUTION OF PREFERENTIAL TRADE AMONG THE ALADI COUNTRIES



Source: ALADI

Colombia´s regional agreements

Colombia counts upon numerous trade agreements within the region. It is an active member of the Andean Community (CAN) and in the framework of the Latin American Integration Association (ALADI), has finalized trade agreements with Chile, Mexico and the countries of Mercosur, and, on a regional level, it has agreements, currently in force, with the Caribbean Community (CARICOM) and with several countries of the Central American Common Market (MCCA, in its Spanish initials).

The latter two are agreements initially based on unilateral trade preferences granted by Colombia, but, in some cases, the latter also receives trade preferences from some of the members of those integration schemes.

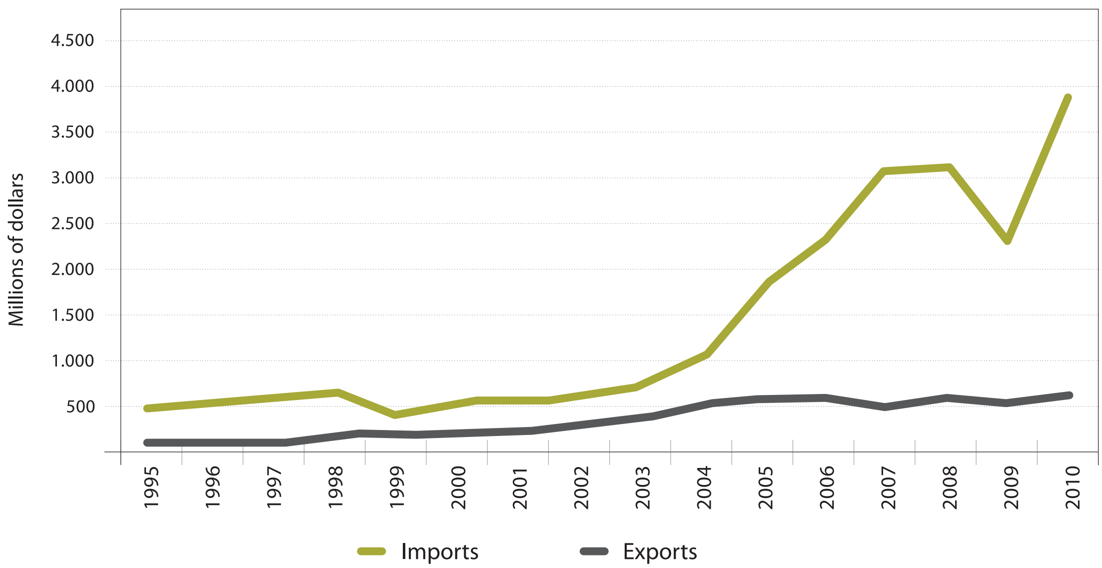
The agreement signed between Colombia and Mexico, which was initially known as the Group of Three (G-3)[13], deserves a special mention, since this is one of the most ambitious agreements among the countries of Latin America in terms of its framework of norms, inspired by the NAFTA, and in that sense, was the first agreement signed among developing countries which included an ample development of those normative aspects. The agreement aims not only at the liberalization of the trade of goods, but also commitments in the field of services, including temporary visas for businessmen, and norms on the treatment of investments and intellectual property, as well as regulations directly linked to trade, like anti-dumping rights, sanitary and phytosanitary matters, technical norms and others.

The G-3 was initially signed by Colombia, Mexico and Venezuela, and while the latter country withdrew from the agreement in 2006, it is still in force between Colombia and Mexico. The G-3 is a free trade agreement in which tariffs and non-tariff restrictions were eliminated from the tariff universe over a ten year period (1995-2005), with exception of some products from the agricultural sector. The automotive sector was initially excluded from the agreement but it was included in 2006. At the current time, more than 90% of the tariff universe has been liberated and the trade between Mexico and Colombia has shown a rather positive performance, as can be seen in Graph 3, which shows the evolution of bilateral trade between 1995 and 2010. Although Colombian exports to Mexico have slightly risen during the period, Colombian imports of Mexican goods have had a very significant growth, rising from barely USD 500 million at the beginning of the period to nearly USD 4 billion in 2010.

Colombia and Chile, for their part, signed a free trade agreement on November 27, 2007, which came into force in 2009. This agreement is an additional protocol to the Economic Complementation Agreement (ACE 24) established by the two countries in 1993 within the

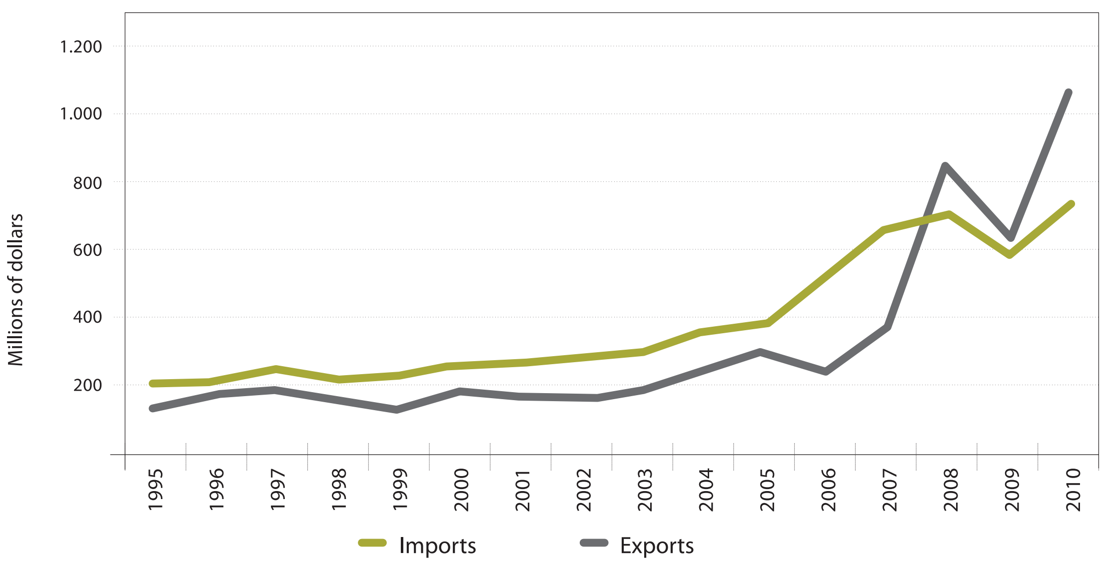
13 It initially included Venezuela.

GRAPH 3. EVOLUTION OF TRADE, COLOMBIA-MEXICO, 1995-2010



Source: ALADI

GRAPH 4. EVOLUTION OF TRADE, COLOMBIA-CHILE , 1995-2010



Source: ALADI

framework of the ALADI, and incorporates the essential features of the program for liberation found in that ACE. When the agreement came into force on May 8, 2009, the fundamental aspects of reciprocal trade were freed from tariffs and other restrictions on trade (93.9% of the tariff lines of Colombia and 97.8% of those of Chile), and the rest, with a handful of exceptions, were incorporated into the liberation program established on January 1, 2012.

The Free Trade Agreement between Colombia and Chile complements ACE number 24, incorporating a series of commitments not found in the latter: the opening of the services sector, technical standards, sanitary and phytosanitary measures, safeguards, anti-dumping and compensatory rights, among others, which usually employ the corresponding WTO agreements as guidelines. They also include "WTO-Plus"[14] subjects, like government procurements, the easing of trade, and labor and environmental matters, with commitments very similar to those which each country had previously incorporated into its respective agreements with the United States, the wordings of which were the basis of the new treaty between the two countries. Subjects related to the promotion and protection of investments were covered by a separate treaty which the two countries signed in the year 2,000. It is interesting to note that the essential features of the liberation of the trade in goods between the two countries followed the outlines of the initial ACE 24, which confirms what was stated above, insofar as it underlines how the agreements established under the ALADI scheme are an important driving force for the liberalization of trade among its members. The evolution of the trade between Colombia and Chile since the ACE 24 came into force is shown in Graph 4. It shows the significant growth of reciprocal trade during the period the agreement has been into force, when total bilateral flows rose from nearly USD 350 million in 1995 to more than USD 1.8 billion in 2010.

The G-3 and the Free Trade Agreement with Chile are representative of the new generation of agreements established among countries of the region and show the wish of those countries to advance in the liberalization of regional trade. Colombia also has free trade agreements with the countries of what is known as the Northern Triangle of Central America (Guatemala, Honduras and El Salvador), which came into force between 2009 and 2010, and other trade agreements of a more limited scope, since they only include a given number of tariff lines, with the countries of the Caribbean Community, on the one hand, and Cuba, on the other.

Chile´s regional agreements

In the regional ambit, Chile has negotiated preferential trade agreements within the framework of the ALADI and outside of it. Some of these are Free Trade Agreements, like the ones signed with Mercosur, Peru, Colombia, the member countries of the Central American Common Market and Panama, and others only aim at the granting of reciprocal preferences, as in the

14 A set of matters or subjects which go beyond the obligations of the WTO agreements and now form part of the agenda of multilateral negotiations. The term is also used to describe a trade agreement, with an ambitious degree of commitments, which includes these subjects.

TABLE 4. CHILE´S MAIN TRADING PARTNERS, 2010

Exports	%	Imports	%
China	23,2	United States	16,8
European Union	18	European Union	15,5
United States	11,3	China	11,8
Japan	9,2	Argentina	10,9
Korea	5,8	Brazil	6,7
Others	3,4	Others	10,8

Source: WTO, Trade Profiles

case of the agreements with Bolivia, Ecuador and Venezuela. There is no doubt about Chile´s active approach to free trade agreements. Most of these agreements are ambitious and "WTO-Plus": they aim at the elimination of restrictions on the whole of reciprocal trade – with a few exceptions – and commitments on matters like investment policy, intellectual property and other areas. Although Chile has trade agreements with practically all Latin American countries, its trade relations outside of the region (especially in Asia) are where it has been particularly active, as is discussed in the following section of this study.

As we have noted, Chile and the countries of the Mercosur signed the ACE 35, which has led to the establishment of a free trade area among the parties. In the mid-1990´s, when its democratic system was reestablished, Chile, on examining its relations with Mercosur, wondered whether to join the agreement established between Argentina, Brazil, Uruguay and Paraguay – which, taken as a whole, were then its main trade partners – or sign a broad trade agreement that would regulate and enlarge its reciprocal relations. It chose the second option, because, among other reasons, it did not want its freedom of action with other trade partners to be limited, nor adopt the tariff guidelines of the Mercosur (which were staggered, by sections) and abandon the single tariff scheme which it had been applying for several years. This led to the signing of the most ambitious Economic Complementation Agreement (ACE 35) signed in the ambit of the ALADI up to then. It was the first free trade agreement signed among a group of Latin American countries and decreed the elimination of tariffs on the trade of goods which would begin to be implemented at the beginning of 2006 and finalize on January 1, 2012 for the essential aspects of reciprocal trade. Meanwhile, Chile and Mercosur have signed a complementary agreement on the trade of services and opened negotiations for an agreement on investments.

Although Mercosur is no longer so important as a destination for Chilean exports, which are more and more oriented towards Asia – China is now its main market and Japan and Korea the fourth and fifth destination of its exports, respectively – two of its member countries – Brazil and

Argentina, taken together-- are the main source of its imports (see Table 4) and since the signing of the agreement, the total value of bilateral trade has not ceased to rise at very significant rates. However, Chile´s bilateral trade registers an important deficit, caused by its imports from Brazil, for the main part, and to a lesser extent, from Argentina. It is worth underlining that this trade deficit is not due to a lack of dynamism in Chilean exports since the signing of the treaty, since they have grown at an annual average of 37% since 2003, while the average rate for the growth of its imports has been 12% annually, but the marked differences between imports and exports that already existed when the agreement was signed. Whereas the total exchange more than doubled between 2003 and 2008, Chile´s trade deficit with Mercosur increased by a much smaller percentage. What has also changed is the importance of Mercosur as a destination for Chilean exports, since, at the time the agreement was signed, it was its main export market, and now, by virtue of the enormous market diversification which Chilean trade has accomplished, Mercosur no longer has that status.

It is worth noting that in July, 2002, Mexico and the countries of Mercosur signed a framework agreement whose purpose was to create a Free Trade Area. A month later, Mexico and Uruguay began negotiations for a Free Trade Agreement, based on the conditions and tariff preferences that were in force under the ALADI Economic Complementation Agreement number 5 (ACE 5). The Treaty was signed on November 15, 2003, in the course of the 13th Ibero-American Summit, held at Santa Cruz de la Sierra, Bolivia, and began operating on July 15, 2004. In general terms, the agreement decrees the liberalization of practically all industrial products and many agricultural ones, and also has a broad regulatory coverage.

Agreements with third-party countries

Colombia, Chile and Peru have been responsible for nearly all of the free trade treaties signed between South American and third-party countries, whether developed or developing. They have signed treaties with their main commercial partners and an important share of their trade, especially in the case of Chile and Peru, is done with nations with which they have free trade or preferential treaties. In addition, they are the only ones in the sub-region which have negotiated a Free Trade Treaty with the United States and the European Union, and at the current time they are broadening and/or deepening their trade links with Asiatic States.

Colombia

Outside of the region, Colombia has signed several free trade agreements with industrialized countries. Its agreements with Canada, the countries of the European Free Trade Association and the United States are now in force and its agreement with the European Union is about to begin operations. The negotiations which are now underway include agreements with Korea, Turkey and Israel (see Table 5). Its agreement with Canada, which has been in force since August, 2011, aims at the liberalization of the trade of merchandise and specific commitments in the field of

TABLE 5. COLOMBIA´S FREE TRADE AGREEMENTS (FTAS)

	Signed	Came into force	Reported to WTO
Canada	21 Nov 2008	15 Ago 2011	07 Oct 2011
United States	22 Nov 2006	Being processed	16 Dec 2003
Korea	Under negotiation		
European Union	23 Mar 2011	(june 2012)	
EFTA*	25 Nov 2008	01 Jul 2011	14 Sep 2011
Turkey	Under negotiation		
Israel	Under negotiation		

*European Free Trade Association. Includes Iceland, Norway, Switzerland and Liechtenstein

the treatment of investments, the trade of services and labor and environmental protection. Similar themes were covered in the agreement with the European Free Trade Association, in line with the signing of "new generation" agreements with ambitious scopes and complex sets of norms, which have become part of Colombia´s strategy for gaining access to and enlarging its external markets.

The two agreements with the greatest economic importance signed by Colombia are the treaties with the United States and the European Union. The United States is Colombia´s main trading partner and the negotiations naturally aroused a great deal of interest among its productive sectors and, of course, the Colombian government, which regarded this agreement as a fundamental aspect of its strategy to strengthen its links with the United States and give a firmer foundation to the latter´s support for its policy of citizens security. For the United States, however, political interests were given a priority over economic considerations – which were certainly less important to that country than Colombia – and it took a time for the negotiations of the Free Trade Treaty to overcome the obstacles found in the U.S. Congress, where the Democratic Party and especially, the groups representing labor unions and human rights activists, were opposed to this treaty, citing the lack of security and legal and citizens protection afforded to Colombian trade union leaders. Due to this opposition, the Free Trade Treaty with the United States, whose negotiations were assumed to have concluded in November, 2006, has still not come into force. The U.S. Congress approved it in 2011, but it is still in a process of implementation which requires normative and institutional adjustments, due to the high level of acquired commitments.

In 2010, 43.1% of Colombian exports were destined for the U.S. market and that market, in turn, is the source of 25.9% of its imports (see Table 6), hence the importance for Colombia of the negotiation of a Free Trade Agreement with the United States.

TABLE 6. COLOMBIA´S MAIN TRADING PARTNERS, 2010

Exports	%	Imports	%
United States	43,1	United States	25,9
European Union	12,6	European Union	14
China	4,9	China	13,5
Ecuador	4,6	Mexico	9,5
Venezuela	3,6	Brazil	5,8

Source: WTO, Trade Profiles

TABLE 7. LIBERALIZATION PROGRAMS IN COLOMBIAN AGREEMENTS

	Percentage (%) of tariff lines											Exclu.		
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total	Items	%
Colombia to US*	75,9					6,8		0,2			17,1	100	0	0
US to Colombia*	99,6										0,2	100	0	**0**

* Only tariffs in the industrial and textiles sector. The agricultural sector is subject to different schemes of tariff dismantling and will complete its timetable over a period of between 12 to 15 years.

Source: US International Trade Commission

With the exception of sugar, the free trade agreement between Colombia and the United States foresees the complete elimination of tariffs in their reciprocal trade. At the start of the agreement, Colombia will eliminate 76% of its tariffs in the industrial and textile sectors, and 77% of its agricultural tariffs. In the case of the United States, most of its tariffs in the industrial and textiles sectors will be eliminated at the start of the agreement (99%), while the elimination of its agricultural tariffs will be on the order of 89%. The rest of the tariff universe will be eliminated over a period of ten years, with some exceptions for products regarded as sensitive, for which the period will be 19 years.

It is worth underlining, however, that most Colombian exports to the United States are already free of tariffs by virtue of several previous preferential schemes in the latter country. Of those schemes, the most important for Colombia has been the ATPDEA (the Andean Trade Promotion and Drug Eradication Act), which, in the year 2,000, replaced and widened the benefits found in the ATPA (the Andean Trade Preference Act). In addition to liberalizing the trade of goods, the agreement includes commitments in the areas of the trade of services, customs regulations, technical barriers to trade, electronic commerce and regulatory matters like investments, government procurements, competition policy, labor and environmental affairs, intellectual property and the resolution of disputes.

A more recent agreement is the one Colombia signed with the European Union. Although it took a long time to finalize the negotiations and they ran into quite a few obstacles -- especially, in the first place, because of the EU´s insistence on negotiating en bloc with the Andean Community (CAN) and then, because of the withdrawal from the negotiations of Bolivia and Ecuador – the agreement between Colombia (and Peru) and the EU was signed by the three countries in March, 2011. Although it has already been revised and approved by legal experts, it has still not come into force, since it has first to be translated into all the languages of the European Union. Just like the agreement with the United States, it is very important for Colombia: the European Union is its second trading partner and, as can be seen in Table 6, in 2010, 12.6% of Colombian exports and 14% of its foreign purchases were done with the community market.

When it enters into force, the agreement with the European Union will eliminate European tariffs on 99% of Colombian products. Although most of these products already benefited from prior preferential programs, these kinds of preferences, which were granted unilaterally, are of a temporary nature (in the case of the EU they only remain in force until the year 2015) and they are relatively unstable, since they may be withdrawn at any time. Thus, the treatment gives stability to the customs-free entrance of Colombian products into the European market. One aspect of the agreement with the European Market which is of particular interest to Colombia is the understanding reached on the commerce of bananas, which stipulates that charges on Colombian banana exports will be lower than those found in a 2008 WTO agreement established between the European Union and the producer/exporter countries (the tariff on European imports of bananas is currently 176 Euros per metric ton and will be gradually reduced to 75 Euros by 2020, a lower amount than the 114 Euros foreseen in the WTO agreement).

To summarize, Colombia counts on four Free Trade Agreements with industrialized countries (two of which are still not in force). These agreements are similar insofar as they put the liberation of reciprocal trade into practice, and contain a complex set of norms which include numerous matters like the treatment of foreign investments, intellectual property, government procurements and labor and environmental matters. Some of these matters are not regulated on a multilateral level, which means that the commitments bilaterally assumed by Colombia and its partners in these agreements are, as it is known in international parlance, "WTO-Plus" and since these commitments apply to a number of regimes, many apply to every agent, regardless of its nationality. From the standpoint of negotiations with other countries, once strong commitments in these fields were agreed on with the United States, it eased the negotiation of other agreements.

Chile

The case of Chile is special in many ways. Its strategy for negotiating free trade agreements began in the middle of the 1990´s, when it negotiated its first trade agreement outside of the Latin American region with Canada, and that trend became more pronounced at the beginning of the following decade, when it negotiated an Economic Association Agreement with the European Union in 2002, and a short while later, signed a Free Trade Agreement with the United States, in 2003, which is similar in its scope and objectives to the NAFTA[15]. Chile was the first country in South America to negotiate a Free Trade Treaty with the United States and with the European Union. Since then, it has implemented this strategy with more and more firmness and by now, it has signed free trade agreements with all of its trading partners, within and outside of the region (Table 8).

Another aspect which places Chile in a league of its own is its pioneering negotiation of trade agreements with Asian countries. As can be seen in Table 8, these agreements include Free Trade Agreements with Korea (2003), China (2004), the P-4 trade bloc (2005)[16], Japan (2007), Malaysia (2010) and Vietnam (2011). Chile is also negotiating the widening of the P-4 in the Trans-Pacific Partnership (TPP)[17] and a Free Trade Agreement with Thailand. Other agreements outside of the region include those with countries of the European Free Trade Association, signed in 2003, and with Australia (2008) and Turkey (2009). Finally, as a result of these agreements, almost all of its foreign commerce is undertaken within the framework of preferential trade agreements. According to the WTO, by the middle of 2009, Chile counted on 21 trade agreements involving 57 countries and 92% of its trade was carried out with these trading partners[18]. In the following part of this section, we mainly discuss the agreement signed by Chile with some of its main trading partners, like the United States, the European Union, Japan and Australia, as well as its agreement with China, the latter being perhaps the least ambitious in terms of its objectives, but nevertheless important for being one of the first agreements signed by a Latin American country with the Asian giant.

Chile speeded up its negotiation of a Free Trade Agreement with the United States when its negotiations for the Free Trade Area of the Americas (ALCA, in its Spanish initials) ran into difficulties, and the agreement was signed in 2003. As we have indicated, this agreement follows the guidelines of the NAFTA and foresees numerous "WTO-Plus" commitments: the essential aspects of reciprocal trade have been freed of tariffs and other measures, since when the agreement entered into force, the United States consolidated the trade preferences which it granted to Chile under the Generalized System of Preferences (GSP). The agreement came into force in 2004 and since then the United States has eliminated tariffs on 95.5% of its tariff

15 After Mexico, of course, which signed the NAFTA with the United States and Canada, has served as a model for all the agreements signed by Latin American countries with the United States, including those of Colombia, Chile and Peru.
16 Trans-Pacific Strategic Economic Agreement.
17 Trans-Pacific Partnership Agreement.
18 WTO, Trade Policy Review, Chile, Report by the Secretariat, November 5, 2009, WT/TPR/S/220/Rev.1.

TABLE 8. CHILE´S FREE TRADE AGREEMENTS

	Signed	Came into force	Reported to WTO
China	18/11/2005	01/10/2006	20/06/2007
United States	06/06/2003	01/01/2004	16/12/2003
Korea	15/02/2003	01/04/2004	08/04/2004
P-4*	18/07/2005	08/11/2006	18/05/2007
European Union	18/11/2002	01/02/2003	03/02/2004
Australia	30/07/2008	06/03/2009	03/03/2009
EFTA**	26/07/2003	01/12/2004	03/12/2004
Japan	27/05/2007	03/09/2007	24/08/2007
Canada	05/12/1996	05/07/1997	30/07/1997
Turkey	14/07/2009	01/03/2011	25/02/2011
Malaysia	15/11/2010	Being processed	
Vietnam	11/11/2011	Being processed	
Thailand	Under negotiation		
TPP***	Under negotiation		

* Trans-Pacific Strategic Economic Partnership Agreement (P-4). It includes Brunei, Chile, New Zealand and Singapore.

** European Free Trade Association. It includes Iceland, Norway, Switzerland and Liechtenstein.

***Trans-Pacific Association Agreement. Being negotiated between the P-4 and the United States, Australia, Peru and Vietnam.

schedule and Chile has done the same with 96.8% of its own (see Tables 9 and 10). At the end of the transition period, only a number of tariff lines in the agricultural sector will remain excluded: they are subject to tariff rates which will be gradually eliminated. Since the treaty came into force in 2004 the trade between the two countries has more than doubled and an important surplus in favor of the United States has been registered in recent years. Chile destines 11.3% of its exports to the United States (see Table 4) and the latter country is its third largest market and also the main source of its imports (16.8% of total imports in 2010).

Among the central features of this agreement, there is the rapid elimination of tariffs: when it came into force, more than 85% of bilateral trade entered the respective markets free of tariffs and by the fourth year of its implementation, the figure rose to 90%. In contrast with other agreements analyzed in this section, this one also includes the liberalization of the trade of agricultural and textile products, as well as an ample development of regulatory matters, with commitments which range from intellectual property to competition policy and investments, among others.

The agreement with the European Union was signed in 2002 and has recently been revised to bring it up to date with recent developments in reciprocal relations and also with the new EU guidelines for trade agreements, where the initiatives are much more active and ambitious than when the agreement with Chile was signed. At that time, this agreement was characterized by the inclusion of several matters which had not been discussed up to then in agreements of a fundamentally economic nature: among them, there were some aspects of cooperation, and above all, what was known as the democratic clause, which stipulated that any of the parties could take measures to protect itself from the violation of democratic principles and even suspend the agreement.

The European Union is an important market for Chile. It is the second most important market both for its exports and imports (see Table 7). 18% of its exports go to that market and since the agreement came into force in February, 2003, they have grown at an average inter-annual rate of 10%. Bilateral trade reached USD 16 billion dollars in 2008, and at the moment, it is mostly free of tariffs, since the association agreement included a period for dismantling all products which concluded on January 1, 2013, but following a strong elimination of tariffs in the early years. The treatment of the trade of agricultural products is still subject to several conditions and limitations. The agreement with the European Union was the first signed by Chile which covered the trade of services and the treatment of such matters as foreign investments, government procurements and intellectual property, under what was then known as a "third generation" treaty, but the term is no longer used.

The agreement with Japan strengthened the network of trade agreements signed with its main markets. The agreement was signed on March 27, 2007, and reported to the WTO in August and came into force on September 3rd of the same year. It was the second trade agreement signed by Japan with a Latin American country (following one with Mexico in 2005) and Chile´s fourth with an Asian country (following its agreements with Korea, China and the P-4). Japan is the fourth most important destination for Chilean exports and the agreement aims at a drastic reduction of tariffs at the time it enters into force: Chile will eliminate 81.1% of the tariffs in its tariff universe, benefitting nearly 95% of Chilean imports from Japan (according to the figures for 2005-2007). And on the part of Japan, the percentage of liberated items is smaller, as is the trade covered by this initial stage as well (see Table 9). At the end of the period of dismantling foreseen in the agreement, a large number of corresponding customs lines will be excluded, mainly in the agricultural sector.

The free trade agreement between Chile and China was signed on June 11, 2005, came into force on October 1, 2006, and was the first China signed with a Latin American country. The nearly complete liberation of the bilateral trade of goods will be reached in 2015, but long before that date a considerable volume of reciprocal trade will have been liberalized, since the agreement ordained that the parties would eliminate an important percentage of their tariffs at the moment that the treaty entered into force. Chile eliminated tariffs on 74.1% of its tariff lines and China did the same for 37.3% of its own. In both cases, the affected trade flows were 50% approximately (in terms of reciprocal trade between 2003-2005[19]). Chile excluded products equivalent to 1.9% of its customs tariffs from the agreement (152 tariff lines in the textiles, metals and machinery sectors and for some agricultural products), while the products excluded by China amounted to 2.8% of its tariffs (214 agricultural, timber and textile products[20]). At the current time, under the bilateral agreement China has eliminated 75.9% of its tariff universe. In 2015 it will eliminate a further 21.3% (see Table 10). Chile has implemented the liberalization program at a faster rate, since it has eliminated 87.8% of its tariffs to date. In 2015, it will eliminate tariffs on a further 10.3%. By the end of the period for dismantling tariffs, China will have eliminated 97.2% and Chile, 98.81% of their respective tariff universes. The agreement excluded some agricultural and mineral products and some vegetable, pulp and paper ones.

The agreement with China only applies to the trade of goods. Nevertheless, the agreement left open the possibility of further negotiations between China and Chile on services and investments once the negotiations on goods had concluded, and this occurred. An agreement on the trade in services between the two countries came into force on August 1, 2010, which was reported to the WTO in November of the same year and negotiations are currently under way in the field of investments. The agreement does not contain commitments on the subject of government procurements but it does have special stipulations on geographical indications. Chile won China´s acknowledgement of the former´s proprietary right to its national brandy -- Chilean Pisco -- just as it had done with the United States – a rather controversial matter in WTO negotiations. The agreement also covers special stipulations in the area of labor affairs and the environment; establishes two bilateral commissions to deal with that; a mechanism for resolving disputes, with specific procedures; and an arbitration court to settle the differences between the parties, with the possibility of appeals to the WTO when these concern matters which also fall within its jurisdiction, following in this case the criteria of selecting a sole forum.

Chile signed what is known as the Trans-Pacific Strategic Economic Partnership Agreement (P-4) with the governments of New Zealand and Singapore on July 18, 2005, and with Brunei Darussalam on August 2nd of the same year. The agreement came into force for Chile on November 8, 2006 and the WTO was notified of it on May 18, 2007. This is the first agreement reported to the WTO which links the countries of three different continents: America, Asia and Oceania. The four signatory countries are members of the Asia-Pacific Economic Cooperation Forum (APEC) and although the agreement is not formally linked to it, it is expected to be a

19 WTO, Factual Presentation of the Free Trade Agreements between Chile and China, Report by the Secretariat, April 23, 2008, doc. WT/REG230/1.
20 WTO, ibid.

model for other agreements to promote the liberalization of trade among its members. In fact, the main importance of this agreement does not lie in the content of its provisions nor in the breadth of current schemes for trade liberalization, but the fact that it is serving as a framework for a more ample undertaking by its members, with a more ambitious content, as in the case of the Trans-Pacific Partnership Agreement (TPP), which is currently being negotiated with the participation of the United States, Australia, Peru and Vietnam, and possibly other countries which have shown an interest in it, like Japan, Mexico and Colombia, among others.

Chile´s total trade (imports plus exports) with its P-4 partners is minimal: barely USD 148 million in 2006. Nevertheless, the agreement not only aims at the gradual elimination of the tariffs of the other four participant countries, but also a broad normative development which includes commitments in the field of the trade of services, investments, government procurements and other concerns common to such trade agreements. These normative aspects are being revised and it is highly probable that they will be enlarged in the abovementioned negotiations for the TPP. The latter have aroused an enormous interest, not only in the participating countries and those who have requested to join in, but also in countries like China, which is beginning to see this future agreement, in which there will be an active participation by the United States, as a means to increase its influence in Asia, meaning that geopolitical as well as economic considerations have an important role in the negotiations for the TPP.

On July 30, 2008, Chile and Australia signed a free trade agreement which came into force on March 9, 2009 and reported to the WTO on March 3, 2009. It covers the trade both of goods and services and foresees, as in the case of most of such agreements signed by Chile, a very rapid elimination of tariffs (see Tables 9 and 10). In the case of Chile, 87% of customs tariffs will be freed for trade with Australia at the time the agreement comes into force, while in the case of Australia it will be 90.9%. The transition period for the complete elimination of tariffs is six years – finishing in 2015 – by which time 100% of customs tariffs will be covered, the only exception being a product partly excluded by Chile: sugar[21]. The tariffs which will be gradually eliminated during the transition period mainly apply to the textiles sector of the two countries. It is also worth noting that the weighted average tariffs of Chile and Australia are very low: 3.6% in the case of Australia (1.4% for agricultural imports) and 6% in the case of Chile.

21 Chile subjects sugar imports to a combination of ad valorem and specific tariffs and the regime for this product established under the agreement aims at the gradual elimination of the ad valorem tariffs but not the specific ones. See: WTO, Factual Presentation of the Free Trade Agreement between Australia and Chile (Goods and Services), Report by the Secretariat, April 1, 2010, doc. WT/REG263/1.

TABLE 9. LIBERALIZATION PROGRAMS OF CHILE´S PARTNERS IN FREE TRADE AGREEMENTS

	Percentage of tariff lines (%)																				Excluded		
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total	Items	%
China				37,3	25,8			12,8					21,3								97,2	214 [1]	2,8
U.S.A.	93,6				1,9				1,4		0,6		2,4[2]							100	0	0	
Korea		87,2					6,3					2,3						0,1			96	391/21[3]	
P-4																							
Brunei				68,1				5,4		15,5			10,3								99,2	84 [4]	0,8
New Zealand				82,3		1,6		7					9,1								100		
Singapore			100		100																		
European Union	84,7[4]										12,1[6]										96,9	211	3,1
Australia							90,8						9,2								100	0	0
Japan					81,8					1		2,3			3,2					0,6	89	981[7]	11

[1] Includes some agricultural, timber, pulp and paper products.
[2] Includes the elimination of tariffs.
[3] The elimination of tariffs for 391 lines is postponed until the end of the Doha Round and 21 (agricultural) lines are excluded.
[4] Alcohol, tobacco and firearms.
[5] The program for liberating industrial goods is concluded.
[6] The program for liberating agricultural goods and fishing products is concluded.
[7] Most of the exclusions are agricultural products.

The agreement between Chile and Australia foresees numerous commitments in the areas of services, including some specific sectors, like telecommunications and financial services. It also includes a chapter on investments – which annuls a previous agreement between the parties on the treatment of the protection of reciprocal investments[22] -- and commitments on government procurements which go beyond their obligations under the WTO, since neither of the two countries is a member of the Pluri-lateral Agreement on Government Procurement. Other matters covered by this free trade agreement, like intellectual property, norms to prevent disloyal trade and sanitary and phytosanitary measures, among others, are based on the corresponding WTO norms, which are widely used in it.

22 This may reflect the growing importance of free trade agreements as regulatory instruments for the broad set of economic relations between the parties, which certainly go beyond bilateral trade.

TABLE 10. CHILE´S LIBERALIZATION PROGRAMS WITH ITS PARTNERS IN FREE TRADE AGREEMENTS

	Percentage of tariff lines (%)																				Excluded		
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total	Items	%
China				74,5				13,3					10,3								98,1	1521	1,9
U.S.A.		88,5		0,1	0,3	5				2,9		0,3		2,92							100	0	0
Korea		44,7					31					19,3			3,6						98,8	96	1,2
P-4				74,1		11,4			10,9				2,8		0,4						100	0	0
European Union	80,8[4]										17.9[5]										98,7	1015	1,27
Australia							87,5						12,5								99,9	67	0,1
Japan					78,2					9,3		1,8			3,6		0,7			0,6	94,2	455[8]	5,8

[1] Includes some agricultural, textile, metal and machinery products.
[2] Includes the elimination of customs tariffs.
[3] "Sugar treatment".
[4] Chile concludes dismantling of industrial goods.
[5] Chile concludes dismantling of agricultural goods and fishing products.
[6] Agricultural goods and 1 fishing product.
[7] Sugar.
[8] Most of the exclusions refer to agricultural products.

The agreement between Chile and Korea was signed on February 15, 2003, came into force on April 1, 2004 and was reported to the WTO on April 19, 2004. The agreement aims at the elimination of tariffs over a period of 13 years for Chile and 16 years for Korea (see Tables 9 and 10). However, long before that deadline the essential aspects of the tariff universe of the two countries will have been freed. In the case of Chile, for example, all of its tariffs, except for 290 tariff items, were eliminated in 2009 and at the end of the transition period 96 tariff lines for the agricultural sector will have been eliminated. With regard to Korea, its commitments to liberalization are less ambitious, since it practically excludes 391 tariff lines from the agreement, almost all in the agricultural sector, the treatment of which will depend on the agreements reached under the negotiations of the WTO´s Doha Round, and it also excluded 21 tariff lines from the agreement with Chile.

Tables 9 and 10, which are repeatedly cited throughout this section, contain detailed information about the trade liberalization programs covered by the agreements signed by Chile and the corresponding commitments assumed both by that country (Table 9) and its partners in the agreements (Table 10). A feature of these tables which it is worth underlining is that in the very

TABLE 11. PERU´S FREE TRADE AGREEMENTS (FTAS)

	Signed	Came into force	Reported to WTO
United States	12 Abr 2006	01 Feb 2009	03 Feb 2009
Singapore	29 May 2008	01 Ago 2009	30 Jul 2009
China	28 Abr 2009	01 Mar 2010	03 Mar 2010
Canada	29 May 2008	01 Ago 2009	31 Jul 2009
EFTA*	24 Jun 2010	2011/2012	30 Jun 2011
Korea	21 Mar 2011	01 Ago 2011	09 Ago 2011
European Union	23 Mar 2011	(june 2012)	
Thailand	19 Nov 2005	31/2/2011	
Japan	31 May 2011	(march 2012)	
TPP**	Under negotiation		

*The European Free Trade Association includes Iceland, Norway, Switzerland and Liechtenstein.
* The Trans-Pacific Association Agreement (TPP) is an initiative undertaken by the current members of the Trans-Pacific Strategic Economic Partnership Agreement (P-4: Brunei Darussalam, Chile, New Zealand and Singapore), in conjunction with the United States, Australia, Peru and Vietnam

near future, around 2015, these liberalization programs will have been practically concluded, both in Chile and in its counterparts, and that both sides aim at the almost complete elimination of tariffs in reciprocal trade, with very few exceptions, mostly in the agricultural ambit. The exception is the agreement with the European Free Trade Association, which excludes the whole agricultural sector. Thus, the observation made above, which is frequently repeated by the Chilean authorities, is not an exaggeration, in the sense that Chile operates in a context of free trade with its main trading partners, although perhaps it would be more precise to say that it will reach that situation very soon: around 2015, as we have mentioned.

Peru

Like the other two countries included in this section, Peru is carrying out a very active policy of signing free trade agreement with its main and potential trading partners. In fact, as can be seen in Table 11, between 2006 and 2011 Peru signed trade agreements with nine countries or groups of countries, either developed or developing, outside of the region: the United States (2006), Singapore (2008), Canada (2008), China (2009), the countries of the European Free Trade Association (2010), Korea (2011) and Thailand (2005), all of which are now in force, and with Japan and the European Union, which are still not. In addition, like Chile, it is participating in the negotiations for the establishment of the TPP. In its negotiating strategy, Peru favors its relations with Asia, a region which has been the main focus of its exports in recent years.

TABLE 12. PERU´S MAIN TRADING PARTNERS, 2010

Exports	%	Imports	%
European Union	17,8	United States	19,5
United States	16,4	China	17,1
China	15,5	European Union	10,6
Switzerland	11	Brazil	7,3
Canada	9,5	Ecuador	4,8

Source: WTO, Trade Profiles

The agreement signed with the United States was the first free trade one signed by Peru outside of the region and the first which includes commitments in the field of the trade of services. It was signed in April, 2006 and came into force three years later, in February, 2009. It was reported to the WTO on February 3, 2009, under the provisions of Article 24 of the GATT and Article 5 of the GATS.

The United States is the second most important trading partner of Peru in terms of exports and the main source of its imports (see Table 12). Nevertheless, thanks to the growing demand for a number of primary goods by the Asian countries, the importance of the United States in Peruvian trade is declining as Peru increasingly looks towards the East, even though the European Union continues to be its main export market. In fact, whereas export and imports with the United States amounted to nearly a third of its total trade at the middle of the past decade, it does not even amount to a fifth now. Once its free trade agreement with the United States enters into force, this may change again. The agreement with the United States includes commitments for the liberalization of the trade of goods and services, and likewise regulates a broad range of subjects which cover, among others, the treatment of foreign investments, government procurement, intellectual property, competition policy, electronic commerce and labor and environmental matters.

The transition period for the liberalization of the trade of goods will last for 17 years (see Tables 13 and 14). However, Peru committed itself to eliminate 32.7% of its tariff items as soon as that period began – on February 1, 2009 – which, added to the more than half of the items with a MFN tariff of zero (53.3%), meant that once the agreement came into force Peru had eliminated 86% of its customs tariffs in favor of the United States. In the case of the latter country, the percentage of items liberated in favor of Peru reached 97.9% at the start of the agreement. By the time ten years of the period have passed (in 2018), that is, seven years before the dismantling period is concluded (which will last until 2025), Peru will have eliminated tariffs in favor of the United States on 99.5% of its tariff items and on the same date, the corresponding percentage

TABLE 13. PERU´S LIBERALIZATION PROGRAMS WITH ITS FREE TRADE AGREEMENT PARTNERS

	Percentage of tariff lines (%)																	Excluded			
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total	Items	%
Canada	83				9,1					6,7		0,1					0,2		99,1	64***	0,9
U.S.	86		0,2		7,1		0,4	0,1		5,7		0,1			0,1		0,2		100	0	0
Singapore	63,6				7,1					28,5					0,6		0,3		100	1*	0
China		63,4				12,8					14,1		0,1			0,2	1,2		91,9	592**	8,1

*Processed foodstuffs, mainly sugars, for which a special compensatory regime is established. ** Mainly pulp and paper.

Source: WTO estimates based on figures supplied by Peru

TABLE 14. LIBERALIZATION PROGRAMS OF PERU´S PARTNERS IN FREE TRADE AGREEMENTS

	Percentage of tariff lines (%)																	Excluded			
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total	Items	%
U.S.	97,9									0,2					0,8		0,6		99,5	47*	0,5
Singapore	100																		100	0	0
China		61,2				11,7					20,7							0,9	94,6	422**	5,4

*Processed foodstuffs, mainly sugars, for which a special compensatory regime is established. ** Mainly pulp and paper.

Source: WTO estimates based on figures supplied by Peru

for the United States will be 98.1%[23]. The 47 tariff lines which the United States will still exclude from the agreement apply to processed foodstuffs based on sugar and those will be subject to a special compensatory mechanism. It is important to underline that the lists of products that would be immediately dismantled by both countries – at the start of the transition period – included tariffs on the 25 main products traded between the two[24].

In May, 2008, Peru and Canada signed a free trade agreement which came into force in August, 2009 and was reported to the WTO on July 31, 2010. The agreement covers the trade of goods and services and introduced a marked elimination of tariffs on reciprocal trade when

23 WTO Secretariat, Factual Presentation of the Free Trade Agreement between the United States and Peru, WT/REG269/1, July 12, 2010.

24 Ibid. Annex 1, pp. 50-53.

its implementation began (see Tables 13 and 14), since Canada has eliminated tariffs, in favor of Peru, on 97,5% of its tariff lines, which means that the bulk of Peruvian exports to Canada enter the Canadian market free of tariffs. By the sixth year of the liberation program, that is, 2015, Canada will have liberated 98.6% of its tariff universe. At the beginning of the liberation program, Peru, for its part, eliminated tariffs, in favor of Canada, on 83% of its tariff lines and by the ninth year (2018) will have liberated 98.8% of its tariff structure. At the end of the dismantling period, in 2025, Peru will have retained tariffs on 64 tariff lines[25].

The overwhelming majority of the products excluded from the agreement between Canada and Peru are agricultural ones. The trade agreement has a broad scope, covering such matters as the trade of services, with specific commitments in some sectors, like telecommunications and financial services. It also includes commitments, of a certain scope, in the field of government procurements and its set of norms likewise cover several matters which are not regulated on a multilateral level, like investments, competition policy, labor and environmental affairs, and the easing of trade. In other areas, like subsidies and anti-dumping rights, sanitary and phytosanitary measures, technical norms and geographical indications, the agreement follows WTO norms and reiterates the rights of the parties in the multilateral ambit.

The agreement signed between Peru and China at the start of 2009, which has been in force since March 1, 2010, covers the trade both of goods and services (it was the first agreement signed by China with a Latin American country which includes the trade of services). At the time when the agreement was signed, in 2009, China had become the third most important market for Peruvian exports, that is, it was the destination for 15% of the latter´s total exports in 2010 (see Table 10) and the second most important source of its total imports (17.1% in 2010). In the course of the previous decade (2000-2010), Peru registered trade surpluses with China in every year except 2008[26].

The agreement sets a transition period of 17 years, at the end of which all the trade of goods between the two countries will have been completely freed of tariffs (see Tables 13 and 14). Long before that period elapses, however, tariffs on the overwhelming majority of tariff lines will have been eliminated. In fact, when the agreement entered into force, Peru committed itself to guaranteeing the elimination of tariffs for 63.4% of its tariff universe (more than half of the latter has a MFN rate of zero, as was mentioned above) and at the end of ten years the total amount of tariff lines without tariffs will have reached 90.3%. In the case of China, that country committed itself to eliminating 52.8% of tariff lines as soon as the agreement came into force and 32.6% of its tariff universe by 2019, when the agreement will have been operating for ten years. At the

25 WTO, Factual Presentation of the Free Trade Agreement between Canada and Peru, Report by the Secretariat, July 19, 2010, doc. WT/REG27/1.
26 WTO, Factual Presentation of the Free Trade Agreement between Peru and China (Goods and Services), Report by the Secretariat, WT/REG281/1, November 11, 2010.

end of the transition period, both countries will continue to exclude several products from the liberalization program, mainly textiles and footwear in the case of Peru; and pulp, paper and some agricultural products in the case of China.

As we have noted, the agreement with China includes the trade of services, assuming commitments which are even broader than those found in its protocol of adherence to the WTO. The agreement also contains norms related to the treatment of investments in both countries and a device for resolving any disputes that may arise about the working of the agreement. On the other hand, the two countries have not assumed particular commitments in the field of government procurement or competition policy and in many affairs related to trade, like sanitary and phytosanitary measures, technical barriers to trade, safeguards, intellectual property and geographical indications, they follow the respective guidelines of the WTO.

The other agreement signed by Peru in Asia involves Singapore. The free trade agreement between the two countries came into force on August 1, 2009, covers the trade both of goods and services and was reported to the WTO on July 30, 2009 (Articles 24 of the GATT and 5 of the GATS). The program for the liberalization of the trade of goods establishes a transition period of 17 years that only applies to Peru (see Tables 13 and 14), since Singapore has an MFN regime of zero for its tariff universe (with the exception of six tariff lines – for prepared foodstuffs – which were included in the liberalization program when the agreement came into force). By the tenth year of the liberalization program, Peru will have eliminated tariffs in 7,284 tariff lines, equivalent to 99.2% of its tariff universe. Peru excluded some textile products from the agreement (one tariff line). The agreement between Singapore and Peru includes commitments in the field of the trade of services and also the treatment of investments. In the latter case, it replaces the bilateral agreement on the protection of investments which the two countries had followed since 2003. The agreement likewise includes specific norms related to government procurement and competition policy .

Mercosur´s agreements and negotiations

Mercosur´s strategy for negotiating trade agreements is characterized by a clear interest in negotiating such agreements with third-party countries en bloc, including those in South America. This strategy is consistent with Mercosur´s aim to transform itself into a customs union and negotiate access to its internal market in a collective way, so as not to violate the competition rights of its members. The establishment of this joint strategy has not been free from difficulties. Mercosur has managed to expand and deepen its preferential trade relations with the members of ALADI, especially those in South America, as we have indicated, but it has been much less active in signing trade agreements with States outside of the region.

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27 WTO, Free Trade Agreement between Singapore and Peru, Report by the Secretariat, WT/REG269/1, July 20, 2010.

In the ambit of trade relations beyond the region, Mercosur´s position has shown a certain timidity. During the negotiations for the now defunct Free Trade Area of the Americas, it maintained a rather critical position on that process and some of its member countries, especially Brazil, had a decisive role in its failure. Later, at the beginning of 1999, it began negotiating an association agreement with the European Union which has gone through so many ups and downs that there are doubts whether this negotiation can be concluded in the near future. The only trade agreements Mercosur has signed outside of the South American ambit are those with Israel in 2007 (which came into force in 2010), Egypt in 2010 and the Palestinian Authority in 2011. There is also a trade agreement with India, whose scope and coverage are much more limited than those just mentioned[28]. These agreements are not very ambitious with regard to the coverage of the trade of goods, they have very few normative aspects and are a long way from having a true economic significance. For example, the commercial exchange of the Mercosur countries with Egypt is minimal. It represents barely 1% of Mercosur exports to that country and barely 0.007% of the bloc´s imports from Egypt, that is, less than USD 2 billion for total trade[29]. The same can be said of the agreement with Israel and even more, the one signed with the Palestinian Authority in December, 2011. However, the minor economic importance of these agreements does not seem to be an obstacle to Mercosur´s expansion of its trade relations with the countries of the Middle East, since it is in the process of negotiating agreements with Jordan, Morocco, Bahrain, Qatar, the United Arab Emirates, Kuwait and Oman. Negotiations are also underway with Turkey and Pakistan.

The treaty being negotiated with the European Union is different, since the economic relations between the two regions are highly significant. Total bilateral trade, for example, is close to USD 100 billion and in terms of percentage, the European market accounts for approximately 20% of Mercosur´s exports and imports. European investments in Mercosur are also highly significant: they reached some 165 billion dollars in 2008, an amount higher, for example, than the EU´s investments in China, India and Russia taken a whole[30]. The negotiations between Mercosur and the European Union were reopened in the middle of 2010, after being paralyzed for seven years, and although they have won a strong political support from the political leaders and industrial sectors of both regions, at this stage it is not possible to guarantee that the negotiations will have a successful conclusion. The European economic crisis and internal negotiations to define the new Common Agricultural Policy (CAP) are militating against its resolution, which will not fail to leave a mark on the talks between the two regions.

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28 The agreement between Mercosur and India came into force in 2009, six years after it was signed and it is currently in the process of revision, with a view towards its expansion and deepening.
29 BID/INTAL, Mercosur Report No. 15, February, 2011.
30 Ibid.

Prospects and Recommendations

The previous sections have made clear the intense activity which the countries of South America have deployed in negotiating free trade agreements in the past two decades, both within and outside of the region. Our analysis of these agreements leads to several interesting conclusions.

First, it is worth underlining that all of the countries of the sub-region are linked by agreements which seek the elimination of tariff and non-tariff barriers in regional trade; but only some of them (found in Table 1) have eliminated or will lead to the elimination of all or most of the obstacles to trade. When the dismantling periods written in the most recent treaties run out –mainly those negotiated between Mercosur and the Andean countries – trade among the countries of South America will essentially have been freed from customs barriers and it may be said that there will thus exist a South American free trade area, something which seemed unreachable only a few years before. In this context, the measures aimed at "facilitating" sub-regional trade (the improvement of ports and airports, multi-modal transport, the management of customs, systems of trade information, etc.) now count on a more suitable framework for being put into practice.

Second, the countries of South America have been more ambitious about eliminating tariffs than the normative development of their regional trade agreements. In fact, if we exclude the integration schemes –Mercosur and the Andean Community –where, by definition, the regulation of policies goes hand in hand with their wish to transform themselves into customs unions or common markets, most of the trade agreements between the countries of the sub-region which now exist lack commitments in such fields as, for example, the trade of services, investments, intellectual property, competition policy and labor and environmental matters, and several others which are common to the agreements signed between developed and developing countries outside of the region (as can be seen in Table 15, which provides information about the matters in a select number of agreements between Colombia, Chile and Peru, on the one hand, and extra-regional countries, on the other). This is partly explained by the relative sizes of the economies, but fundamentally, by the low volume of flows of foreign investment between developing countries, since the precise aim of the regulation of and strong commitments on regimes, typical of the agreements with developed countries, is to provide more security and a better environment for foreign investments from such countries.

Therefore, this is an important thematic area, which may turn into a valuable opportunity to advance cooperation and a higher degree of integration among the countries of South America in the abovementioned fields. It is not a matter of including complex normative commitments in the agreements because it is fashionable to do it in other agreements, but so that the same agreements may play an important role in the development and modernization of the countries of the region and also because in many cases the convergence of certain public policies facilitates not only trade but also investments or access to the suppliers of high-quality goods and services.

Another matter which is clear, deriving from the above observations, is that there is not a single strategy, shared by all the countries of South America, for agreements with developed or developing countries in other regions. In reality, we can identify several highly differentiated approaches. One of them is seen on a regional level and reflect these countries´ political determination to stimulate their trade links through the signing of agreements -- usually of a bilateral nature – within the framework of ALADI (although this dynamic is already surpassed by the other approaches). Another approach, which is reflected in Mercosur´s strategy, favors negotiations en bloc with other countries within and outside of the region, and thus expresses the priority it grants to the consolidation of the internal market. Finally, there is the strategy, followed by Colombia, Chile and Peru, of signing bilateral free trade agreements with its main and/or potential trade partners outside of the region. It is worth adding a fourth approach, represented by Bolivia, Ecuador and Venezuela, which, by virtue of their current political orientation and development model, reject the negotiation of free trade treaties, although this does not seem to have affected their agreements in the regional ambit, except for Venezuela which, along with Chile in 1974, are the only Latin American countries which have renounced their agreements with other countries of the region.

The free trade agreements signed by Colombia, Chile and Peru are, in general, very ambitious with regard to the liberalization of trade and their normative aspects. A common feature of nearly all these agreements is the rapidity with which they brought about the elimination of tariffs. In most of the agreements, a very large share of the tariff universe – higher than 75%, in general – is subject to liberalization as soon as the agreement comes into force, leaving the rest to be eliminated over a period which generally does not exceed ten years. Equally significant is the fact that many agreements institute a complete elimination of tariffs, something which has not even been achieved in the regional schemes of integration or the trade agreements signed in the ambit of the ALADI. That this complete liberalization of tariffs is aimed at in agreements with countries which are much more developed, like the United States, or on their way to becoming a major trade power, like China, does not seem to have made Chile, Peru or Colombia less conservative when it comes to opening their markets to other countries of the region than when they do it with their extra-regional partners.

This, in fact, is the result of some decisive factors in the liberation model which is adopted in an agreement, related to the productive structures of the participants and whether they replace or complement each other: trade with the developed countries is normally more complementary than with countries at a similar stage of development. In the case of China, what happens is that the tariff preference is irrelevant in most sectors and the priority is given to the need to increase the volume of trade with the counterpart country. For these and other reasons, its strategy is not directly transferable to countries of the sub-region like Brazil, whose production directly competes with the national production of such countries.

TABLE 15. MATTERS COVERED IN SELECTED AGREEMENTS OF CHILE, COLOMBIA AND PERU.

	Chile							Peru				Col
	Australia	China	JAP	P-4	UE	Corea	EEUU	Canadá	China	EEUU	Singp	EEUU
Merchandises	X	X	X	X	X	X	X	X	X	X	X	
Transference of services	X	X	X	X	X	X	X	X	X	X	X	X
Norms on Origin	X	X	X	X	X	X	X		X	X	X	X
Antidumping	X	X		X	X	X	X	X	X	X	X	X
Compensatory Rights	X	X		X	X	X	X	X	X	X	X	X
Safeguards	X	X	X	X	X	X	X	X	X	X	X	X
Sanit. and Phytosanit. Measures	X	X	X	X	X	X	X	X	X	X	X	X
Technical Obstacles to Trade	X	X	X	X	X	X	X	X	X	X	X	X
Foreign Investment	X		X		X	X	X	X	X	X	X	X
Telecommunications	X		X				X			X		X
Financial Services	X		X				X			X		X
Public Procurements	X	X	X	X	X	X		X	X	X		
Intellectual Property	X	X	X	X	X	X	X		X	X		X
Geog. Indications	X	X	X	X		X			X			X
Electronic Commerce	X						X	X		X		X
Competition	X		X	X	X	X	X	X		X	X	X
Labor affairs	X	X	X			X	X		X		X	
Environmental affairs	X	X	X				X		X		X	
Resolution disputes	X	X	X	X	X	X	X	X	X	X	X	

It would likewise be useful to find out the extent to which those three countries would be willing to include, in their regional agreements, the normative developments and policies which they have accepted in their agreements with the United States or the European Union. Looking at this question from the opposite angle, we would also have to find out how willing the other countries are to assume stricter commitments related to regimes or regulatory matters, without receiving the benefits of big markets like those of the United States. Those who have already done that would not have to make a greater effort, since most of the modifications of their regimes also apply to the other countries of the region. From this arises an observation that might point to a possible path for the strengthening of regional cooperation in the field of trade – or at least among the countries of South America.

The geography of the region´s trade has changed a great deal in recent years and it is clear that Asia is emerging as an important commercial partner of South America, though it cannot be said that it is already its main market. The United States and the European Union continue to play a dominant role. In that regard, the strategy for negotiating trade agreements with the Asian countries and with the United States and the European Union is fully justified. These agreements will have consequences for the process of regional integration and also for the participation of the region´s countries in the multilateral trade system. It is undeniable that if the countries manage to open the markets of their main commercial partners, through bilateral or pluri-lateral negotiations, they will have less and less interest in more complex, complicated and slower multilateral negotiations. And if these agreements, as is expected, lead to an increase in reciprocal trade, a marked effort will be required to heighten the relative importance of regional trade in total exchanges, which do not reach 20% nowadays.

Furthermore, the current configuration of preferences in the trade policy among the countries of the sub-region represents a very tough challenge. This is now perhaps the biggest obstacle to deepening and raising the level of trade integration in South America, since their countries´ positions on the true role of free trade in growth and development widely diverge. We should not be surprised by the strong dynamic found in the new scenarios of integration which have been promoted, which are aimed more at the consolidation of their political brotherhood and joint actions on an international level, than the framework of trade and production (even when that ideal is constantly aired at forums like UNASUR or the CELAC).

For that reason, a pending task may be to rethink the Latin American strategy for integration into the world economy, and restore, so far as possible, the validity of collective regional action, both within the regional space and its external projection.

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The negotiation of regional or bilateral free trade agreements has become a distinctive feature of international economic relations and Latin America is not an exception. Most of these agreements began to be negotiated in the mid-1990´s and their number has not stopped rising since then. This study offers a global panorama of the different trade agreements signed by the countries of Latin America within and outside of the region, especially the free trade agreements negotiated by Colombia, Chile and Peru. The main aspects, contents and current status of these agreements are discussed, as well as their similarities and differences, the dynamics of trade among the countries involved and the different initiatives and negotiations now underway.

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