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ROUND TABLE: "TOWARDS A REGIONAL AGRICULTURAL COMMON MARKET: PROBLEMS AND PERSPECTIVES"

Introduction

1. There is an increasingly heavy agenda of priority items on food and agriculture that transcend national boundaries. While the countries and subregions of Latin America and the Caribbean (LAC) face distinct realities, problems and priorities, common challenges do nevertheless exist for the rural world. Major processes of economic and trade integration have been initiated in different subregions of LAC, in which the agricultural sector has been the central pillar. Trade integration could infer technical cooperation between countries to increase agricultural productivity and the potential of agriculture and agroindustry. Rural development strategies and public policy actions underpinning those strategies could be enhanced through the exchange of experiences and lessons learned. However, theory and empirical evidence indicate the short-term existence of winners and losers in any process of trade integration. Adjustment policies are therefore needed to modulate transition towards conditions of greater market liberalization and economic integration. The Round Table "Towards a Regional Agricultural Common Market: Problems and Perspectives" seeks to present an up-to-date panorama of the regional economic organizations (CAN, CARICOM, MERCOSUR and SICA) and their member countries, on the basis of their experience in integrating their agricultural markets and their prospects for achieving a regional agricultural common market.

The purpose of trade integration

2. Economic science explains that societies achieve higher levels of wellbeing as their markets integrate. Trade tends to flourish as markets open and integrate; this, in turn, helps change national production structures and raise the population's level of consumption. If regulated, market integration permits a more efficient transmission of prices, providing producers with the information they need to optimize the use of resources or to adopt technologies to increase income. Market integration can also generate higher incomes through the enabling environment it creates for production partnerships (which can minimize risks and lower production costs) and for vertical integration (which can reduce certain transaction costs and achieve economies of scale) (Vollrath, 2003; Anderson, 2005).

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3. Trade also has the potential to reduce poverty by opening new markets, creating sources of employment, fostering competition, increasing productivity and developing new ideas and technologies. However, there is no automatic linkage between trade and poverty reduction. As evidence in several countries shows, trade liberalization does not in itself reduce poverty and can in fact lead to greater inequality¹. If it is to have the desired impact, trade liberalization needs to be accompanied by measures to improve the conditions of the poor, especially health and education, and by policy measures to improve the climate for investment, infrastructure, and the efficient functioning of local markets. These are some of the required conditions if potential exporters are to seize the opportunities opened by trade integration (Goldin and Reinert, 2006).
4. Seventy percent of the world's poor live in rural areas, in which the agricultural sector predominates. The potential for agricultural trade to alleviate poverty will depend in large measure on the possibility of raising rural incomes, whether from agricultural or non-agricultural activity. Initiatives to alleviate poverty will thus clearly touch upon agricultural trade and rural development. In this connection, FAO's latest edition of *The State of Food and Agriculture* (SOFA) analyses the complex economic relations that exist between trade, poverty and food security. The document indicates that the *trade-growth* equation can act as an important vehicle for poverty reduction. However, the potential for trade to help poverty alleviation and food security is conditional upon effective levels of investment in infrastructure, institutions, education and health. Policy reform, including trade policy reform, can also help reduce poverty and food insecurity, provided the new policies have been carefully designed and applied in accordance with a pro-poor strategy.²

Advances in subregional and regional integration in Latin America and the Caribbean

Subregional trade integration

5. The four subregions of Latin America and the Caribbean (Andean, Central America, Caribbean and Southern Cone) have embarked on major processes of economic and trade integration. The agricultural sector has been central to this process and has presented major challenges, similar to those observed in the WTO rounds of negotiations and the free trade treaties within and between regions.
6. Agricultural trade integration is at various stages of advance in each subregion. The Central American Common Market (CACM), which includes Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, started with the General Treaty for Central American Integration of Managua in 1960 and was consolidated with signature of the Protocol of Tegucigalpa in 1991, whereby Belize and Panama became full members and the Dominican Republic an associate member. This protocol led to the adoption of a framework structure, the Central American Integration System (SICA). Today, virtually all goods circulate freely between the Central American countries, with certain exceptions such as coffee and sugar.
7. CARICOM (*Caribbean Community and Common Market*) was established in 1973 with the Treaty of Chaguaramas and has 15 member countries³. Their respective levels of integration into CARICOM vary: six countries have met the common market requirements since January

¹ See, for example, the recent study of the World Bank (Perry, et.al., 2006) which refers to a number of empirical studies that show that trade liberalization can sometimes generate greater inequality by bolstering demand for skilled labour. Similarly, some analysts do not see regional integration as the most effective way of eliminating distortions of trade or of advancing economic development.

² Other bodies such as UNCTAD, UNDP, World Bank and OECD have also published recent works on trade and development, with similar conclusions to those of FAO. A summary of these studies can be found in FAO (2005).

³ Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.

2006; a further six have signed letters of intent to join in June 2006; and three still need to implement various measures to become part of the common market.

8. The Southern Common Market (MERCOSUR) was established with the Treaty of Asunción of 1991 and is made up of Argentina, Brazil, Paraguay and Uruguay. Bolivia, Chile, Colombia, Ecuador and Peru are associate members. Venezuela was accepted as a new member on 9 December 2005, with formal entry in late 2006. An announcement was made on 30 December 2005 that Bolivia would be invited to join as a full member. The bulk of tariff elimination within the area was completed on 31 December 1994 and since 2000 virtually the whole tariff schedule has been one of intrazonal free trade, with the exception of motor vehicles and sugar.
9. Finally, in the case of the Andean Community (CAN), made up of Bolivia, Colombia, Ecuador, Peru and Venezuela, the free trade area was established in 1993. Peru became a full member in 2005, so trade between the five Andean countries has been tariff free since 1 January 2006.
10. The four subregions have also made progress in forming customs unions. CARICOM has had a Common External Tariff (CET) since 1995, at around 40% for primary and processed agricultural products (certain member countries can be granted temporary exceptions from application of the CET). In the case of CAN, a CET has been in effect since 1 February 1995, adopted by Colombia, Ecuador and Venezuela at 5, 10, 15 and 20% (with certain exceptions). There are also tariff deferment modalities that allow countries to stray from the basic structure and plans to draw up a new tariff structure for the five countries. The five Central American countries have managed to harmonize 94.6% of their total tariff positions (6 198) applicable to third party countries, representing 89% of the subregion's external trade; of the 5.4% tariff headings to be harmonized, 188 are for agricultural products (121 tariffed under the WTO and 67 not tariffed). MERCOSUR's Common External Tariff came into effect in 1994, covering 85% of the comprehensive tariff schedule. The remaining products were included in lists of CET exceptions and special import regimes to give the national industrial sectors a period of transition. The CET and lists of exceptions came into effect on 1 January 1995 and replaced the existing tariff regimes of the countries of MERCOSUR. There has been a proposal to remove existing CET exceptions during 2006, to establish common trade protection, including safeguards against external trade, and to define instruments for the gradual elimination of *anti-dumping* measures and countervailing duties in intrazonal trade.⁴

Regional trade integration

11. Subregional trade integration has been accompanied by bilateral and multilateral free trade agreements between member countries of different subregions. The first agreements of this type in the early 1990s, such as that between Mexico and Chile, have been followed by several regional accords as indicated in Table 1. Also, since 1980 and although of limited real effect, preferential tariffs have been applied between member countries of the Latin American Integration Association (ALADI/LAIA).
12. In South America, three recent agreements will accelerate trade integration: CAN-3 (Ecuador, Colombia and Venezuela) and MERCOSUR which came into effect in early 2005; the MERCOSUR – Peru accord; and the incorporation of Venezuela into MERCOSUR as a Party State since December 2005. Both CAN and MERCOSUR have established 'Associate State' status. Another initiative that will consolidate trade integration in South America is the agreement signed by the South American Presidents in 2004 to establish a South American Community of Nations (SACN).

⁴ The state of integration in each subregion is reported in: CARICOM (2006), CAN (2006), CAC (2006), MERCOSUR (2006) and ECLAC (2005).

Other areas of agricultural integration

13. Agricultural trade integration has gone further than the subregional opening of trade and the formation of customs unions. The Andean subregion, for example, has established institutional structures to examine and decide on issues relating to agricultural integration: the Commission of the Andean Community and the Enlarged Commission with Ministers of Agriculture; Council of Ministers of Agriculture; Andean Agricultural Committee (Deputy Ministers); Andean Technical Committee on Plant and Animal Health (Heads and Directors of National Plant and Animal Health Services); government experts; *ad hoc* groups (with the participation of private sector representatives); and the General Secretariat. The Ministers of Agriculture of CAN have adopted the *Andean Programme of Rural Development and Agricultural Competitiveness*, which brings development into the process of agricultural integration and covers rural development and food security; production reconversion; competitiveness, trade and harmonization of policies; technological innovation; plant and animal health; management of natural resources; and other areas.
14. In Central America, the Protocol of Guatemala of 1993 established the Central American Agricultural Council (CAC)⁵ as a body to promote the subregional integration of agriculture as part of the economic subsystem of SICA. The CAC is made up of the Ministers of Agriculture and is tasked with proposing and implementing actions for the implementation of regional activities, programmes and projects in agriculture, forestry and fisheries, both as regards plant and animal health policy and matters relating to scientific and technology research and the modernization of production, and with coordinating, together with the Council of Ministers Responsible for External Trade, aspects concerning the intrazonal and international trade of agricultural products (CAC, 2006). The subregion has established a Mechanism for the Settlement of Trade Disputes and has approved regional regulations on Unfair Trade Practices (1995), Protective Measures (1996), Origin of Merchandise (2005), Standardization Measures, Metrology and Authorization Procedures (1999), Sanitary and Phytosanitary Measures and Procedures (1999), International Customs Transit (2001), Single Central American Customs Code (2002) and Customs Valuation of Merchandise (2004). It has also set up a programme of work to accredit sanitary and phytosanitary standards and procedures. In November 2005, the CAC appointed a working group, with representatives from each Ministry of Agriculture of Central America, to initiate formulation of a regional agricultural policy.
15. MERCOSUR's institutional structure has a number of bodies linked to agriculture: the Council of the Common Market (CMC) has the Meeting of Ministers of Agriculture (RMA); the Common Market Group (GMC) has Working Subgroup N° 8 Agriculture, the Specialized Meeting on Family Agriculture (REAF) and the *Ad Hoc* Group on Agricultural Biotechnology (GAHBA). The RMA was the driving force behind MERCOSUR's key agricultural Decision N° 6/96 "Agreement on the Application of the WTO Sanitary and Phytosanitary Measures". Working Subgroup N° 8 Agriculture, which has existed since the signature of the Treaty of Asunción, has been working along two major lines: analytical monitoring of national agricultural and agroindustrial policies; and formulation of rules to standardize national procedures in the four Party States. The subgroup seeks to promote the rational development of regional production, to increase productivity and to ensure the integration of MERCOSUR's food and agriculture sector at international level, prioritizing issues of special relevance to the facilitation of trade. It also performs an important function of coordination with the private sector, informing it of the outcome of negotiations and channelling the private sector's concerns to MERCOSUR. Working Subgroup N° 8 has initiated a number of GMC resolutions harmonizing rules and regulations, approving standard forms and procedures, adopting international standards and establishing methodologies, among other matters. For its part, REAF seeks to integrate family agriculture into the dynamics of MERCOSUR, bringing this economically significant segment of national

⁵ The five countries in the CAC are: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

agricultural sectors to the negotiation table⁶. This institutional structure has forged relations between the technical experts and policymakers of member countries and has enabled MERCOSUR to adopt common positions in major international agricultural negotiations.

16. In CARICOM, the considerable diversity among member countries (for example the agricultural contribution to GDP varies between under 1% and over 40% while participation in workforce varies between under 5% and over 30%) has hampered the establishment of a common agricultural agenda. However, there are initiatives aimed at strengthening the agricultural sector from a subregional perspective, such as the creation of the *Caribbean Regional Organization for Standards and Quality* (which has already established standards for rice and sugar), the Programme of Regional Transformation (supervised by the Community Council of Ministers), and the Jagdeo Initiative which covers the entire CARICOM agricultural system and seeks to create an enabling environment for trade, competitiveness and sustainable agricultural and rural development. The initiative identified the obstacles affecting agriculture (transport, marketing, finance, research and development, information and communication technology, and human resources) and strategies needed to overcome these obstacles: a) create an environment conducive to business; b) enhance competitiveness and capacity of supply; c) establish and strengthen private sector organizations; and d) upgrade resource management capacities to improve business and trade efficiency.

Difficulties in the subregional integration processes

17. The processes of subregional trade integration have been affected by a number of social, political and economic contingencies arising from the internal development process of individual member countries. Principal factors delaying trade integration include:
18. *Asymmetries in levels of development.* Several countries have inadequacies of infrastructure, transport, communication, plant and animal health, services and institutional development; others lack appropriate legal frameworks to deliver on commitments made in subregional trade agreements, given the relatively low institutional development. This results in non-observance of commitments which is also difficult to overcome on account of the limited development of information systems, customs, infrastructure, and so forth. However, lessons could be learned from the successful integration of relatively less developed countries in more developed subregions, for example the European Union membership of Spain, Portugal and Greece, which indicates how a proper strategic framework and firm commitment of all parties can neutralize the restrictive impact of asymmetries on subregional integration. Also noteworthy are advances in dealing with such asymmetries in trade negotiations; for example, Chile has unilaterally extended previously partial-scope tariff preferences to virtually all its imports from Bolivia (with the exception of agricultural products subject to price bands); there is also the ongoing implementation of MERCOSUR's Fund for Structural Convergence (FOCEM)⁷.
19. *Macroeconomic policy.* Macroeconomic misalignments, sharp falls in GDP, devaluations and inflation have had a negative impact on market integration in some subregions. Specific import duties have sometimes been re-introduced to counter the currency devaluation of an exporting country, or the entry of imports has been made conditional upon the provision of credit by the exporting country. Such situations have even caused lengthy disputes.
20. *Sectoral policies.* As countries apply different agricultural policies, these could be viewed as a source of trade distortion and an impediment to greater integration of agricultural trade. Some

⁶ This objective is to be achieved by strengthening and proposing public policies; promoting and facilitating the trade of family agriculture products in the Region; and providing information on international trade negotiations.

⁷ ALADI (2005).

countries continue to employ a low-profile agricultural policy, while others are committed to high State intervention in agriculture. Some place greater emphasis on protection at borders, while others prefer to attach greater importance to competitiveness agreements as an instrument of policy prioritization. Some prefer tax exemptions as a mechanism to promote the agricultural sector, while others opt more for public agricultural credit policies, direct incentives and special funds. Some countries interfere more in price setting, either by regulation or through State food marketing. This range of instruments represents a broad divergence in implementation of agricultural policy which has undoubtedly obstructed subregional integration.

21. *Trade protection measures.* All member countries of subregional trading blocs have applied such measures to some degree or other, justifying their action on the need to counter the still existing distortions to trade that are caused by the lack of harmonization of trade policy, devaluations or sanitary problems. Some commodities such as oilseeds, sugar, rice, wheat, pig meat and poultry have been particularly vulnerable in intrasubregional agricultural trade and have been the subject of restrictions and trade disputes. The prevalence of tariff barriers has also prevented greater integration of production chains, which thus in turn prevented higher added value to subregional production.

Subregional agricultural trade

22. Despite the difficulties of regional trade integration, there has clearly been a growth of agricultural trade in all the subregions and the Region⁸. Central America is a case in point: from representing 11.8% of total trade in the early 1990s, intrasubregional trade accounted for 25.5% of the total in 2002-2004. That represents a 411% increase in Central American intrasubregional trade in 12 years, against an increase of 150% with the rest of Latin America and the Caribbean and 94% with the rest of the world.
23. It should however be pointed out that the main markets for agricultural exports of Latin America and the Caribbean are outside the Region. In the case of Brazil and Mexico, 95% of their exports are to countries outside the Region, with a corresponding figure of 80% for the Andean countries and 75.4% for the Southern Cone countries (excluding Brazil) (Table 2).
24. The potential undoubtedly exists to increase regional trade. Analysis of the source of agricultural imports highlights the general prominence of countries of the Region. In the case of Brazil and the other countries of the Southern Cone, the LAC countries increased their participation as places of origin of imports by 40 percentage points (Table 3). Intraregional trade could grow even further if market integration efforts continue and are supported by agroindustrial development programmes and mechanisms to counter the unfair trading practices of the developed countries. (Salcedo and Boccheto, 2006).

Outlook for a regional agricultural common market

25. The processes of subregional integration and the establishment of multiple free trade agreements between countries of Latin America and the Caribbean illustrate the political will that exists to forge a regional agricultural common market in the future. These actions are consolidated by initiatives such as ALADI's move to establish a Free Trade Area⁹ or that of

⁸ In the case of the developed countries, agricultural trade continues to be largely endogenous and is becoming increasingly so: approximately 80 percent of agricultural exports from developed countries go to other developed countries (FAO, 2005).

⁹ See Resolution 59 of the Thirteenth Council of Ministers of the ALADI, at: <http://www.aladi.org/nsfaladi/textacdos.nsf/inicio2004?OpenFrameSet&Frame=basefrm&Src=d5tn76pj1dhgm8q9fehi ngt31cdi6uspedppmcbrccls78ob3chnn6chg60q3ujrgcln50ob7ckj42tbkdt374obdcli00>

the South American Presidents who instructed their Ministers to work towards a South American Free Trade Zone for the year 2010.

26. Apart from the economic advantages indicated at the beginning of this document, regional integration is perhaps the most appropriate mechanism to achieve stronger international participation of the countries of the Region, in the present context of globalization and distorted international agricultural markets. By speaking with one voice to the WTO, the Region could hasten the removal of the agricultural subsidies of the developed countries and secure greater access to their markets. The Region's negotiations could be more effective, given the ever greater expertise required of officials attending in international forums.
27. However, as has been seen in the subregions in recent years, furthering the process of regional integration will be up against several challenges. Some are indicated below:
28. *Political will.* As indicated above, this has been explicitly stated and tangibly demonstrated. However, such political will now needs to be placed on national policy agendas with concrete actions, and incorporated as another strategic dimension of national development. Relevant in this connection is the initiative launched by various countries of the Region to achieve a Latin America without Hunger by the Year 2025, if not by 2020.
29. *Closer subregional integration.* The subregions need to consolidate their processes of trade integration and find solutions to specific restrictions of agricultural trade. They also need to regulate and give transparency to protective measures; to continue the harmonization and alignment of national customs policies; and to enhance application of the Common External Tariff to refine the customs unions.
30. *Harmonization of agricultural policy.* The flows of agricultural products that result from trade liberalization and the existence of very different forms of government intervention in the agricultural sector (translating into very different levels of producer subsidy) will motivate the harmonization of agricultural policy. The changes needed for such harmonization will constitute difficult challenges for countries that intervene heavily in price setting, marketing and control of stocks. The current processes of decentralization taking place in a number of countries are an added complication to the harmonization of agricultural policy in the Region. Not only will instruments need to be harmonized between countries but there will also have to be adequate interaction of policies at different levels: local, provincial, departmental, national, subregional and regional¹⁰. Indeed, the harmonization of agricultural policy at regional level calls for actions and thrusts that go beyond the agricultural sector, requiring consultation and negotiation with other sectors, which will further complicate the process.
31. *Different levels of competitiveness.* The different levels of economic development of countries, their differing endowment of resources and their specific agricultural policies are just some of the aspects that are reflected in the different levels of agricultural competitiveness. Some countries have relatively higher production costs than others; some are more vulnerable to drastic changes in price or climate or to sanitary problems. There can even be a wide difference in producer competitiveness within the same country. Market integration will face the challenge of raising the competitiveness of different types of producer and of bringing the different kinds of agricultural production chain together under a single regional perspective. Rather than seeking comparative advantages for individual products, countries should build and develop the competitiveness of the system as a whole, incorporating various

With a view to establishing a free trade area, ALADI and the IBD will implement a pilot project for the digitization of certificates of origin from September 2006, with the already confirmed participation of Argentina, Brazil, Chile, Colombia, Cuba, Mexico and Venezuela. ALADI has also developed activities which it hopes will translate into products during the year to facilitate intermodal transport services and appraise the current regulatory and operational framework for the streamlining of customs procedures; all this in an attempt to facilitate regional trade and establish a free trade area.

¹⁰ Goldin and Reinert (2006) analyse the role of pro-poor policies, their multiple levels and their interactions in the context of globalization.

forms of intersectoral integration and territorial coordination. The design of policies geared towards poor producers will be fundamental, as will the diversification of production and the development of niche markets¹¹. Initiatives to be explored include those along the lines of the *Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF)*¹² which calls upon multi-agency and multi-donor participation to boost the involvement of the least developed countries in the global economy, with a focus on economic growth and alleviation of poverty.

32. *Plant and animal health and food safety systems.* The recent outbreaks of transboundary diseases such as avian influenza and bovine spongiform encephalopathy and the increasing food safety concerns of consumers, governments and businesses have placed health and safety policies centre stage for any successful intervention in international markets and progress towards regional trade integration. Although the trend is towards harmonization of health and safety measures, the degree of progress varies considerably. The differences that exist in health status and capacity of response to health contingencies can undermine credibility and confidence in respective national systems, which will represent a significant obstacle to any eventual elimination of internal customs controls. Training is therefore needed together with an evaluation of institutional arrangements to determine whether they are the most efficient and effective to implement sanitary measures in different scenarios, carrying out risk analysis and cost/benefit calculations for specific health measures, all this requiring significant investment to strengthen and certify existing plant and animal health and food safety systems.
33. *Transaction and transport costs.* Transaction costs are a key determinant of agricultural competitiveness, especially for small producers, and will influence the extent to which opportunities are taken (or threats minimized) from regional integration. Whether for goods or services, transaction costs play a lead role in determining how producers engage with markets and how they respond to policy signals. Because of its characteristics (road infrastructure, distances, time, modalities), transport costs account for a large proportion of transaction costs and are in turn affected by the domestic transport infrastructure, communications, port efficiency, customs efficiency, cost of financing an insurance, volumes freighted and problems of security. The Region's transport sector is extremely varied, with differing problems of logistics and, in part because of the perishability of agricultural products, can contribute towards the success and profits or failure and losses of agricultural producers¹³, as in any other part of the world. Greater regional integration, with equity, would require policies to reduce the transaction costs of small producers and to invest more heavily in transport infrastructure.
34. *Exchange rate policy.* The exchange rate plays a fundamental role in agricultural competitiveness and resulting international trade flows¹⁴. In recent years, the countries of the Region have experienced both devaluations and revaluations of their currencies, which has represented a subsidy or implicit bias for their agricultural sectors. The devaluations have in fact been a subject of controversy in the subregional trade of the LAC. Fluctuations in exchange rate will be common in the next years because of the predominance of flexible exchange rate regimes, so countries will have to identify strategies that avoid penalizing their agricultural economies but at the same time that do not constitute artificial barriers to trade.

¹¹ The World Bank (Perry, et.al., 2006; goldin and Reinert, 2006) explain in detail the importance of pro-poor policies in the design of economic development strategies.

¹² <http://www.integratedframework.org/>

¹³ A comprehensive analysis of agricultural commodity transport in Central America, the Enlarged Mercosur and the Andean Community, looking at the specific problems of each region and presenting strategies for improvement, is given in FAO (2004).

¹⁴ The fundamental role of the exchange rate in the agricultural sector has been recognized by economists since the seminal work of Edward Schuh in 1974 on the exchange rate and US agriculture; followed by the series of studies on *The Political Economy of Agricultural Pricing Policy* carried out by the World Bank in the early 1990s, led by Anne O. Krueger, Maurice Schiff and Alberto Valdés, and later by various case studies such as those of Larson, Bittencourt and Thompson (2004) and Cheng and Orden (2005).

35. *Extraregional free trade agreements (FTAs)*. The countries of Latin America and the Caribbean have aimed for production complementarities and opportunities to promote their exports with countries outside the Region. These are legitimate strategies that are adopted by various countries in the world but that could at the same time debilitate subregional and regional integration by directing efforts externally and opening the door to products with sizeable external subsidies (there are tariff differences in the FTAs that the LAC countries have signed with third party countries). To advance regional integration while entering into FTAs with countries outside the Region, especially the most developed countries, the LAC countries will need to: a) strike an appropriate intraregional and extraregional balance in their negotiation efforts; b) negotiate on the basis of existing asymmetries, for those that do not yet do so but intend to do so; c) hasten internal modernization to take advantage of the grace periods and rebates in the FTAs and increase competitiveness; d) strengthen the negotiating capacity of the countries of the Region in multilateral forums (ideally, speaking with one voice) and use the facility to adopt special agricultural safeguards that was agreed at the Hong Kong Summit of the WTO Doha Round to counter market distortions and unfair competition.
36. *Development of export capacity*. Greater trade integration will require efforts to improve the export capacity of small and medium agricultural producers. Capacity will need to be developed in both the private and public sectors. Export capacity has many dimensions that will need to be addressed: infrastructure, market information, management capacity, credit, information systems and market intelligence, regulations and standards, good agricultural practices, traceability. Technical cooperation between countries of the Region could be crucial for increasing the export capacity of small producers.
37. *Safety nets*. As with any process of market liberalization, regional trade integration will have differing impacts because of the hugely varied agricultural sector of each country and, in the short term, these impacts will translate as winners and losers. Countries will need to design and apply compensatory policies (safety nets) to ease transition towards the new production structures that will be emerge from regional trade integration; in other words, policy instruments will be needed to minimize the vulnerability of potential losers and to maximize the potential released by new markets. Governments will be faced with an array of policies but at the same time with budgetary restrictions, so it will be important that they select the most appropriate policy mix. Will income-support policies for agricultural producers be linked to commodity prices or decoupled? Will specific production reconversion funds be created or instruments to promote the capitalization of agricultural holdings? Under what criteria? Will emphasis be on sectoral policies or on a territorial development approach? Will priority be given to policies with short-term impact, such as input and market subsidies, or with long-term impact, such as research and transfer of technology? Will priority be given to policies that promote production or those that alleviate poverty through the conditional cash transfers that have recently come to prominence (PROGRESA and PROCAMPO in Mexico, Bolsa Familia in Brazil, Social Protection Network in Nicaragua, to name a few). In any case, design and implementation, in terms of focus, operational effectiveness, beneficiary ranking, transparency, monitoring and evaluation, will be fundamental for achievement of policy objectives¹⁵.
38. *Participation of the production sector*. The agricultural production sector should play a fundamental role in market integration and in economic integration. However, the participation of this sector is sometimes scarce, not very pro-active and focused on the short term because of the limited organization of producers. However, there are experiences of producers participating successfully in processes of trade liberalization and subregional

¹⁵ Several countries including Mexico, Brazil and Chile have implemented innovative policies from which useful insight could be gained. Some of these policies are examined in Davis (2004). Similarly, FAO and the IDB are currently implementing the "The Programme for the Preparation of Joint FAO-IAB Rural Development Technical Studies" (GCP/RLA/152/IAB), whose objective is to identify the possible impacts of trade liberalization on family farming and analyse the effectiveness of different support and compensatory policies.

integration, and these need to be consolidated and replicated in the Region. This will also require the formation of subregional¹⁶ and regional organizations.

39. The processes of regional trade integration and subregional trade integration seem to be mutually reinforcing. A sound process of regional integration could perhaps help to resolve or minimize the negative aspects of subregional agreements. Similarly, the strengthening of regional integration should simplify the many subregional agreements and coordinating bodies that currently exist. The Region's potential for trade integration seems clear. However, it is important not to lose sight of the fact that this initiative should be a means, not an end; a means towards promoting development and combating poverty and food insecurity. But trade integration will not in itself ensure greater development or less poverty. International experience tells us that trade integration will need to be accompanied by an arsenal of national policies and by success in dealing with the above-mentioned challenges, if it is to truly translate into greater development and less poverty.

¹⁶ Noteworthy in this context is the existence of a number of Central American federations for individual crops or livestock species; the agro-chain groups promoted under the initiative of the Andean Common Agricultural Policy; the Latin American Association of Poultry Farmers and the Latin American Association for Animal Production.

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Table 1. Levels of trade integration in Latin America and the Caribbean

Free Trade Treaties	Customs Unions	ALADI
Bolivia-Mexico (1995)	Andean Community (1969)	Argentina
CARICOM-Costa Rica (2004)	MERCOSUR (1991)	Bolivia
CARICOM-Dominican Republic (2005)	CACM (1960)	Brazil
CARICOM-Cuba (2000)	CARICOM (1973)	Chile
Central America-Chile (2002)		Colombia
Central America-Panama (2002)		Costa Rica
Central America-Dominican Republic (2001-2002)		Dominican Republic
Chile – Mexico (1999)		Ecuador
Costa Rica - Mexico (1995)		El Salvador
Group of Three (Colombia-Mexico- Venezuela) (1995)		Guatemala
Mexico - Nicaragua (1998)		Guyana
Mexico – Northern Triangle (El Salvador, Guatemala, Honduras) (2001)		Honduras
Mexico - Uruguay (2004)		Mexico
CARICOM-Colombia (1994)*		Nicaragua
CARICOM-Venezuela (1993)*		Panama
CAN-MERCOSUR (2005)		Paraguay
		Peru
		Trinidad & Tobago
		Uruguay
		Venezuela

* Preferential agreements.

Source: Organization of American States.

Note: There are also Economic Complementarity Agreements between countries of the region, such as Mexico-Brazil and Mexico-Mercosur, which give reciprocal preferential trade access, with a view to possible FTAs.

Table 2. Destination of agricultural exports per subregion (%)

	1990-1992	2002-2004	Change
<i>Central America</i>	100.0	100.0	
Central America	11.8	25.5	13.8
LAC	6.9	7.3	0.4
Other	81.3	67.1	-14.2
<i>Andean</i>	100.0	100.0	
Andean	9.0	12.9	3.8
LAC	7.1	6.8	-0.2
Other	83.9	80.3	-3.6
<i>Brazil</i>	100.0	100.0	
LAC	5.5	5.5	0.0
Other	94.5	94.5	0.0
<i>Caricom</i>	100.0	100.0	
Caricom	26.6	31.6	5.0
LAC	0.2	1.4	1.3
Other	73.2	67.0	-6.2
<i>Southern Cone</i>	100.0	100.0	
Southern Cone	4.4	5.7	1.4
LAC	22.1	18.8	-3.3
Other	73.5	75.4	1.9
<i>Mexico</i>	100.0	100.0	
LAC	1.4	4.7	3.3
Other	98.6	95.3	-3.3

Source: FAOSTAT

Table 3. Origin of agricultural imports per subregion (%)

	1990-1992	2002-2004	Change
<i>Central America</i>	100.0	100.0	
Central America	21.8	32.8	11.0
LAC	6.0	13.4	7.4
Other	72.2	53.8	-18.4
<i>Andean</i>	100.0	100.0	
Andean	8.6	17.4	8.9
LAC	16.9	28.9	11.9
Other	74.5	53.7	-20.8
<i>Brazil</i>	100.0	100.0	
LAC	23.3	63.7	40.4
Other	76.7	36.3	-40.4
<i>Caricom</i>	100.0	100.0	
Caricom	24.3	26.5	2.1
LAC	4.5	5.2	0.7
Other	71.2	68.4	-2.8
<i>Southern Cone</i>	100.0	100.0	
Southern Cone	9.6	40.2	30.5
LAC	22.7	34.9	12.1
Other	67.6	24.9	-42.7
<i>Mexico</i>	100.0	100.0	
LAC	6.1	8.2	2.0
Other	93.9	91.8	-2.0

Source: FAOSTAT