

**OPEN REGIONALISM IN THE ANDEAN COMMUNITY:
A TRADE FLOW ANALYSIS**

By

Germán Creamer[?]

Columbia University and Tulane University
500 West 120th. Street Rm 450
New York, NY 10027
Ph.: 212-939-7025
Fax: 212-666-0140
ggc14@columbia.edu

[?] I thank the editor Richard Blackhurst and an anonymous referee for their valuable comments. I also thank Clark W. Reynolds, Kwan S. Kim, John M. Trapani, Ernest Bartell, Amitava Dutt, Jaime Ross, Reinhardt Wettmann, Francisco Thoumi, Rob Vos, Sebastian Edwards, Gerardo Otero, Brian Potter, Ximena Sosa-Buchholz, Eric Baklanoff, as well as participants in the 2002 Southeastern Council on Latin American Studies annual meeting, the 1999 Business Association of Latin American Studies Conference, the team of the project “Andean Integration and Economic Liberalization” from Stanford University, US-AID and Friedrich Elbert Foundation – ILDIS, the participants of the Center of Latin American Studies at Stanford University workshop, the Kellogg Institute at University of Notre Dame workshop, the Latin American Faculty of Social Sciences (FLACSO) workshop, and the Training Network on Agricultural Policies (REDCAPA – FAO) workshop for their helpful comments on previous and partial versions of this paper. I also thank the institutional support of Tulane University, the United Nations Development Programme, the United Nations Department of Economic and Social Development, the Board of Regents of the State of Louisiana, and my research assistants, María Augusta Torres and Hemant Bajaj. I am grateful to John Breitmeyer, and especially to David Sprinkle for their efforts in proofreading this article. The opinions presented are the exclusive responsibility of the author.

OPEN REGIONALISM IN THE ANDEAN COMMUNITY: A TRADE FLOW ANALYSIS

Abstract

This paper evaluates the extent to which the establishment of the Andean Free Trade Zone (AFTZ) has led to an improvement of intra-regional trade, as promised by open regionalism, without reducing extra-regional trade. Open regionalism is a dynamic process in which economic agreements serve as intermediate steps towards integration with the world economy. The reduction of both policy and natural barriers to intra-regional trade decreases transaction costs, increases returns and levels of investment, and leads to an improvement of regional trade. This paper calculates *ex post* income elasticities of import demand, the intensity of trade index, and the propensity to export intra- and extra-regionally before (1980-1992) and after (1993-2000) the establishment of the AFTZ. The analysis of *ex post* income elasticities of import demand shows that the establishment of the AFTZ led to an increase of Andean Community trade, as the open regionalism view proposes, and not to a contraction of extra-regional trade. These results are confirmed by the intensity of trade index and the propensity to export intra- and extra-regionally. Additionally, in keeping with the open regionalism approach, the Andean Community has supported the agenda of becoming part of wider economic agreements such as MERCOSUR and the Free Trade Area of the Americas (FTAA), to be consistent with the GATT-WTO principles.

1. Introduction

The Andean Pact was formed in 1969 to reverse the stagnation of the Latin American Association of Free Trade and to address the development needs of the Andean countries (Venezuela, Colombia, Chile, Ecuador, Peru, and Bolivia).¹ The Pact sought to harmonize policies, define a common external tariff, liberalize intra-regional trade, regulate foreign direct investment in the region, and to organize production across member Andean countries by encouraging the development of promising industries. This strategy was consistent with the import substitution, or closed regionalism, model that predominated in Latin America during the 1970s. According to this model, the government must coordinate economic policies

and regional development plans in order to direct the market toward proposed goals. The consequence of this model is that protected rent activities develop, mainly in the industrial sector, which are financed in part by the resources generated by primary-resource-intensive exports. The initial stage of the Andean Pact was characterized by this closed regionalism model. Intra-regional trade only increased from 1.7% of total exports in 1970 to 4.5% in 1979. This early stage of the Andean Pact became very inefficient and failed for several reasons: many products were exempted from the tariff liberalization process; a clear consensus about the common external tariff was lacking due to significant differences in the level of protection of each Andean country; the production requirements established by the Andean Pact did not match the trade needs of each country, especially after the foreign debt crisis; the market was too small; and trade activity was directed mainly to the members of the Andean Pact. Therefore, the Andean countries were limited in their capacity to generate new foreign exchange, which became very important for paying the increasing foreign debt (Edwards 1993).²

The external debt crisis that Latin America experienced during the 1980s led Andean countries to apply adjustment policies. These new policies reduced the trade preferences that had been established among the Andean countries and, thus, reduced trade during the mid-eighties.³ However, the Andean Pact reactivated itself with the Quito Protocol, which was signed in 1987 and later modified over the course of several presidential meetings.⁴ The most important modification, the Trujillo Protocol of 1996, resulted in the name change from the “Andean Pact” to the “Andean Community of Nations,” a new structural organization, and a shift in emphasis from closed regionalism (inward integration) to open regionalism (outward integration) with the rest of the world. The establishment of the Andean Free Trade Zone (AFTZ) in 1993 and the Andean tariff union or the Andean common external tariff in 1995 gave rise to private initiatives and innovative rent-seeking activities- instead of protected rent activities- that aimed at achieving an efficient allocation of resources and exploiting the competitive advantages of the region (see

¹ The document that formalized the establishment of the Andean Pact is the Cartagena Agreement. Venezuela became part of the Andean Pact in 1973. Chile withdrew from the Andean Pact in 1976 to pursue more liberal trade policies.

² In 1980, about 25% of items included initially in the tariff list were exempted. The differences of protection between countries became stronger due to the overvaluation of each national currency.

³ In 1985, the Andean Pact was practically moribund. Intra-regional trade did not follow the initial industrial planning and only about a third of the investment programs (metalmecanic, petrochemical, and automobile sectors) were approved (Edwards 1993).

⁴ See Salgado (1990) on the evolution of the Andean Community until 1990, including a discussion of the protocols that led to the new global perspective of the Andean Community.

also Garay 1991).⁵ This increasing efficiency and innovation is the main reason behind the shift towards the open regionalism model. The next step for the Andean Community is the establishment of the Andean Common Market in the year 2005, as ratified in the presidential meeting of the Andean countries in June of 2000. This market will enable the free movement of goods, services, capital, and people. The Andean Community envisions that, in this way, it will integrate itself gradually into the world market.

The Andean tariff union, as it has functioned since 1995, establishes four basic tariff levels: 5% for raw material and industrial output, 10% for intermediate output, 15% for capital goods, and 20% for final goods. There are some exceptions to this common external tariff. For agricultural products, price bands help protect Andean agricultural products from subsidies and price variations in the international market. Venezuela, Colombia, and Ecuador have an agreement to trade vehicles freely, while tariffs between 10% and 35% are applied to other countries. Additionally, Bolivia has a 10% flat tariff rate, while Ecuador's tariffs are 5% higher than the common external tariff for about 1,000 items. In 1997, Peru decided to join up with the AFTZ, and started a program of tariff reduction with Colombia, Ecuador, and Venezuela that is scheduled to be completed in 2005 (Fairlie 1999). According to the Economic Commission for Latin America and the Caribbean (ECLAC) (2002a), the Andean common external tariff averaged 11.7% as of 2001. The new definition of the common external tariff is still under review. The Declaration of Santa Cruz of the Andean Community, signed in January 2002, introduces a new structure of the common external tariff. The Andean Community expects to complete the definition of the common external tariff in 2003, and of the Andean Common Market in 2005.

1.1. Open Regionalism

ECLAC (1994) and Reynolds, Thoumi, and Wettmann (1994) similarly define open regionalism economic agreements as intermediate steps in the process of integration into the world economy. That is, in order to gain the strength necessary to compete at the global level, neighboring countries must first build trade with each other. The reduction of both policy and natural barriers to intra-regional trade decreases transaction costs, increasing returns and levels of investment. Moreover, as Reynolds, et al. point out, this process of building regional agreements, because it relies upon the reduction of internal barriers to exchange, leads to improvement of intra-regional trade. In general, "open regionalism" is differentiated

⁵ The common external tariff defined in 1995 applied only to Venezuela, Colombia, and Ecuador. Bolivia was able to

from “closed regionalism” because open regionalism is consistent with GATT-WTO principles of pursuing further collaboration between different preferential trade agreements (PTAs).⁶ Additionally, open regionalism promotes liberalization of goods and services, free movement of labor and capital, and harmonization of national policies. As a result, international competitiveness is enhanced through PTAs (Bulmer-Thomas 1998, Kuwayama 1999 and Pizarro 1999).⁷

The Asia Pacific Economic Cooperation (APEC) provides an interesting case study of the different perspectives of open regionalism. The simplest version of APEC open regionalism will accept those countries that are willing to accept the APEC rules. A second version of APEC open regionalism will extend to any member’s trading partners the same trade liberalization policies applied to its members. A third version assumes that APEC will broaden the trade liberalization policies only to those non-member countries that accept the same policies. A fourth version deepens the process of unilateral world liberalization while promoting the process of regional integration. Finally, a fifth version proposes that trade liberalization should be supported through non-tariff reforms. The APEC Eminent Persons Group (EPG) proposal integrated the last four versions presented above, considering these the pillars of APEC open regionalism through which progressive regional integration will lead to the integration of APEC into the world economy (Bergsten 1997).

This paper will concentrate on the impact of a PTA in terms of improvement of intra-regional trade without reducing extra-regional trade as proposed by Reynolds et al.

1.2. Open Regionalism and Multilateralism

The process of open regionalism in Latin America has been studied from an international political economy perspective by Stallings (1995) and other scholars who view this new regionalism as part of the globalization and transnationalization of the world economy. In general, these authors view regional

maintain its own lower tariff structure.

⁶ GATT Article XXIV does not distinguish between open and closed regionalism. Indeed, members of a PTA could further liberalize their economies not through expanding membership of a PTA but through its members participating in and implementing the results of a multilateral round. Article XXIV regulates under which conditions PTAs can be structured or enlarged to ensure that they do not worsen market access or trade for countries that are not part of the union. For example, one of the important requirements of this article is that tariffs and non-tariff barriers of a PTA must not be higher than the average of the pre-existing tariff levels of the members of this PTA. Also, any intra-region trade restriction must be eliminated.

⁷ Hettne and Itonai (1994), as part of a United Nations University (UNU/WIDER) project, develops a concept of open regionalism that highlights the political aspects of regional integration. Hettne and Itonai see regional integration as a package emphasizing political convergence, territorial identity, collective security, and the regional integration of

agreements as an effort by states to maintain some control of their economies and societies in the face of the pressure of globalization and loss of identity due to the increasing power of multinational corporations and organizations (Axline 1994, and Sideri 1996).

Another group of scholars questions how consistent open regionalism agreements are with the multilateral GATT-WTO system (De Melo and Panagariya 1993, Bergsten 1994, and Bhagwati 1995). Bhagwati is the main representative of these critics of the PTAs. Bhagwati, Greenaway, and Panagariya (1998) explain that the proliferation of PTAs reflects the new US support for regional agreements (instead of the former emphasis on multilateral free-trade) and the sanction of PTAs under GATT Article XXIV. Bhagwati, et al. note evidence of trade diversion, such as in the case of the Common Market of the South (MERCOSUR), to show that PTAs can be very costly and an inferior policy option to free trade.⁸ Bhagwati (1995) describes the problem of the proliferation of PTAs in terms of the “spaghetti bowl” phenomenon, whereby several PTAs have different rules of origin and tariffs that make it very difficult to identify “who is whose.” This complexity has led to the problem that PTAs tried to avoid: increasing protectionism and transaction costs.

The analysis of scholars such as Bhagwati differs from the view of Latin American economists such as French-Davis (1995), who recognize the costs of PTAs but see open regionalism or recent PTAs as at least a “second best” option. From this viewpoint, the regional agreements provide several benefits: securing access to new markets for non-traditional exports (international markets for such products tend to be limited and unstable); fostering specialization and economies of scale; improving labor training, technology transfer, and access to capital in those sectors of the economy with direct participation in regional agreements; and reducing transaction costs in those economies that are in a trade liberalization process, because new intra-regional imports can be compensated for by new intra-regional exports. Mistry (1995) considers open regionalism a prerequisite to a new multilateralism structured around regional blocs

different countries into a functional economic unit. The new regionalism is based on the firm, and is market- and consumer-driven, in contrast to the planning view of the old regionalism.

⁸ According to Yeats (1997: 30), “MERCOSUR was not internationally competitive in sectors where intra-trade was growing most rapidly ... domestic producers were re-orienting exports to local markets in order to charge the higher prices associated with the most restrictive trade barriers.” Hence, MERCOSUR consumers’ welfare is affected because they are paying higher prices than those of the international market, and producers of countries that are not part of MERCOSUR also may see their welfare diminished because their exports to MERCOSUR might be reduced.

where countries will define their position at the regional level instead of at the multilateral level.⁹ This type of multilateralism will overcome the current distortion generated by the leadership of very few powerful countries or the dominance of the Bretton Woods institutions typical of the old multilateralism.¹⁰ The failed negotiations of WTO in Seattle in 1999 indicate the increasing importance of regional representation instead of country member participation in the trade liberalization negotiations of the WTO (Fisch 2001). Blackhurst (2001) even proposes a WTO consultative board structured by groups of countries that represent their interest.

In contrast to Bhagwati, Blackhurst and Henderson (1993) see PTAs as steps in the right direction towards a multilateral GATT-WTO system, for the following reasons: PTAs are not inherently illiberal, depending on their provisions, evolution, and their effect on trade policies of third countries; extra-regional trade is very important for the three main economic blocks (Western Europe, North America, and Asia); and peer pressure in the multilateral GATT-WTO system is a crucial mechanism in enforcing PTA compliance with requirements.¹¹ ¹² In conclusion, the issue is not a choice between regionalism and multilateralism, but how these different approaches to economic integration serve to solve the needs of different social and economic agents, and how they converge over time.

The significant increase of intra-regional trade (Table 1) during the nineties has not led to a reduction of trade between the different regions in the world. On the contrary, all of the regions of the

⁹ The trade negotiations of the Free Trade Area of the Americas (FTAA) have been structured under this scheme: several subgroups of countries are represented by their regional organization such as the Andean Community or MERCOSUR.

¹⁰ Open regionalism supports the new view of multilateralism for its openness and outwards-orientation to other economic blocs (simultaneous reduction of tariffs and internal trade barriers); compliance with WTO requirements; transparent rules of origin; basis in market forces; recognition of strategic alliances of transnational companies in several economic blocs; non-discriminatory treatment of foreign investment; emphasis on technology-diffusion and innovation; and support for a plurilateral process where even less powerful countries can be represented by their regional blocs, with effective mechanisms of conflict resolution, in negotiations with more powerful groups such as the Big-3 (Germany, Japan, and USA).

¹¹ However, GATT article XXIV and its corresponding surveillance procedures have not always worked as expected. Hence, it is also critical that the multilateral trade GATT-WTO system be able to improve its compliance mechanisms. This situation becomes even more difficult when the trade provisions are motivated not only by economic goals, but by political objectives. There is always the fear that GATT article XXIV is not fully enforced when powerful political motivations intervene.

¹² OECD (1995), using the European integration process as an example, argues that regional agreements have furthered multilateral liberalization. Regional agreements have prepared public opinion and the private sector for a more competitive international environment, and have raised the awareness of the need for rules that regulate international trade. Macroeconomic and structural adjustment in countries that join a PTA have helped prepare them for wider international competition. Third-country suppliers also benefit from the integration process because of the sudden access to a wider market. Regional agreements become a laboratory for policy makers, regulators, entrepreneurs, and consumers for policy formulation, political negotiations, peace and multilateral agreements, because the challenges that regional agreements face are similar, albeit at a different scale, to those of multilateral agreements.

world show an increase of inter-regional trade with the majority of the rest of regions of the world. Considering the significant increase of open regionalism agreements during the nineties, the increase of world trade may be an indicator of how regionalism can support the new multilateralism.¹³

TABLE 1

For the case of the Andean Community, this paper evaluates whether regional integration has led to an increase of intra-regional trade, as promised by open regionalism, or to a reduction of extra-regional trade. This analysis includes calculation of *ex post* income elasticities of import demand, the intensity of trade index, and the propensity to export intra- and extra-regionally before (1980-1992) and after (1993-2000) the establishment of the AFTZ. Section 2 reviews the study methodology. Sections 3 and 4 present and discuss the results, respectively. Section 5 offers concluding remarks.

2. Methodology

The most important objective of this paper is to evaluate—using the *ex post* income elasticity of import demand—whether the reactivation of the Andean Community with the implementation of the AFTZ and the Andean common external tariff has led to an improvement of intra-Andean Community trade without reducing extra-Andean Community trade, as the open regionalism view proposes.¹⁴

The *ex post* income elasticity of import demand could be defined as the ratio of the average rate of change of imports to that of the gross national product (GNP) or, alternatively, the gross domestic product (GDP). The use of GDP instead of GNP promotes consistency: The concepts are quite similar, and most countries use GDP as their preferred measure of economic activity.¹⁵ The *ex post* income elasticity of import demand could also be calculated using a regression analysis. Balassa (1967) mentions that he would have rather used this approach; however, data limitations led him to use a ratio analysis of income elasticities of demand.

¹³ An escalation of trade is only one aspect of the impact of regionalism. Another dimension is the increase of investment. In the case of the European Community, intra-regional investment increased four-fold over the period 1985-1989, especially due to the positive response to the Single Market Program (OECD 1995).

¹⁴ LeClair (1997) uses Balassa (1967)'s approach to study the effects of the integration process in the European Union and in the Association of Southeast Asian Nations (ASEAN).

The import demand function has been widely covered in the literature due to its implications for equilibrium in the balance of payments, exchange rate management, the impact of trade policy on economic growth, and the evaluation of trade effects on PTAs.¹⁶

The general formula for import demand is

$$M = \alpha Y^{\beta_1} (D_1 Y)^{\beta_2} (MPI/CPI)^{\beta_3} e$$

where M is imports, Y is the activity variable (here the GDP), α is a constant term, e is a random term assuming a log normal distribution with constant variance and unit mean, and D_1 is a dummy variable (here with the value of 1 if the data corresponds to the year that the AFTZ is established or subsequent years, and 0 otherwise), MPI is an index of import unit values which also incorporates the exchange rate effects, and CPI is the consumer price index.

Running a OLS regression of the log linear form of this equation, β_1 and $(\beta_1 + \beta_2)$ and β_3 are the *ex post* income elasticity of import demand for the period previous to the establishment of the AFTZ, the *ex post* income elasticity of import demand after the establishment of the AFTZ, and the price elasticity of import demand. Hence, β_2 indicates the difference between the income elasticity of import demand before and after the establishment of the AFTZ.

The first period of analysis, 1980-1992, is the era previous to the establishment of the AFTZ. The year 1980 is the initial point of comparison because at that time the Andean economies were still in the closed regionalism stage of the Andean Pact, and were not yet affected by the foreign debt crisis. By 1992 some of the Latin American countries had recovered and others were in the process of recovering from the foreign debt crisis. Also in this year trade between Andean countries began to increase in response to the imminent establishment of the AFTZ. The second period of comparison begins in 1993, with the official establishment of the AFTZ, and runs until 2000. A second test is also run only until 1997. The cutoff 1997 separates the Andean integration process from the Asian crisis and from the financial crises endured by several countries, such as Ecuador and Colombia, after 1997.

¹⁵ Gross national product is GDP plus net receipts of factors income from the rest of the world. GDP rate of growth is calculated using GDP volume indices on a standard 1995 reference year as reported by IMF (2002).

¹⁶ See Goldstein and Khan (1985) for a recent review, Houthakker and Magee (1969) for an initial approximation, Faini, Pritchett, and Clavijo (1992) for an application to developing countries, and Senhadji (1997) for a methodological proposal about the calculation of the import demand function using time-series.

The elasticities are calculated using total imports, extra-Andean Community imports, and intra-Andean Community imports for the periods 1980-1997 and 1980-2000. Assuming that in the absence of integration the *ex post* income elasticities of import demand should remain constant, an increase in the income elasticity of demand for intra-Andean Community trade would indicate an improvement of intra-regional trade. A decrease in the income elasticity of import demand for extra-Andean Community trade would indicate a reduction of extra-regional trade. An increase in the income elasticity of total import demand (intra-Andean Community and extra-Andean Community) would indicate an improvement of total trade (Andean Community and extra-Andean Community). An improvement of intra-Andean Community trade implies that trade has shifted from the domestic market to Andean Community countries, while a reduction of extra-Andean Community trade entails a change of trade from foreign to Andean Community countries. If there is an improvement of intra-Andean Community trade without reducing extra-Andean Community trade, then open regionalism is working.

The calculation of the *ex post* income elasticity of import demand can be complemented by calculating the intensity of trade index and the propensity to export intra- and extra-regionally. The intensity of trade index (I_{ij}) shows that if trade does not have a geographic bias (a fraction of trade of country i going to country/region j must be equal to the weight of j in the international market), then the value of the index is the unity for country/ region j . If the index is above (below) the unity, country i has a larger (smaller) bilateral trade than expected considering j 's share of imports in the world market (see Brown 1947, who seems to have used it for first time; Anderson and Norheim 1993 and Drysdale and Garnant 1982 have applied this index to several economic regions in the world, and Yeats 1997 applied it to MERCOSUR).

The general formula for the intensity of trade index is

$$I_{ij} = x_{ij} / m_{ij}$$

where :

x_{ij} : X_{ij} / X_i , share of exports of country i going to country j

m_{ij} : M_j / M_w , share of imports of country j in total world imports

The general formula for the propensity to export intra- or extra-regionally (P_{ij}) is

$$P_{ij} = t_i I_{ij}$$

where :

$t_i = X_i / GDP_i$: ratio of total exports and GDP of i

This index is useful in showing that when a country participates in a PTA, it may increase the value of total exports, even though it may reduce trade with some specific countries. Hence, this index complements the calculation of *ex post* income elasticities of import demand showing the increase of extra-regional trade (Anderson and Norheim 1993). The interpretation of these indexes becomes richer when presented in a historical series that may show any change of pattern in bilateral trade.

In this paper, the intensity of trade index and the propensity to export index have been applied to the bilateral trade between the five Andean countries and the Andean Community, emphasizing the intra-Andean Community trade and the extra-Andean Community trade dimension.

2.1. Data

The trade data, output data, and import prices for the Andean Community are from ECLAC (2000, 2001, and 2002). CPI data are from the IMF (2002). The time series include annual information for the years 1980, 1985, 1990-2000 for the five Andean countries (Venezuela, Colombia, Ecuador, Peru, and Bolivia). Considering the limited number of observations per country, a panel analysis is conducted to calculate the *ex post* income elasticity of import demand for the Andean Community. Foreign direct investment and intra-Andean investment information is from the Andean Community (2002).

3. Results

The creation of the AFTZ leads to an improvement of intra-Andean Community trade and of total Andean Community trade, according to the calculations of the *ex post* income elasticities of import demand (Table 2). The total income elasticity of import demand increased from 0.76 (η_1) to 0.78 ($\eta_1 + \eta_2$) between the periods 1980-1992 and 1993-2000, and the intra-Andean Community income elasticity of import demand registered an increase from 0.83 (η_1) to 0.9 ($\eta_1 + \eta_2$). In all cases, the income elasticity of import demand also augmented in the same amount between 1980-1992 and 1993-1997. Hence, the regression results do not change using either 1997 or 2000 as the cutoff year. The regression analysis indicates that the

difference between the total and intra-Andean Community income elasticity of import demand before and after the establishment of the AFTZ is statistically significant at the 98% and 99% confidence level, respectively. The increase in the extra-Andean Community income elasticity of import demand is not statistically significant at the 95% confidence level; this elasticity is significant only at the 91% confidence level. Hence, the regression analysis at least reveals no evidence of contraction of extra-regional trade in the Andean Community before and after the establishment of the AFTZ.

TABLE 2

These results are confirmed by the progressive increase of the intensity of trade index of the Andean Community between the years 1980 and 1998 at the regional and extra-regional level. This index tends to be slightly smaller in the years 1999-2000, especially in the trade relationship with Ecuador and Colombia (Table 3).

TABLE 3

A similar tendency is observed in the share of exports of the Andean Community to each member country. This share increases in the years that follow the establishment of the AFTZ. However, the Andean Community shows a reduction in the share of exports to each member country after the year 1998, while there is an increase in the share of exports to the rest of the world (Table 4).

TABLE 4

Member Andean countries show a significant increase of the intensity of trade index from the early 1980s to the pre-AFTZ period (1990-1992). After the establishment of the AFTZ, this index increases until 2000, except in the cases of Venezuela and Peru. Venezuela shows a reduction in the index in the year 2000, while Peru shows a lower intensity of trade index in the period that follows the establishment of the AFTZ, and then recovers in the year 2000 (Table 5). In general, the share of exports of the Andean

countries to the Andean Community follows a pattern similar to the intensity of trade index. Peru and Venezuela show a lower share of their exports directed to the Andean Community in 2000, with an increase in the share of exports to the rest of the world (Table 6).

TABLES 5 and 6

The Andean Community's propensity to export generally increases during the period studied, with the exception of the middle 1980s, when there is a reduction in its propensity to export to all of its member countries. The propensity to export extra-regionally shows a contraction during the 1980s, then stabilizes during the 1990s, with the exception of the year 1999 (Table 7). These results are also consistent with the calculation of *ex post* income elasticities of import demand.

TABLE 7

The Andean countries show an increase in the propensity to export intra-regionally in the 1990s and in the period after the establishment of the AFTZ, with the exception of Peru, which shows a contraction of this index for the period 1990-1992. Venezuela shows an increase of this index until 1997, after which the index decreases. The propensity to export from the Andean countries to the rest of the world does not show major changes in the period studied (Table 8).

TABLE 8

4. Discussion

The calculations of the *ex post* income elasticities of import demand for the Andean Community indicate that the establishment of the AFTZ led to an improvement of intra-Andean Community trade and total Andean Community trade, as the open regionalism view proposes, and not to a reduction of extra-Andean Community trade. The results for the intensity of trade index and the propensity to export of the Andean Community are consistent with the observation that exports from the Andean region to different

economic blocs in the rest of the world have increased (11.12%), but at a slower pace than the intra-regional trade annual rate of growth (20.56%) in the period 1993-1997 (Table 9).¹⁷ However, during the 1980s the rate of exports of the Andean Community was very low, probably as a consequence of the foreign debt crisis. In the pre-AFTZ period (1990-1992), the intra-regional annual export rate of growth increases significantly, while the extra-regional exports annual rate of growth temporarily decreases (-4.56%). The reactivation of the Andean exports is stronger than the mild increase in intra-regional Andean trade until 1992 observed by Edwards (1995), and probably arises from the elimination of restrictions to foreign investment in 1991, the new definition of the common external tariff, and the export-oriented emphasis of the Andean economies in the 1990s.¹⁸

TABLE 9

Intra-Andean Community investment increased significantly and in different areas than the direct investment of other countries during 1994 and 1995 when the common external tariff was established (Figure 1)¹⁹; the same pattern is evident in intra-Andean exports (40% growth in 1995). Since that time, several economies have suffered from crises related to banking (Ecuador, Colombia, and Venezuela); politics (Colombia, Venezuela, Ecuador, and Peru), economic and natural resources (all Andean countries), in part because of El Niño (Peru and Ecuador); and the military (Peru, Ecuador, and Venezuela). These crises, in turn, may have triggered the reduction of investment in their neighboring countries. However, foreign direct investment in the Andean Community kept growing until 1997 (Figure 2). The attraction of foreign direct investment in the period 1993-1997 can be explained in part by the opening of the Andean economies, the elimination of the restrictions to foreign direct investment associated with the closed regionalism model, the new securities offered to foreign capital, and the privatization processes. Foreign direct investment, as the previous indicator

¹⁷ Buitelaar (1995) confirms the existence of this tendency in different Latin American countries, and also in Ecuador, using the traditional Grubel and Lloyd measure.

¹⁸ New regulations enacted in 1991 by the Andean Community give foreign investors the same rights and duties as national investors have, with the exceptions regulated by each national legislation. Foreign investors are free to remit home the net profit of their investment as well as the proceeds of liquidations (Salazar-Xirinachs et al. 2001).

shows, deteriorated in 1998, probably as a result of the financial and political crises in the Andes as well as the effects of the Asian financial crisis. In Venezuela, the political crisis led to a collapse of the traditional political parties. Hugo Chavez was elected as president in 1998. However, his populist discourse—combined with a socio-political crisis, constitutional reforms with a concentration of presidential powers, and populist economic policies—has discouraged any further investment. In Colombia, the confrontation between the army and guerrilla groups, the accusations of corruption in Samper’s government, the lack of US support, the threat of “decertification” from the U.S. government’s list of countries active in fighting drugs, and an earthquake in the coffee-growing area, have significantly limited growth and investment. The election of President Alvaro Uribe in 2002 and the announced “hard-line” against guerrillas and drug-dealers may restrict further investments in the short term until a resolution to the violent conflict is within sight. In Ecuador, in the period 1996-2002, two out of three democratically elected presidents (Bucaram and Mahuad) were pressured out of office by popular movements, to be replaced by two interim presidents (Alarcón and Noboa). The dollarization of the economy helped to stabilize the economy and slightly increase foreign investment in 2000. In Peru, president Fujimori resigned in the face of corruptions charges, leading to a significant reduction of foreign direct investment in 2000. The lack of strong political leadership and transparent economic policies in the government of president Toledo has continued to limit the attraction of new foreign direct investment. Bolivia overcame inflation in the mid-1990s thanks to control of the government budget deficit, a privatization program, and good agricultural output, all of which have helped stabilize the economy. However, the budget deficit increased after 1997 due to a new pension reform plan and the coca eradication program. The Sanchez de Lozada administration worked intensively to attract foreign investment, for example by enacting new hydrocarbon and mining laws. As a result, the second half of the 1990s showed an important increase of foreign investment in this country, in contrast to other Andean countries.

FIGURE 1 AND 2

¹⁹ About two thirds of intra-Andean investment is between Colombia and Venezuela, about a fifth between Colombia

Manufactured goods as a share of total Andean exports increased from 26.7% in 1990 to 44.3% in 1992, and to 47.8% in 1998. This share fell to 44.5% and 43.3% in 1999 and 2000, respectively (Table 10). Part of the explanation for the reduction of the share of manufactured goods exports or the increase in the share of energy goods exports is that prices for oil, the main export product of Venezuela and Ecuador, improved in the year 2000; hence, the relative importance of these exports also increased. Technology diffusion goods—even though they have a small share of total exports (1.20% in 1990 and 1.98% in 2000)—have the highest rate of exports growth (15.77%, Table 11) in the period after the establishment of the AFTZ (1993-2000), compared to an annual rate of growth of -4.61% (Table 12) in the period previous to the establishment of the AFTZ (1990-1992).²⁰

TABLE 10, TABLE 11, and TABLE 12

The relative increase in manufactured goods exports and the high rate of growth of the technology diffusion goods exports are indicators of the transformation of the industrial structure in the Andean Community that allow this region to export products with higher technology content and value added. French-Davis (1995) and Buitelaar (1995) recognize a similar process, showing how Latin American countries in their integration processes tend to move from natural resources-intensive products to manufactured goods. The reason is that developing countries can be competitive in international markets in food or resource-intensive products because of the low cost of their labor force and the underestimation of the cost of natural resources (which in the long term leads to their depletion). However, industrialized products such as capital or non-basic consumer goods from developing countries must compete with more efficient industries from all over the world; therefore, initially, these products tend to compete in their regional markets, until sufficient technological developments and economies of scale allow them to be competitive outside their regions. In fact, Martin (1992) finds that total factor productivity growth is stronger after trade liberalization than before trade liberalization in a diverse group of Latin American

and Ecuador, and less than 10% between Ecuador and Venezuela (ECLAC 1999).

²⁰ According to the aggregation used by ECLAC (2002), technology diffusion goods refer mostly to capital goods and some intermediate goods.

countries (Argentina, Bolivia, Chile, Costa Rica, and Uruguay). This finding probably reflects the increasing challenge presented by the international market and the importance of the development of technology-intensive industries, facilitated by regional markets.

The study of the Andean integration process indicates that during a period of economic and political crisis, such as in the period 1998-1999, when several internal and external political and economic crises affected Latin America, the Andean Community reduced its intra-regional trade exports rate of growth (-2.61%, Table 9), while in a period of relative recovery, such as 2000, the exports rate of growth for the Andean Community jumped to 30.4% and 31.8% for intra- and extra-regional trade, respectively. This phenomenon partly can be explained by a unilateral change of national economic policies or variation of local conditions. For example, in the case of Venezuela, the reduction of oil prices in 1999 and a catastrophic mudslide led to a contraction of the economy by 6%, and to a reduction of intra-regional exports from 11.61% in 1998 to 6.08% in 1999. In 2000, oil prices rebounded significantly, which led to an important increase in Venezuelan oil exports to the rest of the world, and a further reduction of intra-regional trade. This explains the reduction of the Venezuelan intensity of trade index to the Andean Community in 2000. In the case of Peru, the reduction of the intensity of trade index with the Andean Community between 1993-1997 is explained by the government decision not to participate in the AFTZ. Between 1998-1999, Peru was affected by a reduction of prices of its export products in the international market. This factor may explain the reduction of the Peruvian intensity of trade index with the rest of the world. Since 1997, Peru has started a trade liberalization program with the Andean Community that should be completed in the year 2005. As a result of this new trade policy, the propensity to export and the intensity of trade index of Peru with the Andean Community improved in 2000. In the case of Ecuador, the reduction of the intensity of trade index with the Andean Community in 1999-2000 can be explained by the financial crisis that the country has suffered since 1998 and the dollarization of the economy in January of 2000.

The emphasis of the open regionalism approach on the use the regional integration process as a step towards the integration with other economic blocs might have helped overcome the critical situation of the 1990s in the Andean Community without reducing significantly the intra-regional trade. In March of 2000, the Andean Community started negotiations with the Northern Triangle (El Salvador, Guatemala,

and Honduras) to establish a tariff preference agreement. The Andean Community has also represented the Andean countries in the FTAA negotiations (see Andean Community and US Government 1998), and has lobbied the US government for the extension of the Andean Trade Preference Act of 1991. The Andean Community has also continued negotiations with the European Commission to renew the Preference Generalized System for the period 2005-2014. In April of 1998, the Andean Community signed an agreement with MERCOSUR to create a Free Trade Zone.²¹ This will open a market of about 216.5 million inhabitants which, together with the Andean Community, creates a market of 330 million inhabitants as of 2000. These economic blocs are very attractive and are natural markets for a South American Free Trade Area (SAFTA). When NAFTA was inaugurated in January of 1994, Brazil promoted the creation of the SAFTA to balance the geopolitical weight of USA. SAFTA is an alternative free trade area to the FTAA scheduled for the year 2005.²² Brazil and USA have important disagreements in terms of how to structure the FTAA. On the one hand, USA has recently imposed protectionist measures such as steel import tariffs and the Farm Bill, the latter of which may cause significant losses to Brazilian farmers; on the other hand, USA wants to strictly enforce antidumping measures that may create permanent restrictions for Brazilian exports. As a result, Brazil is afraid that the demands of USA are too high in relation to what USA is offering in return—especially given that trade with USA represents only 20% of total MERCOSUR trade, while trade with the European Union represented 27.3% of MERCOSUR trade for the year 1999 (Schott 2001).²³ However, the potential benefits are more important than the current situation. According to Schott, USA-Brazil trade would be near \$86 billion if Brazil were treated as Mexico is treated under NAFTA. This amount represents about three times the \$29 billion in volume of USA-Brazil trade for 2000. The Andean Community has been in the middle of this geopolitical game between USA, Mexico (through the Group of Three), and Brazil, which are key actors in the political process to define the FTAA. On the one hand, all of

²¹ Further negotiations continued in the presidential meeting of 2000 and in Paraguay in 2001 (ECLAC 2002a).

²² The presidential summits for the negotiation of the FTAA (see Summit of the Americas 1994, 1998, and 2001) have already established specific directions, including technology adaptations to access broader markets and the access of regional markets by small- and medium-size companies. These seem to be central elements of integration efforts, as recognized in the literature on open regionalism.

²³ At the level of the Andean Community, agricultural products represent 13% of overall exports, but 34% of total exports to the European Union. Even though the Uruguay Round established the unification of tariffs and non-tariffs, and the restriction of export subsidies and dumping, the developed countries have not fulfilled these conditions (Silva and Heirman 1999). Therefore, a significant level of protection for agricultural products still exists, reinforcing the need to rapidly transform and diversify Andean exports from natural resource-intensive products to technology-intensive products- but without losing the regional goal of agricultural self-sufficiency. This objective has supported

the Andean countries would like to be part of a free trade agreement with USA as the FTAA proposes. However, limitations by Congress on fast-track authority to negotiate the FTAA make it very difficult for the FTAA to be launched in 2005.²⁴ On the other hand, SAFTA becomes a more realistic and natural bloc for the Andean Community, especially for Bolivia. In the South American presidential meeting of July 2002 in Guayaquil, the presidents agreed to complete the negotiations between Andean Community and MERCOSUR in the year 2002 to have a common position in relation to the FTAA. However, a complete integration with MERCOSUR creating SAFTA may also lead to the disappearance of the Andean Community, and also be vulnerable to the economic instability of the Southern Cone such as the increasing financial and economic crisis in Argentina.

The participation of the Andean Community in the FTAA can be an asymmetric process. FTAA will require very few changes on the part of USA because US tariffs are much lower than those of the Andean Community, while new labor and environmental restrictions may be introduced for the Andean Community. However, there are some benefits for the Andean Community to joining the FTAA, including those typical of open regionalism agreements. These benefits include increasing competitiveness and foreign investment in the Andean region due to macroeconomic reforms, the required transparency of public policies, and the “seal of approval” by USA.²⁵ Additionally, Fischer and Meller (2001) and Schott (2001) note that the FTAA will create an “insurance policy” to protect against new protectionist pressures locally and internationally. Once the agreement is signed and the reforms established, it would be very difficult to reverse them in the interest of specific groups, as usually occurs in Latin America. Regional infrastructure projects will be more feasible. Finally, there would be a collaborative effort to maintain the economic and political stability in the region due to the increasing interdependency of these economies and societies. For example, Mexico received about \$40 billion from the IMF during the Tequila crisis thanks to the support of the USA as a new partner in NAFTA.

the development of a common agricultural policy that has helped the dynamism of the agricultural sector in the region (see Izam and Onffroy de Verez 2000).

²⁴ The delay is mostly due to a lack of agreement in the US Congress about the management of labor and environmental standards in trade agreements, especially with developing countries. If there is a fast-track extension with high labor and environmental standards, Latin American leaders may offer strong resistance, because these standards are perceived as another type of American protectionism (Ahearn 2001).

5. Conclusions

Supporting the view of open regionalism, the example of the Andean Community shows that economic integration by stages into wider regional agreements may lead to an improvement of intra-regional trade and total trade, and not to a contraction of extra-regional trade. The increase in the *ex post* income elasticities of total import demand, and of import demand for intra-Andean Community trade after the establishment of the AFTZ, indicate that the establishment of the AFTZ led to an increase of total Andean Community trade and of intra-Andean Community trade. The fact that the *ex post* income elasticities of import demand for the extra-Andean Community do not decrease after the establishment of the AFTZ shows, as the open regionalism view proposes, that the establishment of the AFTZ does not lead to a reduction of extra-Andean Community trade. These results are confirmed by an increase in the intensity of trade index and the propensity to export intra-regionally, as well as by the limited change in the propensity to export extra-regionally. Additionally, Andean Community manufactured goods exports increase in the period that follows the creation of the AFTZ.

There is still plenty of room to improve efficiency of resource allocation in the short term. More important to Andean Community's integration, however, is the development of technology-intensive industries that strengthen innovative activities, based on technology change, in the long run. From this perspective, foreign investment can play a very important role in promoting the transition from low- to high-technology industries. Investments between Andean countries have already led to the development of new corporations in such diverse industries as financial, automotive, and floral, and to the distribution of technology and capital among Colombia, Venezuela, and Ecuador (Figure 1 for intra-Andean investment flows).^{26 27} Trade between Colombia and Venezuela represents about half of the intra-regional trade for the year 2001. Science and technology organizations and projects supported by governments and multilateral organizations such as the InterAmerican Development Bank (IDB) have promoted the development of new technologies to improve productivity. However, the investment on research and development in the region

²⁵ Schott (2001) represents Latin American and Caribbean countries' readiness to be part of the FTAA through "readiness indicators" on a scale of 0 to 5. On average, for the year 2001, the Andean countries score as follows: Bolivia (3.59), Colombia (3.42), Ecuador (2.51), Peru (3.5), and Venezuela (3.65).

²⁶ In 1998, Colombia and Ecuador became the second and fourth largest cut flower producers in the world. See Kouzmine (1999) for a presentation of nontraditional exports in Latin America.

²⁷ An important advance in the technology area is the establishment of a regional fiber-optic network between the five Andean countries.

is still very limited.²⁸ The protection of intellectual property rights will give further incentives to local or regional research and development initiatives, especially in the area of software development and information technology.²⁹ According to the TransAtlantic Business Dialogue (coalition of European and North American companies), the five Andean countries were found no-compliant with at least one obligation of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement (Primo Braga and Fink 2001).³⁰ The Free Trade Area of the Americas (FTAA) has organized working groups to solve the major trade-related issues of the hemispheric integration. One of these groups is working on intellectual property rights, building on the existing regulations and rights of the TRIPS Agreement. USA has intensively promoted the intellectual property right discussion in the FTAA negotiations. However, in Latin America there is a limited personnel or legal capacity to negotiate and comply with the existing rules (Schott 2001).

Another dimension of necessary infrastructure changes to reduce transaction costs and of institutional changes to facilitate the process of integration for the Andean Community is the reduction of restrictions in the regional transportation system. The process of integration has been slowed down in part by the restrictions of national transportation associations. For example, in the border between Ecuador and Colombia, the merchandise must be unloaded from Colombian trucks and then loaded into Ecuadorian trucks because the Ecuadorian transportation associations do not allow trucks of a foreign registration to cross the border; in reciprocity, Colombian transportation associations have imposed the same requirement for merchandise coming from Ecuador. In the case of Venezuela, the government restricted the circulation of Colombian trucks in Venezuela. In response, Colombia also limited imports from Venezuela.

A third aspect to facilitating the integration process is the efficient development of capital markets through homogenizing legal systems, corporate governance structure, and technical and accounting standards. The capital markets of the region have stagnated since 1998 when the Asian as well as internal

²⁸ For the period 1981-1995, investment in research and development as a percent of the gross national product averages 1.7% for Bolivia, 0.1% for Colombia, 0.1% for Ecuador, 0.1% for Peru, and 0.33% for Venezuela (1999), while for USA it is 2.63% (World Bank 2002, and for Venezuela, Ministerio de Ciencia y Tecnología 2001).

²⁹ The following legal instruments define the regime of industrial protection and intellectual property right in the Andean Community: Common Regime on Industrial Property approved in September 2000 (Decision 486) based on TRIPS obligations; Common Provisions on Copyright and Neighboring Rights (Decision 351) which is also related to TRIPS obligations; Common Provisions on the Protection of the Right of Breeders of New Plant Varieties (Decision 345), and Common Regime on Access to Genetic Resources (Decision 391).

³⁰ The TRIPS Agreement is Annex 1C of the Marrakesh Agreement, which defines the World Trade Organization. This Agreement was signed on April 15, 1994, and became effective on January 1, 1995.

financial and economic crises exploded. International investors have limited their participation in the capital markets of the region, especially since the banking crises in Venezuela (1993), Colombia (1998), and Ecuador (1998), and in light of the political instability that the region has shown as well as the small size of each individual market. Further integration of these local capital markets seems to be one of the most important steps that leaders in the area should take to advance the integration process.

A fourth consideration is the coordination of macroeconomic and social policies. In the presidential meeting and in the advisor council meeting of the Andean countries in June of 2000 and in June of 2001, respectively, the finance ministers agreed to harmonize macroeconomic policies toward reducing inflation to one-digit rates, the public sector deficit to a maximum of 3% of the GDP, and the public sector debt to a maximum of 50% of the GDP.

A final consideration is the Andean Community's multilateral policy toward other economic blocs, such as MERCOSUR, Northern Triangle, Caribbean Community and Common Market (CARICOM), European Union, APEC, and North American Free Trade Agreement (NAFTA) through the FTAA. To ensure that the Andean Community works as an effective open regionalism agreement, Andean countries must also align their foreign policies with those of the Andean Community. So far, Andean countries have not had multilateral cooperative policies, and have conducted independent bilateral agreements with several other economic blocs (Bonilla 2000). For example, Venezuela and Colombia signed an agreement with Mexico in 1994 that formed the Group of Three (G-3), which will reduce tariffs at an annual rate of 10% to achieve a free trade area in 2005. This agreement broke the Andean Community into two blocs.³¹ Additionally, the tariffs established with Mexico complicate the definition of the Andean common external tariff. Bolivia and Peru already have bilateral agreements with MERCOSUR. Peru is also a member of the Asia Pacific Economic Cooperation (APEC). Venezuela, Colombia, and Ecuador are in the process of signing their own bilateral agreements with MERCOSUR. The Andean common external tariff of 1995 was only applied to Colombia, Ecuador, and Venezuela. Peru wanted a lower common external tariff, leading to its retirement from the Andean Community in 1992, until it finally decided to join the AFTZ in 1997. Bolivia has had a flat tariff, and has given more priority to its involvement with

³¹ Mexico is interested in becoming a commercial intermediary between North America and South America. In the period 1994-1999, bilateral trade between Mexico and Colombia increased by 35% and between Mexico and Venezuela by 60% (Robert 2001).

MERCOSUR than with the Andean Community. In the middle of all these difficulties, the Andean Community has advanced in its endeavors to be part of a wider international community: The Andean Community is in the process of redefining its common external tariff for the five Andean countries, and has advanced negotiations as an economic bloc with the FTAA, Northern Triangle, the European Union, and MERCOSUR. However, it is also important to recognize that these unilateral initiatives of Andean members, as well as policies assumed by other economic regions towards the countries of the Andean Group, may explain part of the improvement of total Andean Community trade observed after the creation of the AFTZ.

In conclusion, the Andean Community has generated more economic benefits (improvement of Andean Community trade) than costs (reduction of extra-Andean Community trade), and has supported the agenda of becoming part of wider economic agreements, as the open regionalism approach proposes. The difficulties to advancing the integration process at the economic level because of different national and foreign policies have been compensated for by a stronger political and institutional agenda for the five Andean countries. The Andean Presidential Council, the Andean Council of Foreign Ministers, the Commission of the Andean Community, the General Secretary of the Andean Community, the Andean Parliament, and the Court of Justice of the Andean Community have helped to maintain the long term goal of the Andean Community: To become a community of nations that is politically, economically, and socially integrated, with increasing participation in the world market according to the GATT-WTO principles.

References

- Ahearn, Raymond. 2001. Hemispheric free trade: Status, hurdles, and opposition. In *Trade in the global economy*, edited by Samuel Edwards. Huntington: NOVA.
- Andean Community, and US Government. October 1998. "Acuerdo entre los Gobiernos de Bolivia, Colombia, Ecuador, Perú y Venezuela, Países Miembros de la Comunidad Andina, y el Gobierno de los Estados Unidos de América relativo al establecimiento de un Consejo sobre el Comercio y la Inversión" <<http://www.comunidadandina.org>>.
- Andean Community. 2002. Series estadísticas de la Comunidad Andina. 1991-2001. <<http://www.comunidadandina.org>>.
- Anderson, Kym and Hege Norheim. 1993. History, geography and regional economic integration. In *Regional Integration and the Global Trading System*, edited by Kym Anderson and Richard Blackhurst. New York: St. Martin's Press.

- Axline, W. Andrew. 1994. Cross regional comparisons and the theory of regional cooperation: Lesson from Latin America, the Caribbean, South East Asia and the South Pacific. In *The Political Economy of Regional Cooperation: Comparative case studies*, edited by W. Andrew Axline. Associated University Press.
- Balassa, Bela. 1967. Trade creation and trade diversion in the European Common Market. *The Economic Journal* 77 (305) (March): 1-21.
- Bergsten, Fred. 1994. APEC and the world economy: A force worldwide liberalization. In *Asia Pacific Regionalism: Reading in international economic relations*, edited by Ross Garnaut and Peter Drysdale. Pymble: Harper Collins.
- _____. 1997. Open Regionalism. *The World Economy* 20: 545-565.
- Bhagwati, Jagdish. 1995. US trade policy: the infatuation with free trade areas. In *The Dangerous Drift to Preferential Trade Agreements*, by Jagdish Bhagwati and Anne Krueger. Washington D.C.: AEI Press.
- Bhagwati, Jagdish, David Greenaway and Arvind Panagariya. 1998. Trading preferentially: Theory and policy. *The Economic Journal* 108 (July): 1128-1148.
- Blackhurst, Richard. 2001. Reforming WTO decision making: Lessons from Singapore and Seattle. In *The World Trade Organization millennium round*, edited by Klaus Deutsch and Bernhard Speyer. London: Routledge.
- Blackhurst, Richard, and David Henderson. 1993. Regional integration agreements, world integration and the GATT. In *Regional Integration and the Global Trading System*, edited by Kym Anderson and Richard Blackhurst. New York: St. Martin's Press.
- Bonilla, Adrián. 2000. Difíciles afectos: Multilateralismo e interdependencia en la región Andina. In *Multilateralismo: Perspectivas Latinoamericanas*, edited by Francisco Rojas. Santiago and Caracas: Flacso-Chile Editorial Nueva Sociedad.
- Brown, A. J. 1947. *Applied Economics*. London: George Allen & Unwin.
- Buitelaar, Rudolf M. 1995. Dynamic gains from intra-regional trade in Latin America. In *NAFTA as a model of development. The benefits and costs of merging high and low-wage areas*, edited by Richard Belous and Jonathan Lemco. New York: State University of New York Press.
- Bulmer-Thomas, Victor. 1998. El area de libre comercio de las Américas. *Revista de la CEPAL*. Número extraordinario (October). LC/G.2037-P.
- De Melo, Jaime and Arvind Panagariya. 1993. *New Dimensions in Regional Integration*. New York: Cambridge University Press.
- Drysdale, Peter and Ross Garnaut. 1982. Trade intensities and the analisis of bilateral trade flows in a many country world: A survey. *Hitotsubashi Journal of Economics* (2) 2.
- ECLAC (Economic Commision for Latin America and the Caribbean). 1994. *Open regionalism in Latin America and the Caribbean*. Santiago: ECLAC.
- _____. 1999. *Latin America and the Caribbean in the world economy 1998*. Santiago: ECLAC.
- _____. 2000, 2001 and 2002. *Statistical Yearbook of Latin America and the Caribbean 1999, 2000, 2001*. Santiago: ECLAC.

- _____. 2002a. *Panorama de la Inserción Internacional de América Latina y el Caribe 2000-2001*. Santiago: ECLAC.
- Edwards, Sebastian. 1993. Latin American economic integration: A new perspective on an old dream. *The World Economy*. 16 (3): 317-339.
- _____. 1995. *Crisis and reform in Latin America: From despair to hope*. New York: Oxford University Press.
- Faini, Ricardo, Lant Pritchett, and Fernando Clavijo. 1992. Import demand in developing countries. In *International Trade Modelling*, edited by M. Dagenais and P-A. Muet. New York: Chapman and Hall.
- Fairlie, Alan. Ed. 1999. *Escenarios de integración y cooperación económica*. Lima: Friedrich Ebert Stiftung.
- Ffrench-Davis, Ricardo. 1995. Trends in regional cooperation in Latin America and the Caribbean: The crucial role of intra-regional trade. In *regionalism and the global economy: The case of Latin America and the Caribbean*, edited by Jan Joost Teunissen. The Hague: FONDAD.
- Fisch, Gerhard. 2001. Regionalism and multilateralism side by side. In *The World Trade Organization millennium round*, edited by Klaus Deutsch and Bernhard Speyer. London: Routledge.
- Fischer, Ronald and Patricio Meller. 2001. Latin American Trade Regime Reforms and Perceptions. In *Latin America and the Global Economy*, edited by Ronald Fischer. NY: Palgrave.
- Garay, Luis. 1991. *Evolución y perspectivas de la integración Andina: Una síntesis reflexiva*. Bogotá. Typescript.
- Goldstein, Morris and Mohsin Khan. 1985. Income and price effect in foreign trade. In *Handbook of International Economics*, edited by R.W. Jones and P.B. Kenen. Amsterdam: North-Holland.
- Hettne, Bjorn and Andras Itonai. 1994. *The new regionalism: Implications for global development and international security*. Helsinki: UNU/WIDER.
- Houthakker, Hendrik and Stephen Magee. 1969. Income and price elasticities in world trade. *Review of Economics and Statistics* 51: 111-125.
- IMF (International Monetary Fund). 2002. *International Financial Statistics*. Washington, D.C.: International Monetary Fund (August).
- Izam, Miguel, and Valerie Onffroy de Vere. 2000. *El sector agrícola en la integración económica regional: Experiencias comparadas de América Latina y la Unión Europea*. Santiago: ECLAC.
- Kouzmine, Valentine. 1999. *Exportaciones no tradicionales latinoamericanas. Un enfoque no tradicional*. Santiago: ECLAC.
- Kuwayama, Mikio. 1999. *Open regionalism in Asia Pacific and Latin America: A survey of the literature*. Santiago: ECLAC.
- LeClair, Mark. 1997. *Regional Integration and Global Free Trade*. Brookfield: Avebury.
- Martin, Ricardo. 1992. Sources of growth in Latin America. Washington D.C.: World Bank.
- Ministerio de Ciencia y Tecnología (MCT). 2001. *Inversiones en el sector tecnología en Venezuela*. Caracas: MCT.

- Mistry, Percy. 1995. Open regionalism: Stepping stone or millstone toward an improved multilateral system?. In *regionalism and the global economy: The case of Latin America and the Caribbean*, edited by Jan Joost Teunissen. The Hague: FONDAD.
- OECD (Organization for Economic Cooperation and Development). 1995. *Regional Integration and the multilateral trading system: synergy and divergence*. Paris: OECD.
- Pizarro, Ramiro. 1999. *Comparative analysis of regionalism in Latin America and Asia Pacific*. Santiago: ECLAC.
- Primo Braga, Carlos and Carsten Fink. 2001. Trade-related intellectual property rights: from Marrakech to Seattle. . In *The World Trade Organization millennium round*, edited by Klaus Deutsch and Bernhard Speyer. London: Routledge.
- Reynolds, Clark W., Francisco Thoumi, and Reinhart Wettmant. 1994. *A case for open regionalism in the Andes*. Report prepared for Friedrich Ebert Stiftung Foundation and USAID. North America Forum. Stanford University, Palo Alto. Typescript.
- Robert, Maryse. 2001. Free trade agreements. In *Toward free trade in the Americas*, edited by José Salazar-Xirinachs and Maryse Robert. Washington D.C.: OAS- Brookings Institution Press.
- Salgado, Germánico. 1990. Integración Latinoamericana y apertura externa. *Revista de la CEPAL*. 42 (December).
- Salazar-Xirinachs, José, Theresa Wetter, Karsten Steinfatt, and Daniela Ivascanu. 2001. Customs Unions. In *Toward free trade in the Americas*, edited by José Salazar-Xirinachs and Maryse Robert. Washington D.C.: OAS- Brookings Institution Press.
- Schott, Jeffrey. 2001. *Prospects for free trade in the Americas*. Washington D.C.: Institute of International Economics.
- Senhadji, Abdelhak. 1997. Time-series estimation of structural import demand equations: A cross-country analysis. Working Paper of the International Monetary Fund. Washington D.C.: IMF.
- Sideri, Sandro. 1996. Globalization and Regional Integration. Working Paper Series No. 235. The Hague: Institute of Social Studies.
- Silva, Verónica, and Johanes Heirman. 1999. *Las condiciones de acceso a los mercados de bienes: Algunos problemas pendientes*. Santiago: ECLAC.
- Stallings, Barbara. 1995. *Global Change, Regional Response: The new international context of development*. Cambridge University Press.
- Summit of the Americas. 1994. Plan of action. Miami <<http://www.summit-americas.org>>.
- _____. 1998. Plan of action. Santiago de Chile <<http://www.summit-americas.org>>.
- _____. 2001. Plan of action. Quebec <<http://www.summit-americas.org>>.
- World Bank. 2002. Competitiveness Indicators. <<http://www.worldbank.org>>.
- World Trade Organization. 2001. *International Trade Statistics*. Geneva: WTO.

Yeats, Alexander. 1997. Does MERCOSUR's trade performance raise concerns about the effects of regional trade arrangements?. Policy Research Working Paper no. 1729. Washington D.C.: World Bank.

Table 1. Annual Growth Rate in Exports by Economic Region (1990-2000)

| Origin\ Destination | World | North America | Latin America | Western Europe | CEE/ BS/CIS | Africa | Middle East | Asia |
|--------------------------------|--------------|--------------------------|--------------------------|---------------------------|------------------------|---------------|------------------------|-------------|
| World | 6.21% | 8.54% | 10.35% | 4.12% | 6.76% | 3.14% | 4.78% | 8.17% |
| North America | 7.33% | 8.95% | 12.00% | 4.54% | 1.91% | 2.92% | 5.19% | 5.60% |
| Latin America | 9.35% | 12.69% | 11.64% | 3.74% | -8.57% | 4.05% | 1.82% | 4.35% |
| Western Europe | 4.08% | 7.45% | 6.45% | 3.53% | 7.64% | 0.89% | 2.71% | 5.21% |
| CEE/BS/CIS | 9.90% | 16.27% | 7.09% | 9.68% | 11.13% | 2.75% | 8.99% | 5.97% |
| Africa | 3.35% | 5.28% | 11.01% | 1.84% | -6.75% | 5.97% | 3.27% | 11.92% |
| Middle East | 6.95% | 8.17% | -4.41% | 2.86% | -7.54% | 9.69% | 6.89% | 8.94% |
| Asia | 8.36% | 7.30% | 11.76% | 6.49% | 0.82% | 7.39% | 7.14% | 10.00% |

Source: Data are from WTO (2001)

Note: CEE/BS/CIS: Central and Eastern Europe, Baltic States, and Commonwealth of Independent States.

Table 2. Andean Community: Income Elasticity of Import Demand—Multiple Regression Analysis Results (1980-2000 and 1980-1987)

| | 1980-2000 | | | | | | | | | | | |
|---|--------------------------------|----------|-----------------------|---------|-----------------------------|----------|-----------------------|---------|--------------------------------|----------|-----------------------|---------|
| | <u>Intra-Andean Imports</u> | | | | <u>Extra-Andean Imports</u> | | | | <u>Total Imports</u> | | | |
| | Coefficient | EE | t Statistics | P-value | Coefficient | EE | t Statistics | P-value | Coefficient | EE | T Statistics | P-value |
| Intercept | -2.89 | 0.63 | -4.60 | 0.00 | 0.49 | 0.40 | 1.23 | 0.22 | 0.50 | 0.38 | 1.33 | 0.19 |
| ? ₁ : Ln(GDP) | 0.83 | 0.06 | 13.25 | 0.00 | 0.75 | 0.04 | 19.03 | 0.00 | 0.76 | 0.04 | 20.22 | 0.00 |
| ? ₂ : D ₁ * Ln(GDP) | 0.07 | 0.01 | 5.01 | 0.00 | 0.02 | 0.01 | 1.79 | 0.08 | 0.02 | 0.01 | 2.48 | 0.02 |
| ? ₃ : Ln(Import prices / CPI) | -0.04 | 0.02 | -1.84 | 0.07 | -0.02 | 0.01 | -1.34 | 0.18 | -0.02 | 0.01 | -1.55 | 0.13 |
| | R Square (not adjusted) | F | Significance F | | R Square | F | Significance F | | R Square (not adjusted) | F | Significance F | |
| | 0.84 | 109.87 | 0.00 | | 0.88 | 155.61 | 0.00 | | 0.90 | 181.70 | 0.00 | |
| | 1980-1987 | | | | | | | | | | | |
| | <u>Intra-Andean Imports</u> | | | | <u>Extra-Andean Imports</u> | | | | <u>Total Imports</u> | | | |
| | Coefficient | EE | T Statistics | P-value | Coefficient | EE | t Statistics | P-value | Coefficient | EE | T Statistics | P-value |
| Intercept | -3.50 | 0.74 | -4.74 | 0.00 | 0.27 | 0.50 | 0.54 | 0.59 | 0.23 | 0.47 | 0.50 | 0.62 |
| ? ₁ : Ln(GDP) | 0.89 | 0.07 | 12.12 | 0.00 | 0.77 | 0.05 | 15.66 | 0.00 | 0.79 | 0.05 | 16.85 | 0.00 |
| ? ₂ : D ₁ * Ln(GDP) | 0.07 | 0.01 | 4.56 | 0.00 | 0.02 | 0.01 | 1.74 | 0.09 | 0.02 | 0.01 | 2.32 | 0.02 |
| ? ₃ : Ln(Import prices / CPI) | -0.03 | 0.02 | -1.60 | 0.12 | -0.02 | 0.01 | -1.14 | 0.26 | -0.02 | 0.01 | -1.30 | 0.20 |
| | R Square (not adjusted) | F | Significance F | | R Square | F | Significance F | | R Square (not adjusted) | F | Significance F | |
| | 0.85 | 84.40 | 0.00 | | 0.87 | 102.59 | 0.00 | | 0.89 | 122.12 | 0.00 | |

Source: Trade data, output data, and import prices for the Andean Community are from ECLAC (2000, 2001, and 2002). CPI data are from the IMF (2002).

Note: No. of observations: 65 (years: 1980, 1985, 1990-2000 for 5 Andean countries).

**Table 3. Andean Community:
Intensity of Trade Index to Intra- and Extra-Andean Region (1980-2000)**

| Year | Bolivia | Colombia | Ecuador | Peru | Venezuela | Intra-Region | Extra-Region |
|-------------|----------------|-----------------|----------------|-------------|------------------|---------------------|---------------------|
| 1980 | 6.176 | 5.928 | 5.171 | 2.036 | 2.302 | 3.508 | 0.011 |
| 1985 | 1.890 | 4.766 | 5.140 | 4.159 | 1.737 | 3.199 | 0.008 |
| 1990 | 5.672 | 10.335 | 7.400 | 14.084 | 4.115 | 7.698 | 0.005 |
| 1991 | 3.919 | 11.065 | 10.015 | 19.840 | 6.256 | 9.638 | 0.006 |
| 1992 | 6.421 | 11.436 | 11.589 | 20.514 | 7.379 | 10.451 | 0.007 |
| 1993 | 7.704 | 16.584 | 13.072 | 17.450 | 9.015 | 12.807 | 0.007 |
| 1994 | 9.051 | 19.466 | 17.897 | 15.396 | 8.872 | 14.929 | 0.006 |
| 1995 | 6.765 | 18.163 | 20.080 | 19.321 | 12.717 | 16.181 | 0.007 |
| 1996 | 8.814 | 16.715 | 20.751 | 19.584 | 10.439 | 15.276 | 0.006 |
| 1997 | 8.362 | 16.228 | 23.875 | 22.491 | 9.208 | 15.152 | 0.007 |
| 1998 | 9.765 | 20.383 | 26.079 | 19.266 | 11.692 | 17.074 | 0.007 |
| 1999 | 10.673 | 17.534 | 25.420 | 20.175 | 11.040 | 15.727 | 0.005 |
| 2000 | 10.028 | 15.865 | 23.419 | 22.086 | 12.017 | 15.836 | 0.005 |

Source: Data based on export FOB prices are from ECLAC (2000, 2001, and 2002).

Table 4. Andean Community: Share of Exports to Intra- and Extra-Andean Region (1980-2000)

| Year | Bolivia | Colombia | Ecuador | Peru | Venezuela | Intra-Region | Extra-Region |
|-------------|----------------|-----------------|----------------|-------------|------------------|---------------------|---------------------|
| 1980 | 0.27% | 1.49% | 0.61% | 0.33% | 1.25% | 3.95% | 96.05% |
| 1985 | 0.06% | 1.03% | 0.50% | 0.37% | 0.66% | 2.62% | 97.38% |
| 1990 | 0.13% | 1.60% | 0.43% | 1.03% | 0.91% | 4.10% | 95.90% |
| 1991 | 0.11% | 1.64% | 0.75% | 1.79% | 1.80% | 6.10% | 93.90% |
| 1992 | 0.22% | 2.39% | 0.90% | 1.88% | 2.49% | 7.88% | 92.12% |
| 1993 | 0.28% | 3.94% | 1.06% | 1.71% | 2.70% | 9.69% | 90.31% |
| 1994 | 0.30% | 5.17% | 1.58% | 1.75% | 1.86% | 10.67% | 89.33% |
| 1995 | 0.28% | 4.62% | 1.72% | 2.54% | 2.90% | 12.06% | 87.94% |
| 1996 | 0.31% | 3.94% | 1.51% | 2.46% | 2.16% | 10.37% | 89.63% |
| 1997 | 0.35% | 4.07% | 2.01% | 2.92% | 2.48% | 11.84% | 88.16% |
| 1998 | 0.45% | 5.00% | 2.54% | 2.59% | 3.40% | 13.98% | 86.02% |
| 1999 | 0.34% | 2.87% | 1.37% | 2.07% | 2.53% | 9.18% | 90.82% |
| 2000 | 0.25% | 2.55% | 1.33% | 2.20% | 2.75% | 9.08% | 90.92% |

Source: Data based on export FOB prices are from ECLAC (2000, 2001, and 2002).

Table 5. Andean Community Countries: Intensity of Trade Index to Intra- and Extra-Andean Region (1980-1990)

| Origin \ Destination | <u>1980-1985</u> | | <u>1990-1992</u> | | <u>1993-1997</u> | | <u>1998-1999</u> | | <u>2000</u> | |
|----------------------|------------------|-------|------------------|-------|------------------|-------|------------------|-------|-------------|--------|
| | Intra | Extra | Intra | Extra | Intra | Extra | Intra | Extra | Intra | Extra |
| Bolivia | 3.345 | 0.009 | 15.065 | 0.006 | 26.381 | 0.006 | 32.635 | 0.005 | 37.191 | 0.0045 |
| Colombia | 8.109 | 0.009 | 15.464 | 0.006 | 22.691 | 0.006 | 24.219 | 0.006 | 28.854 | 0.0048 |
| Ecuador | 4.185 | 0.009 | 10.669 | 0.006 | 13.239 | 0.007 | 17.206 | 0.006 | 24.310 | 0.0049 |
| Peru | 7.832 | 0.009 | 11.809 | 0.006 | 10.242 | 0.007 | 10.095 | 0.007 | 11.379 | 0.0054 |
| Venezuela | 1.436 | 0.010 | 5.254 | 0.006 | 11.908 | 0.007 | 12.298 | 0.006 | 8.954 | 0.0054 |
| Intra-Andean | 3.354 | 0.009 | 9.262 | 0.006 | 14.869 | 0.007 | 16.400 | 0.006 | 15.836 | 0.0052 |

Source: Data based on export FOB prices are from ECLAC (2000, 2001, and 2002).

Table 6. Andean Community Countries: Share of Exports to Intra- and Extra-Andean Region (1980-2000)

| Origin \ Destination | <u>1980-1985</u> | | <u>1990-1992</u> | | <u>1993-1997</u> | | <u>1998-1999</u> | | <u>2000</u> | |
|----------------------|------------------|--------|------------------|--------|------------------|--------|------------------|--------|-------------|--------|
| | Intra | Extra | Intra | Extra | Intra | Extra | Intra | Extra | Intra | Extra |
| Bolivia | 3.30% | 92.79% | 9.82% | 90.18% | 19.26% | 80.74% | 22.51% | 77.49% | 21.32% | 78.68% |
| Colombia | 9.32% | 90.68% | 10.21% | 89.79% | 16.68% | 83.32% | 16.97% | 83.03% | 16.54% | 83.46% |
| Ecuador | 5.67% | 94.33% | 6.62% | 93.38% | 9.75% | 90.25% | 11.91% | 88.09% | 13.94% | 86.06% |
| Peru | 7.51% | 92.49% | 7.51% | 92.49% | 7.52% | 92.48% | 7.09% | 92.91% | 6.52% | 93.48% |
| Venezuela | 2.62% | 97.38% | 3.42% | 96.58% | 8.75% | 91.25% | 8.85% | 91.15% | 5.13% | 94.87% |
| Intra-Andean | 4.93% | 95.07% | 6.02% | 93.98% | 10.92% | 89.08% | 11.58% | 88.42% | 9.08% | 90.92% |

Source: Data based on export FOB prices are from ECLAC (2000, 2001, and 2002).

Table 7. Andean Community: Propensity to Export to Intra- and Extra-Andean Region (1980 - 2000)

| Year | Bolivia | Colombia | Ecuador | Peru | Venezuela | Intra | Extra |
|-------------|----------------|-----------------|----------------|-------------|------------------|--------------|--------------|
| 1980 | 1.431 | 1.374 | 1.198 | 0.472 | 0.533 | 0.813 | 0.0025 |
| 1985 | 0.358 | 0.904 | 0.975 | 0.789 | 0.329 | 0.607 | 0.0015 |
| 1990 | 1.244 | 2.267 | 1.623 | 3.089 | 0.903 | 1.689 | 0.0011 |
| 1991 | 0.736 | 2.079 | 1.882 | 3.727 | 1.175 | 1.811 | 0.0011 |
| 1992 | 1.095 | 1.950 | 1.976 | 3.497 | 1.258 | 1.782 | 0.0012 |
| 1993 | 1.387 | 2.986 | 2.354 | 3.142 | 1.623 | 2.306 | 0.0012 |
| 1994 | 1.549 | 3.331 | 3.062 | 2.634 | 1.518 | 2.555 | 0.0011 |
| 1995 | 1.096 | 2.943 | 3.254 | 3.131 | 2.061 | 2.622 | 0.0011 |
| 1996 | 1.600 | 3.033 | 3.766 | 3.554 | 1.894 | 2.772 | 0.0011 |
| 1997 | 1.410 | 2.737 | 4.026 | 3.793 | 1.553 | 2.555 | 0.0012 |
| 1998 | 1.359 | 2.837 | 3.629 | 2.681 | 1.627 | 2.376 | 0.0010 |
| 1999 | 1.772 | 2.912 | 4.221 | 3.350 | 1.833 | 2.612 | 0.0009 |
| 2000 | 2.073 | 3.281 | 4.842 | 4.567 | 2.485 | 3.274 | 0.0011 |

Source: Data based on export FOB prices are from ECLAC (2000, 2001, and 2002).

Table 8. Andean Countries: Propensity to Export to Intra- and Extra-Andean Region (1980 - 2000)

| Origin \ Destination | 1980-1985 | | 1990-1992 | | 1993-1997 | | 1998-1999 | | 2000 | |
|----------------------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|-------|--------|
| | Intra | Extra | Intra | Extra | Intra | Extra | Intra | Extra | Intra | Extra |
| Bolivia | 0.534 | 0.002 | 2.435 | 0.001 | 4.275 | 0.001 | 5.336 | 0.001 | 6.535 | 0.0008 |
| Colombia | 0.896 | 0.001 | 2.571 | 0.001 | 2.652 | 0.001 | 2.991 | 0.001 | 4.656 | 0.0008 |
| Ecuador | 0.839 | 0.002 | 2.632 | 0.001 | 3.213 | 0.002 | 4.702 | 0.002 | 8.801 | 0.0018 |
| Peru | 1.274 | 0.001 | 0.974 | 0.000 | 1.052 | 0.001 | 1.083 | 0.001 | 1.460 | 0.0007 |
| Venezuela | 0.423 | 0.003 | 1.478 | 0.002 | 3.263 | 0.002 | 2.259 | 0.001 | 2.300 | 0.0014 |
| Intra-Andean | 0.710 | 0.002 | 1.760 | 0.001 | 2.562 | 0.001 | 2.494 | 0.001 | 3.274 | 0.0011 |

Source: Data based on export FOB prices are from ECLAC (2000, 2001, and 2002).

Table 9. Andean Community: Annual Rate of Growth of Exports to Intra- and Extra-Andean Region (1980-2000)
(%, Based on export FOB prices)

| Year(s) | Bolivia | Colombia | Ecuador | Peru | Venezuela | Intra | Extra |
|------------------|---------|----------|---------|--------|-----------|--------|--------|
| 1980-1990 | -6.83% | 0.94% | -3.22% | 12.38% | -2.88% | 0.61% | 0.23% |
| 1990-1992 | 23.03% | 16.65% | 38.32% | 28.99% | 57.65% | 32.27% | -4.56% |
| 1993-1997 | 22.43% | 23.59% | 30.62% | 21.38% | 11.04% | 20.56% | 11.12% |
| 1998-1999 | -5.14% | -9.03% | -7.21% | -3.25% | 10.14% | -2.61% | 6.40% |
| 2000 | -2.51% | 16.99% | 28.14% | 39.98% | 43.33% | 30.38% | 31.82% |

Source: Data based on export FOB prices are from ECLAC (2000, 2001, and 2002).

Table 10. Andean Community: Evolution of Primary and Manufactured Exports (1980-2000)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Primary Goods | 73.12% | 55.73% | 55.67% | 51.93% | 52.97% | 51.28% | 56.27% | 55.89% | 52.19% | 55.54% | 56.65% |
| Agriculture | 12.26% | 15.05% | 14.92% | 13.60% | 17.43% | 15.22% | 13.19% | 16.02% | 17.39% | 13.70% | 8.59% |
| Mining | 4.06% | 3.84% | 3.90% | 2.93% | 2.99% | 3.35% | 2.81% | 2.98% | 3.15% | 2.46% | 2.08% |
| Energy | 56.80% | 36.84% | 36.86% | 35.41% | 32.55% | 32.71% | 40.27% | 36.88% | 31.65% | 39.37% | 45.98% |
| Manufactured Goods | 26.72% | 43.88% | 44.31% | 48.00% | 47.01% | 48.70% | 43.69% | 44.10% | 47.79% | 44.45% | 43.34% |
| Traditionals | 10.62% | 12.71% | 13.07% | 15.26% | 15.61% | 14.74% | 12.66% | 13.61% | 15.05% | 12.89% | 11.25% |
| Foods, drinkings and tobacco | 3.75% | 4.53% | 4.91% | 5.49% | 6.35% | 6.19% | 6.10% | 6.68% | 6.61% | 5.85% | 5.08% |
| Other traditionals | 6.87% | 8.19% | 8.16% | 9.77% | 9.26% | 8.55% | 6.56% | 6.93% | 8.44% | 7.04% | 6.18% |
| With high economies of scale | 14.48% | 29.49% | 29.25% | 29.76% | 28.29% | 30.87% | 28.10% | 27.22% | 27.69% | 28.03% | 28.98% |
| Durable | 0.41% | 0.53% | 0.75% | 1.62% | 1.75% | 1.67% | 1.37% | 1.64% | 1.91% | 0.89% | 1.13% |
| Technology diffusion | 1.20% | 1.15% | 1.24% | 1.37% | 1.37% | 1.41% | 1.56% | 1.64% | 3.13% | 2.64% | 1.98% |
| Other Goods | 0.17% | 0.39% | 0.01% | 0.07% | 0.02% | 0.02% | 0.03% | 0.01% | 0.03% | 0.02% | 0.01% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Source: Data based on export FOB prices are from ECLAC (2000, 2001, and 2002).

Note: Goods with high economies of scale refer mostly to intermediate goods. Durable goods refer to final or intermediate goods. Technology diffusion goods refer to capital or intermediate goods. See ECLAC (2002) for the details on the industrial classification for international commerce (CUCI) used.

Table 11. Andean Community: Annual Rate of Growth of Exports by Type of Goods and Recipient (1990-1992)

| | Latin America | United States | Japan | EU | Asia (excluding Japan) | Others | World |
|------------------------------|---------------|---------------|---------|---------|------------------------|---------|---------|
| Primary Goods | -6.61% | -21.08% | -14.69% | -8.69% | 30.89% | -33.58% | -17.90% |
| Agriculture | 1.55% | 6.86% | -4.85% | 4.42% | 28.94% | -10.27% | 3.79% |
| Mining | 23.25% | -27.15% | -19.54% | -6.68% | 24.43% | -6.98% | -7.81% |
| Energy | -9.35% | -25.98% | -31.24% | -19.88% | 32.55% | -37.64% | -24.20% |
| Manufactured Goods | 24.87% | 36.57% | -12.91% | -7.31% | 30.13% | 28.25% | 21.17% |
| Traditionals | 14.87% | -4.46% | -9.01% | -1.14% | 51.46% | -5.03% | 4.38% |
| Foods, drinkings and tobacco | 18.04% | -27.71% | 1.80% | 6.45% | 50.57% | 16.28% | 7.60% |
| Other traditionals | 13.53% | 4.17% | -12.56% | -6.18% | 59.19% | -25.11% | 2.58% |
| With high economies of scale | 30.78% | 70.17% | -13.90% | -11.26% | 11.52% | 68.12% | 33.73% |
| Durable | 89.46% | -8.60% | 79.70% | -22.26% | 15.22% | -2.91% | 26.91% |
| Technology diffusion | 17.77% | -30.34% | -15.03% | -1.49% | -5.50% | -17.94% | -4.61% |
| Other Goods | -68.82% | -60.43% | -96.39% | -78.79% | -65.33% | -84.77% | -72.99% |
| Total | 9.82% | -7.16% | -14.05% | -8.40% | 30.48% | -21.38% | -5.91% |

Source: Data based on export FOB prices are from ECLAC (2000, 2001, and 2002).

Note: Goods with high economies of scale refer mostly to intermediate goods. Durable goods refer to final or intermediate goods. Technology diffusion goods refer to capital or intermediate goods. See ECLAC (2002) for the details on the industrial classification for international commerce (CUCI) used.

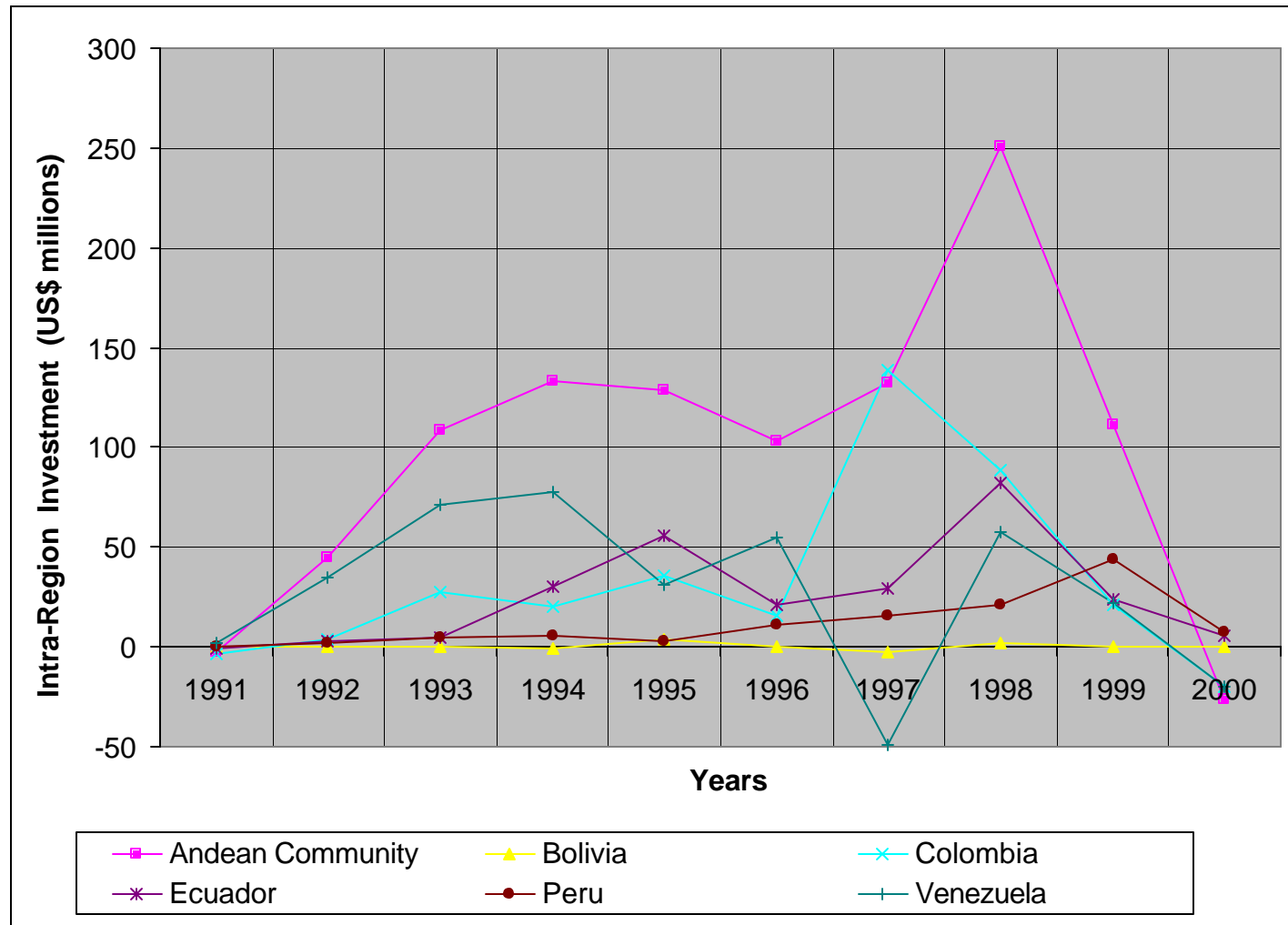
Table 12. Andean Community: Annual Rate of Growth of Exports by Type of Goods and Recipient (1993-2000)

| | Latin America | United States | Japan | EU | Asia (excluding Japan) | Others | World |
|------------------------------|--------------------------|--------------------------|--------------|-----------|---------------------------------------|---------------|--------------|
| Primary Goods | 14.42% | 13.01% | 5.04% | -0.05% | 6.75% | 15.13% | 11.13% |
| Agriculture | 7.59% | 2.72% | 6.79% | -3.03% | 15.54% | 15.61% | 2.79% |
| Mining | 4.29% | -11.27% | 2.39% | -12.20% | 11.11% | 28.37% | 4.51% |
| Energy | 16.41% | 14.99% | 2.14% | 5.86% | 2.50% | 13.68% | 13.94% |
| Manufactured Goods | 9.57% | 8.48% | -1.58% | 3.84% | 8.74% | 8.35% | 8.17% |
| Traditionals | 7.07% | 2.64% | -2.43% | 3.11% | 11.65% | 4.44% | 5.09% |
| Foods, drinkings and tobacco | 11.78% | -1.06% | 10.52% | 6.34% | 14.36% | 6.44% | 8.53% |
| Other traditionals | 4.62% | 3.47% | -12.73% | -1.71% | -1.07% | 0.17% | 2.81% |
| With high economies of scale | 11.11% | 9.86% | -1.13% | 4.44% | 4.36% | 9.33% | 9.35% |
| Durable | 2.39% | 10.70% | -9.40% | 2.80% | -12.18% | 8.61% | 4.24% |
| Technology diffusion | 15.14% | 18.11% | -14.53% | 7.27% | 8.37% | 19.57% | 15.77% |
| Other Goods | -28.44% | -7.45% | 12.09% | 8.58% | 37.27% | 34.33% | -14.31% |
| Total | 10.81% | 11.34% | 1.30% | 1.29% | 7.79% | 12.30% | 9.76% |

Source: Data based on export FOB prices are from ECLAC (2000, 2001, and 2002).

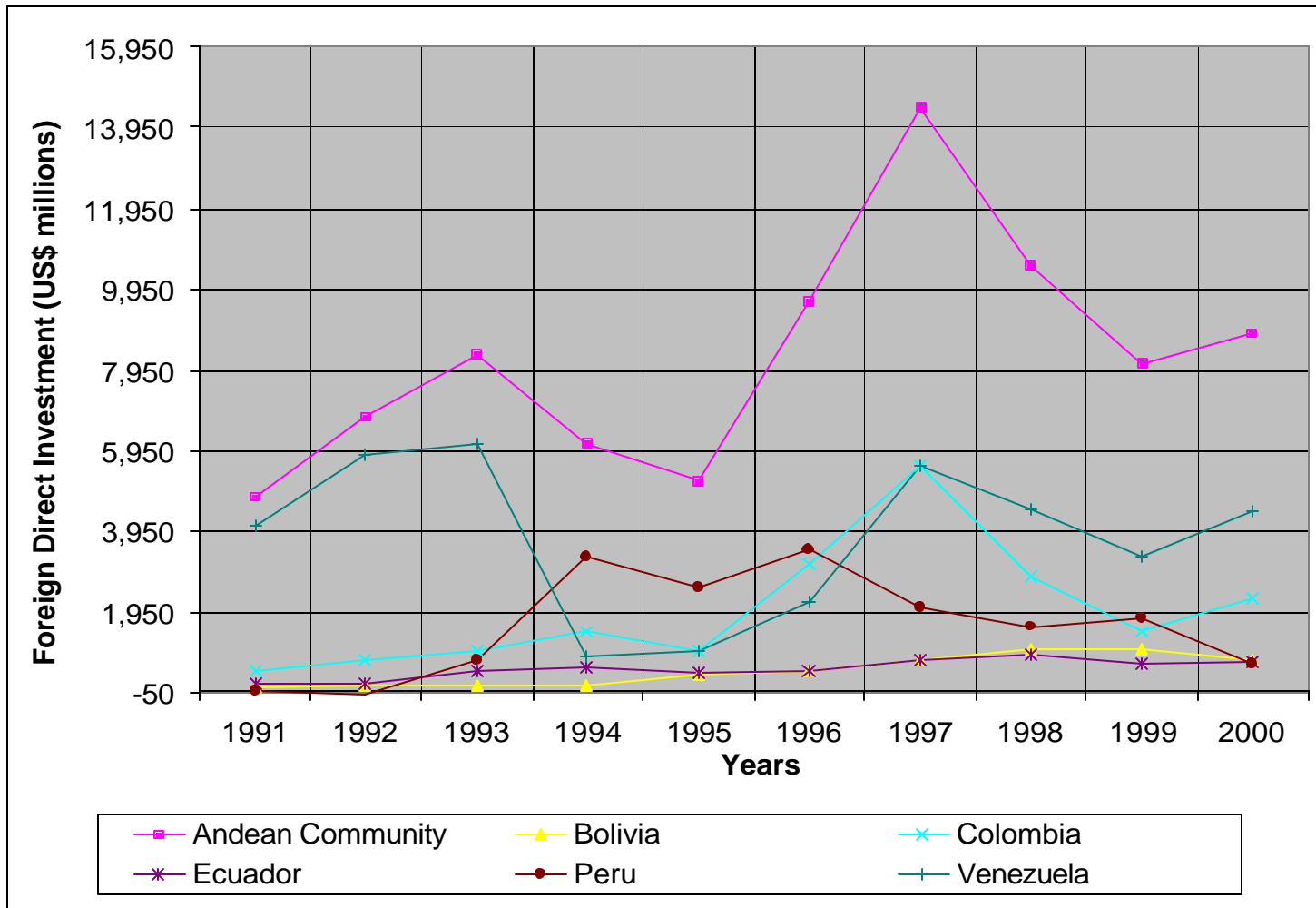
Note: Goods with high economies of scale refer mostly to intermediate goods. Durable goods refer to final or intermediate goods. Technology diffusion goods refer to capital or intermediate goods. See ECLAC (2002) for the details on the industrial classification for international commerce (CUCI) used.

Figure 1. Andean Community: Intra-Region Investments (1991-2000)
(US\$ Millions)



Source: Andean Community (2002).

Figure 2. Andean Community: Foreign Direct Investment (1991-2000)
(US\$ Millions)



Source: Andean Community (2002).