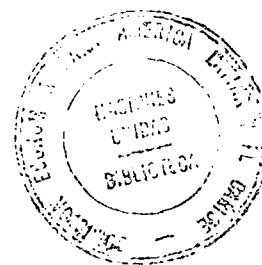


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**IDB - ECLAC**

**WORKING PAPERS  
ON TRADE IN THE  
WESTERN HEMISPHERE**



**WP-TWH-10**  
September 1992

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## **Abstracts of the Terms of Reference**

United Nations ECLAC

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**INTER-AMERICAN DEVELOPMENT BANK**

**UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA  
AND THE CARIBBEAN**



## **INTRODUCTION**

The following abstracts summarize the terms of reference for the sixty-seven working papers to be produced under the IDB-ECLAC trade liberalization project. The abstracts are classified according to the five major topic headings which constitute the conceptual framework of the project. The outline of this framework is reproduced in the following two pages.



## **I. GLOBAL ISSUES**

### **(1) An Overview of a WHFTA in Global Context**

- (a) Hemispheric Costs and Benefits**
- (b) Rationale for a WHFTA**
- (c) WHFTA, Regional Trading Blocs, and the Multilateral Trading System**
- (d) Conditions for Maximizing the Gains from a WHFTA**

### **(2) WHFTA, Inter-Hemispheric Relations, and Extra-Hemispheric Trade Liberalization Experiences**

- (a) WHFTA and Europe**
- (b) WHFTA and East Asia**
- (c) Israel-U.S. FTA**

## **II. TRADE LIBERALIZATION ARRANGEMENTS IN THE WESTERN HEMISPHERE**

### **(1) Hemispheric Lessons and Repercussions from CUSFTA and NAFTA**

### **(2) Hemispheric Sub-regional Integration Systems: Roles & Impacts**

- (a) CBI**
- (b) Andean Pact**
- (c) Mercosur**
- (d) ALADI**
- (e) CARICOM**

## **III. ESTIMATED COSTS AND BENEFITS FROM HEMISPHERIC TRADE LIBERALIZATION AT COUNTRY AND SECTORAL LEVEL**

### **(1) Country Case Studies**

### **(2) Sectoral Impact**

- (a) Industry**
- (b) Natural Resources**
- (c) Services**

### **(3) Cost-Benefit Empirical Models: Review & Analysis**

#### **IV. THE NEGOTIATING AGENDA AND PERSPECTIVES**

- (1) Market Access: Tariffs and NTBs
- (2) Domestic Trade Remedies
- (3) Dispute Settlement
- (4) Rules of Origin
- (5) Trade in Services
- (6) Trade-Related Investment
- (7) Intellectual Property Rights
- (8) Environment
- (9) Labor

#### **V. THE TRANSITION**

- (1) Negotiating Strategies
- (2) Hemispheric Trade Policies & Reforms
- (3) Supporting Policies and Considerations
  - (a) Macroeconomic
  - (b) Microeconomic
- (4) Institutions

# **I. GLOBAL ISSUES**

## **I.1. AN OVERVIEW OF A WHFTA IN GLOBAL CONTEXT**

### **(I.1.) 1. Western Hemispheric Trade Liberalization: Prospects and Implications**

W. Max Corden  
SAIS, Johns Hopkins University  
U.S.A.

An overview of the main economic issues involved in the possible establishment of a Western Hemisphere Free Trade Area (WHFTA). Much of the effort will focus on considerations from bilateral free trade areas between the U.S. and other countries in the hemisphere. The discussion will differentiate between short term and long term interests, national and sectional interests, and implications for the U.S. as well as repercussions in Latin American and Caribbean (LAC) countries. One emphasis will be an assessment of unilateral trade liberalization versus reciprocal liberalization. Which, if either, is in the interests of the LAC countries? Implications from a free trade area (FTA) for macroeconomic adjustments will also be addressed, as well as the issue of certificates of origin. Perhaps something can also be said about the ideal FTA arrangement, one that maximizes the potential gains and minimizes the costs, at least from a long-term point of view.

### **(I.1.) 2. Trade Liberalization in the Americas: Global Issues**

Graciela Chichilnisky  
Columbia University  
U.S.A.

To address the following global issues and their relevance to hemispheric trade liberalization:

- (a) developments in international capital markets;
- (b) resource markets;
- (c) regional trade as an engine of growth; and,
- (d) the global environment.

How will evolving ownership patterns in the international capital markets affect a WHFTA? Should natural resource rich countries exploit their existing comparative advantage or climb the

ladder of factor intensities? Since international trade is a major engine of the use of environmental resources, how can the public good aspects of environmental resources be reconciled with the creation of a WHFTA? The distribution of income and welfare within the trading economies will be an important background element, as will be the technologies and legal structures.

**(I.1.a.) 3. Free Trade in the Americas:  
Some New Estimates of the Economic Impact**

Richard G. Harris  
Simon Fraser University  
Canada

To develop a data base and methodology to adequately assess the potential economic impact of a WHFTA, both in terms of its impact on the region and globally. The emphasis is primarily on trade both within the hemisphere and between the countries within the hemisphere and other major trade blocs.

The major components of the paper are as follows:

- (a) Background information on relevant trade, income and growth statistics together with detail on trade protection within the region;
- (b) The basic issue of comparative advantage within the Hemisphere. Of particular importance will be the validity of comparative advantage along North-South lines, as documented in revealed comparative advantage studies;
- (c) Detailed estimates of trade creation, trade diversion and welfare consequences of a WHFTA. The methodology employed will be similar to the one the author has developed in conjunction with applied general equilibrium methods developed for use in analysis of both the Canadian - U.S. FTA (CUSFTA) and the North American FTA (NAFTA);
- (d) The issue of potential growth effects of a WHFTA through its impact on the rate of convergence of income levels across the region;
- (e) The potential income distribution effects within the region on high versus low skilled labour; and,
- (f) The potential for a WHFTA as either a threat or defense in a system of protectionist global trading blocs.



**(I.1.b.) 4. Why a Western Hemispheric Free Trade Agreement is in Latin America's Interests**

Rudiger Dornbusch  
Massachusetts Institute of Technology  
U.S.A.

Three reasons why LAC should seek now a systematic free trade agreement for the entire Western Hemisphere:

- (a) To "lock-in" reforms and create institutional barriers to a reversal of the accomplishments. Only an institutionalization and a domestic consensus on reform will bring the investments in new trade activities which are essential for the strategies;
- (b) Only the a setting of a free trade agreement can the reforming Latin American countries enjoy relative security of access to the U.S. market. The grave risk would be to have radically opened up only to find that the U.S. market is closing or that market access is haphazard; and,
- (c) Trade conflict between the U.S. and Japan is becoming increasingly likely, and Europe, under the weight of having to absorb the East and even parts of the CIS, is looking inward. In such a regionalization, Latin America should aggressively seek its own market at an early stage. That is not an alternative to multilateralism, but an essential parallel strategy.

**(I.1.c.) 5. North American Free Trade Area:  
Needed Stimulus for WHFTA and Beyond**

Robert Pastor  
Emory University  
U.S.A.

A broad, conceptual view of the existing intra- and inter-hemispheric trade trends, and of a future inter-American landscape. The central thesis is that a NAFTA agreement between the U.S., Canada, and Mexico will serve as a watershed event, transforming the three countries, Latin America, and eventually the global trading system and the ways in which the industrialized and developing countries relate to one another.

The paper will develop this theme in five parts:

- (a) A description and brief analysis of NAFTA;
- (b) An assessment of NAFTA as a vehicle for widening the debate between the U.S., Canada, and Mexico into a broader discussion

of ways to manage social, economic, and political integration;

- (c) A description and analysis of how NAFTA can spread, in stages, to encompass the hemisphere;
- (d) An assessment of some political and social implications of a WHFTA. What, for example, are the prospects for increased cooperation and consultation in the hemisphere? Can a WHFTA be a model for future cooperation between industrialized and developing countries?; and,
- (e) Some implications for GATT and global trade.

**(I.1.c.) 6. A Western Hemispheric Free Trade Area?**  
**Some General Comments**

Hans Singer  
University of Sussex  
England

To explore how a WHFTA could affect the LAC countries in light of alternative global and regional scenarios such as: implications of possible outcomes in the Uruguay Round; differences to LAC countries of a unilateral WHFTA without new developments in Europe and the Far East, as against a WHFTA which has a counterpart in strong European and Japanese regional blocks.

Also, the following questions on the impact of a WHFTA on Latin American and Caribbean economies:

- (a) How will a WHFTA affect Latin American co-operation with other developing countries as well as intra-Latin American collaboration?;
- (b) What is the adequate speed of implementation?; and,
- (c) To what extent could LAC countries have divergent development strategies, industrial and agricultural policies, for example, once they are members of a WHFTA?

**(I.1.d.) 7. Conditions for Maximizing the Gains from a WHFTA**

Anne Krueger  
Duke University  
U.S.A.

To focus on two major sets of issues:

- (a) The types of FTA arrangements that could be compatible with a multilateral trading world, versus those that would result in

regional trading blocs. The differences in real incomes for all Western Hemisphere countries, and mechanisms and policies compatible with a multilateral outcome. The losses that might accrue to LAC countries were the world to split into regional trading blocs will be addressed (although not quantified except in a very rough way); and,

- (b) The conditions under which a WHFTA would be "trade creating" and have minimal "diversion" costs. This discussion will cover a number of issues including: (1) sequential negotiations or a common framework for all countries (the "hub-spoke" alternative, in Canadian terminology); (2) the types of arrangements that would result in a "super-GATT" instead of a "western fortress" (rules of origin, dispute settlement, rules governing safeguards, sectoral versus general arrangements, etc.); and (3) the domestic economic policies and trade policies (overall trade and exchange rate policies, as well as domestic macroeconomic policies) that would be most conducive to gains.

Two opposite dangers exist. On the one hand, there is a real risk that the FTA will be a sector-by-sector agreement, in which case there are substantial risks for the LAC countries and the potential gains are limited. On the other hand, if there is a genuine free trade arrangement that does genuinely open markets, domestic monetary and fiscal policies will either have to be brought under strict discipline or exchange rate policies must be permitted to adjust as circumstances warrant.

## **I.2. WHFTA, INTER-HEMISPHERIC RELATIONS, AND EXTRA-HEMISPHERIC TRADE LIBERALIZATION EXPERIENCES**

### **(I.2.a.) 8. Lessons for a WHFTA from the European Community Experiences**

Stephany Griffith-Jones and Christopher Stevens  
University of Sussex  
England

The advantages and disadvantages, opportunities and problems of regional preferential agreements, drawn from the experience of the European Community. To focus on the experiences of (and lessons for the WHFTA from) the integration of the 12 EC member states. This will include an examination of some institutional mechanisms of the EC (such as the European Investment Bank) to support integration, and an analysis of the impact of capital flows from EC integration.

Also, some implications for WHFTA from the extensive network of preferential trade agreements with groups of developing

countries, most notably the Lome Convention. This will include identifying the lessons that can be drawn for a WHFTA from the 25 year experience of regional agreements involving the EC and states of the South, identifying possible constraints on a WHFTA arising from conflicts of interest for potential members that are also members of an EC-oriented pact, proposing means to overcome them.

**(I.2.b.) 9.**

**WHFTA and Japan**

Akio Hosono  
University of Tsukuba  
Japan

How alternative trade liberalization scenarios, in particular the establishment of a WHFTA, might affect Japan's trade structure and flows, and trade policy vis-a-vis the U.S., LAC countries, and Pacific Rim countries. Will a WHFTA tend to result in greater regional trade at the expense of inter-hemispheric trade? How will the formation of NAFTA and WHFTA affect Japan's global trade strategy and her efforts to help shape and participate in a post-cold war international system? How is the movement towards Western Hemispheric trade liberalization being perceived in Japan? How might the impact on Japan's trade structure and policy be tempered from alternative trade liberalization scenarios--e.g., a successful WHFTA and Uruguay Round, successful WHFTA and failed Uruguay Round, successful NAFTA and stalled WHFTA, and inward-oriented trading blocs vs. open trading blocs.

**(I.2.b.) 10. Lessons from Trade and Investment in East Asia for WHFTA**

Mitsuhiro Kagami  
Institute of Developing Economies  
Japan

Lessons from the trade liberalization experiences in East Asia for the countries of a WHFTA. In particular, the role of trade and investment policies of the East Asian economies, and the extent to which these policies have served to ensure desired results from trade liberalization. The critical link between policies which promote investment and technology and trade policies. The role of foreign direct investment (FDI), policies towards FDI, and the role of newly industrializing economies as both transmitters and receptors of investment and technology.

In addition, to compare industrial organization aspects and their implications for viable trade liberalization experiences between East Asian countries and Latin American economies. How

different types and sizes of firms and their varying inter-relationships engender diverse repercussions from trade liberalization.

**(I.2.c.) 11. Israel-U.S. FTA Agreement:  
Lessons for WHFTA Countries**

Kathleen Patterson and Dennis James  
Kaplan Russin & Vecchi  
U.S.A.

How the U.S. government system has affected the continuing implementation of the Israel-U.S. FTA agreement, and efforts made thus far by Israel to overcome the challenges inherent in the U.S. system. The analysis will briefly compare and contrast the U.S. constitutional system with, for example the Israeli parliamentary system, in order to set a framework for explaining why countries negotiating free trade agreements with the United States should understand how the United States implements and views such agreements.

To explore specific examples where the U.S. Congress, through legislation subsequent to the Israel FTA agreement, has almost eroded benefits received by Israel under the FTA. The analysis will explore how administrative agencies of the U.S. government have also nearly eroded FTA benefits for Israel. An analysis and discussion will be undertaken of the only dispute thus far between Israel and the United States under the FTA that has gone to an arbitration panel.

## **II. TRADE LIBERALIZATION ARRANGEMENTS IN THE WESTERN HEMISPHERE**

### **II.1. HEMISPHERIC LESSONS AND REPERCUSSIONS FROM US-CANADA FTA AND NAFTA**

#### **(II.1.) 12. On Beyond NAFTA: Employment, Growth, and Income Distribution Effects of a Western Hemisphere Free Trade Area**

Robert Blecker and William Spriggs  
American University and Economic Policy Institute  
U.S.A.

To identify repercussions as regards trade, employment, productivity, and wages, both in the aggregate and at the sectoral level, from the establishment of a NAFTA and compare these anticipated effects with those from a possible WHFTA.

Regarding NAFTA, higher living standards may not automatically

be achieved through trade, if the agreement does not address Mexico's pressing debt problem and its lax enforcement of labor and environmental code. In such a case, free trade will equalize the living standards of the two countries by pulling American workers down to a lower competitive standard.

Regarding a WHFTA, the rest of Latin America will probably not become a major export platform. One of the reasons Mexico expects to gain so much from the NAFTA in terms of investment and exports is precisely its unique position as a relatively advanced developing country, with a large industrial labor force, located right on the U.S. border. For this reason, a WHFTA may enhance intra-hemispheric trade more than U.S.-Latin America trade. To conclude, policy alternatives will be examined to ensure higher living standards for the hemisphere.

**(II.1.) 13. Small and Medium Business Under Trade Liberalization:  
Canadian and Latin American Experiences**

Albert Berry  
University of Toronto  
Canada

The impact from trade liberalization on small and medium businesses in the Western Hemisphere, and the role of institutions in affecting the performance of this sector--perhaps facilitating a positive outcome--during the liberalization process. A review of the Canadian experience and its lessons for the Hemisphere and a comparison of selected Latin American experiences with that of Canada will also be undertaken.

**(II.1.) 14. Free Trade with a Human Face?  
The Social Dimensions of CUSFTA and the Proposed NAFTA**

Ann Weston and Edgar Dosman  
North-South Institute  
Canada

The social issues of trade liberalization through the largely distributional dimensions in theory and in debate. To review evidence on the social impact of trade liberalization and to appraise the wide range of policy options available to mitigate adverse social impacts trade liberalization. Also, emphasis will be placed on North American trade liberalization experiences (CUSFTA and NAFTA), drawing some from European Community experiences as well.

## **II.2. ROLES OF AND IMPACTS ON HEMISPHERIC SUB-REGIONAL INTEGRATION SYSTEMS**

### **(II.2.a.) 15. Central America and the Caribbean: Moving From CBI to the Enterprise for the Americas**

Stephen Lande and Nellis Crigler  
Manchester Trade Ltd.  
U.S.A

Possible scenarios that may unfold from the trading relations of the CBI countries, the costs and benefits of such scenarios and the policy options available. This will include an assessment of the pros and cons of the CBI vs. an FTA under the Enterprise for the Americas Initiative (EAI). It will address the impact of NAFTA and the EAI on the CBI. Finally, what will be required of the CBI countries for entry into an FTA under the EAI, and the feasibility and desirability of alternative arrangements for the short term.

### **(II.2.b) 16. The Andean Pact and the Enterprise for The Americas Initiative: Bilateral and Subregional Implications for Trade Liberalization Agreements**

Alfredo Fuentes and Jorge Mendez  
Corporacion Latinoamericana de Economia Internacional  
Colombia

Three basic objectives:

- (a) To examine the mechanisms through which the five Andean countries and the United States have been seeking tariff reductions and elimination of non-tariff barriers on products of special interest to them;
- (b) To evaluate the trade policy considerations which would make it advisable to negotiate a framework agreement between the Andean Group and the United States in order to facilitate market opening initiatives at the subregional level; and,
- (c) To discuss specific issues raised by the attempt to gradually eliminate trade and investment barriers and to expand markets between both parties.

**(II.2.c.) 17. MERCOSUR and the 4 + 1:  
Some Lessons from the Negotiation Experience**

Felix Peña  
MERCOSUR  
Argentina

What lessons can be drawn from the negotiating experience, both of the MERCOSUR and of the free trade framework agreement among Argentina, Brazil, Paraguay, Uruguay, and the United States (the "4 + 1" or "Rose Garden Agreement") that may help the further development of the EAI concept.

The main thesis will be that, from the viewpoint of Southern Cone protagonists, there has been a strong interaction between the MERCOSUR and EAI concepts, as well as with the evolution of the Uruguay Round negotiations. This interaction has to do with perceptions related with mega-market realities, protectionist trends, and access to market problems. The participation and interest of the Southern Cone countries in these trade arrangements is largely a function of internal dynamics (by-products of a broader "silent revolution" in each of the four countries) and external constraints, such as a lack of options in light of world events elsewhere such as Europe 92 and NAFTA.

It will also be interesting to observe the evolution of concepts and ideas among key protagonist countries. The U.S. had at first an approach a  $4 + 1 = 5$  concept, and only later they accepted the  $4 + 1 = 2$  concept. This difference has been crucial not only for the evolution of the negotiation of the framework agreement, but also in the perception of the negotiating advantages of the MERCOSUR concept.

**(II.2.e.) 18. Trade Liberalization Arrangements in the Western Hemisphere: CARICOM and The Proposed WHFTA**

Anthony Bryan  
Carnegie Endowment for International Peace  
U.S.A.

Some of the consequences of hemispheric trade liberalization on CARICOM, and the possible role for CARICOM in furthering the establishment of a WHFTA. In regards to the former, the extent to which the EAI and the proposed NAFTA can serve as catalysts for a greater degree of Caribbean Basin economic integration and cooperation. In addition, the question of how might CARICOM be affected by changes in existing preferential trading agreements should hemispheric trade liberalization proceed?

The role of CARICOM to facilitate a WHFTA. This would include devising short and medium term transition mechanisms which might



soften the impact on uncompetitive economies within CARICOM, and serving as a vehicle towards the development of a wider regional grouping (a Single Caribbean Market).

### **III. ESTIMATED COSTS AND BENEFITS FROM HEMISPHERIC TRADE LIBERALIZATION AT COUNTRY AND SECTORAL LEVEL**

#### **III. 1. COUNTRY CASE STUDIES**

##### **(III.1.) 19. Potential Benefits and Costs of the Enterprise for the Americas Initiative: The Case of Chile**

Manuel Agosin  
Universidad de Chile  
Chile

To evaluate the net benefits that Chile may obtain from a free trade agreement with the United States. At the same time, to analyze concrete trade policy alternatives. For example, celebrating free trade agreements with countries from the region in general, with members of the Andean Pact and Mercosur in particular, and simultaneously reaching an agreement with the United States and with Latin American countries.

A plurilateral agreement with the United States and with countries from the region would be more beneficial for Chile than a bilateral agreement with the United States. The former would not allow for trade diversion that would occur as a result of a bilateral agreement, and in this scenario Chile would improve its access to potentially important markets for its manufactures. A plurilateral agreement will not be easily achieved. The possibility of reaching agreements only with Latin American countries will have to be analyzed, without an agreement with the United States. Even though trade policies of Latin American countries have converged in recent years towards the Chilean model, it should be taken into account that Chile has lower trade barriers than the rest. Comparing the possible net benefits of these three alternatives will suggest the most adequate negotiation strategy for Chile.

##### **(III.1.) 20. A Small Country Perspective on an FTA with the US**

Andrea Butelmann y Patricio Meller  
CIEPLAN  
Chile

To evaluate the establishment of an FTA between Chile and the United States while considering the following aspects:

- (a) The type of platform that a small country like Chile should emphasize in an FTA with the US.
- (b) A synthesis of quantifications of the impact of an FTA on the Chilean economy.
- (c) A discussion about the "trade-off" that exists between a Chile-US FTA and the incorporation of Chile into Mercosur.
- (d) The central elements of the environmental question that would be present in an FTA with the US.

**(III.1.) 21. Creating an Hemispheric Free Trade Area**  
**(Selected Issues from an Argentine Perspective)**

Julio Berlinski  
 Instituto Di Tella  
 Argentina

Current Argentine trade policies and the MERCOSUR agreement, as well as the alternative faced by Argentina regarding the creation of an hemispheric free trade area. These include the preconditions set forth by the proposed time-frame for completing MERCOSUR and the possibility of forming a WHFTA.

The MERCOSUR agreement will be treated as an "intermediate step" towards the creation of the WHFTA. The paper will also examine the likely impact of the "wait-for-Nafta" alternative on Argentine exports.

A major focus will be the gains from increased economies of scale. These gains will have an important impact on economic activities of the Heckscher-Ohlin type. This effect will be distinguished from the impact on Argentine exports of natural-resource-based activities. The analysis will suggest that the proposed consolidation of MERCOSUR is an interesting alternative that will potentially benefit industrial producers, while an FTA with the US offers a broader range of incentives. Both options seem complementary from an Argentine perspective.

**(III.1.) 22. Brazil-US Relations and the Enterprise for the Americas Initiative**

Marcelo de Paiva Abreu  
 Catholic University of Rio de Janeiro  
 Brazil

A preliminary evaluation indicates that Brazil is, among the big Latin American economies, the least likely to be enthusiastic about integration with the US, given its diversification of export

markets, diversification of export product structure and the similarities of its productive structure to that of countries much better placed in the line of candidates for integration. In order to elaborate on this point, several aspects of Brazil-U.S. relations should be examined:

- (a) The impact of the economic crisis of the 1980s on Brazil-US relations, in particular the difficulties related to commercial issues, both bilaterally and at the multilateral level;
- (b) Brazil's domestic reform since 1990 and its impact in defusing the aforementioned frictions;
- (c) Alternative scenarios on the timing and scope of economic integration will be defined and likely impacts on Brazil will be assessed; and,
- (d) How future US-Brazil relations would probably be affected by the most likely integration outcomes.

**(III.1.) 23. The Potential Impact of the North American Free Trade Agreement on the Mexican Economy**

Nora Lustig  
Brookings Institution  
U.S.A.

Will address:

- (a) The background of Mexico's economic reforms and the underlying motivation to seek an FTA with the United States;
- (b) Potential effects of NAFTA on Mexico's economic growth, employment and income distribution;
- (c) The impact of NAFTA on investment flows and capital repatriation; and,
- (d) NAFTA and the rest of the region. Trade and investment diversion effects. Mexico's free trade initiatives with the rest of the region. Will NAFTA become the linchpin of hemispheric integration?

**(III.1.) 24. Hemispheric Trade Liberalization on CARICOM and  
Trinidad and Tobago**

Winston Dookeran  
Trinidad and Tobago

The effects of hemispheric trade liberalization on CARICOM with a focus on a country case study of Trinidad and Tobago:

- (a) Basic frame of reference for studying trade policy in the CARICOM member countries: review of preferential trading arrangements in a global context;
- (b) Key policy issues in the changing international trade regimes in CARICOM countries: (1) the scope for harmonization of provisions in the various trade regimes; (2) the incidence and significance of reciprocity in trade matters; (3) the common external tariff in CARICOM; (4) the future of the LOME Convention in the context of the Single European Market and its impact on Caribbean economies;
- (c) Trade policy issues identified in the Report of the West Indian Commission "Time for Action";
- (d) Cost-benefit analysis for a particular Caribbean country: Trinidad and Tobago. This may include rough estimates of static and dynamic effects, of trade creation and diversion, of transitional effects and long term outcomes. The importance of implications from changes in capital flows in addition to trade flows may be addressed; and
- (e) The cost-benefit analysis may consider alternative trade liberalization scenarios including unilateral, subregional, and hemispheric. What if NAFTA succeeds and WHFTA stalls?

**III.2. SECTORAL IMPACT**

**(III.2.a.) 25. Impact, Sectoral, and Medium-Term Effects of Trade  
Liberalization**

Lance Taylor and Kathleen Cannings  
Massachusetts Institute of Technology  
U.S.A.  
Universite de Montreal  
Canada

Potential effects of trade liberalization at the sectoral and macro levels, using the Canadian experience in its free trade agreement with the U.S. as a major point of reference. This will include drawing from studies on the effects of trade liberalization on national firms in Canada, and tracing potential implications for

U.S. trade partners with weaker industrial bases.

In addition, a major question is how the impacts of trade liberalization will accumulate over time. Recent theoretical work suggests that incentives such as tariffs or quotas granted to certain sectors can lead to faster steady state growth. There could also be feedbacks from enhanced export specialization and greater diversity of intermediate and capital goods imports which liberalization could facilitate. If time and resources permit, an illustrative model for Canada may be constructed to explore these possibilities.

Finally, similar issues could be explored at the macro level for Latin American economies through "three gap" models of the sort worked out by many economists over the past few years. The results of three-gap models estimated for six LAC countries, summarized by Taylor, could be extended to deal with possible effects of liberalization on growth via several channels.

(III.2.a.) 26. WHFTA, Economic Integration, and the Efficiency of Investment in Latin America

Ramon Lopez  
University of Maryland  
U.S.A.

To answer the following questions:

- (a) Will elimination of bilateral trade barriers increase the social efficiency of investment in Latin America (LAC)?;
- (b) What are the income gains or losses accruing to domestically financed investment under the new trade arrangements?;
- (c) What will be the net income effect of the expected increased flows of US investment in the LAC?; and,
- (d) What complementary policies would be necessary to increase the social efficiency of domestically financed and foreign financed investments?;

Methodologically, these questions will be addressed so as to:

- (a) Identify key parameters and elasticities that will determine the effect of the partial elimination of trade restrictions implied by the bilateral agreements on the efficiency of investment (extending an analytical model previously constructed by the author);
- (b) Use empirical estimates available for LAC to obtain quantitative estimates of the likely changes in the efficiency

of investment in 3 archetype countries in LAC: a large, middle income country (Mexico); a medium size, middle income country (Chile); and a small, low income agricultural country (El Salvador);

- (c) Simulate the effects on GNP of such changes in investment efficiency under various scenarios concerning foreign investment flows; and,
- (d) Consider potential policy implications.

**(III.2.b.) 27. The Impact of Trade Liberalization on Argentine Agriculture In A Computable General Equilibrium Trade Model**

Eugenio Diaz Bonilla  
Embassy of Argentina  
U.S.A.

To evaluate the impact of feasible alternative trade liberalization scenarios within the Hemisphere on Argentine agriculture. A computable general equilibrium model will be utilized, which consists of supply and demand equations that will characterize and identify key agricultural commodities. The restrictions to international trade will be treated through differences between domestic and international prices. The model will include fiscal and monetary variables so as to analyze the possibility of different outcomes resulting from diverging macroeconomic policies from Brazil and Argentina.

**(III.2.b.) 28. Implications of Relaxing Agricultural Trade Barriers Between Small and Large Countries**

Richard Just  
University of Maryland  
U.S.A.

How trade liberalization may change the effects from domestic and foreign macroeconomic policies and foreign sector-specific policies on a Latin American agricultural sector. The focus will be on the Mexican agricultural sector. A comprehensive model specifically detailing both the agricultural sector and macroeconomy of both Mexico and the U.S. as well as generally reflecting the rest of the world will be used to estimate the magnitude of various shocks on specific commodity markets in Mexico. The effects will be addressed under two scenarios:

- (a) a continuation of current domestic (Mexican) agricultural policies; and,
- (b) free trade with the major trading partner (the U.S.).

The analysis will focus mainly on Mexico but will draw implications for other countries as well. The potential for developing institutions or provisions in the agreement that mitigate adverse consequences will also be addressed.

**(III.2.b.) 29. Trade Liberalization in Agriculture: The Case of Mexico in NAFTA**

Santiago Levy  
Boston University  
U.S.A.

The analysis will begin with the political economy of Mexican agriculture and the anticipated repercussions from NAFTA. Implications for other Latin American countries will also be addressed, by focusing on the following issues:

- (a) The mechanisms through which trade liberalization impacts the agricultural sector, paying attention to the markets for land and labor;
- (b) The efficiency gains and distributional impact of such a change, with particular emphasis on its impact on the rural poor; and,
- (c) The fiscal and incentive aspects of programs that can help adjust agriculture to an FTA and to focus on the difficulties of using lump-sum transfers and possible alternatives via investments in rural infrastructure, and/or rural employment programs.

**(III.2.b.) 30. The Implications for Petroleum Development of Western Hemisphere Trade Liberalization**

Stephen Randall  
University of Calgary  
Canada

To describe petroleum development in the Western Hemisphere with particular attention to the implications of trade and investment liberalization under the bilateral Canada-United States agreement, the current debate over a trilateral Canada-United States-Mexico agreement, and the Bush Administration's Enterprise for the Americas Initiative.

This will include an examination of the critical provisions of the Canada-U.S. accord pertaining to petroleum and the ways in which the accord has influenced current petroleum development, foreign and domestic investment, transportation, marketing, and prices. An effort will be made to address the negotiation agenda

and likely outcomes as regards petroleum trade for the NAFTA talks and hemispheric trade liberalization talks. How much will trade in petroleum be liberalized, and what might be some repercussions for the industry and pertinent economies?

**(III.2.c.) 31. Trade Liberalization and the Services Sector in Central America**

Juan Manuel Villasuso  
Costa Rica

Address the following issues:

- (a) A brief diagnostic of the services sector in Central America. The activities with greatest dynamism in recent years. Production, employment, international trade, etc.
- (b) Relations between the services sector and other sectors of the economy, agriculture and industry in particular.
- (c) The conceptual relation between the services sector and the process of trade liberalization.
- (d) Expected evolution of the demand and supply of services in Central America as a consequence of the process of trade liberalization. Considerations by categories of services.
- (e) The institutional framework and the future development of services. The role of the State and of the private sector in stimulating supply and demand for services.
- (f) International trade in services. Opportunities and challenges for Central America. Substantive aspects of a negotiating agenda for Central American countries with the United States and other Latin American countries in matters related to services.

**(III.3.) COST-BENEFIT EMPIRICAL MODELS**

**(III.3.) 32. Cost-Benefit Empirical Models: Review and Analysis**

ECLAC Washington  
U.S.A.

Review the existing computable general equilibrium and econometric models that attempt to measure the impacts from trade liberalization in the hemisphere. The models include attempts to measure static effects (incorporating either constant returns to scale or increasing returns) and dynamic effects, and produce



widely varying results, per technique as well as per country. To analyze the relevance and applicability of the models for particular countries in the region.

#### **IV. THE NEGOTIATING AGENDA AND PERSPECTIVES**

##### **(IV.1) MARKET ACCESS: TARIFFS AND NTBS**

##### **(IV.1.) 33. U.S. Trade Barriers Facing Latin America**

ECLAC Washington  
U.S.A.

To tabulate the salient United States trade barriers faced by Latin America and the Caribbean (LAC), and possibly assess some impacts from barrier reductions. The description will draw from the following:

- (a) Trade flows and characteristics;
- (b) Trade regimes;
- (c) Barriers by measures;
- (d) Barriers by sector; and,
- (e) An econometric assessment of the impact of barrier reductions on LAC economic growth via export growth.

##### **(IV.1.) 34. NTBs in Hemispheric FTA Negotiations**

Samuel Laird  
GATT  
Switzerland

Those issues that are likely to arise in relation to non-tariff barriers in the context of negotiations on a hemispheric free trade agreement in the Americas. While there have been major changes in the use of NTBs in recent years, many important non-tariff distortions remain. These need to be identified to ascertain what approach each requires, assuming that uniform treatment would not be appropriate. Attention would be drawn to the main NTBs still in use in specific cases (at least in a sample of countries), the main tendencies and inter-country differences in approach.

Some illustrations of the tariff equivalent of NTBs could be given from specific examples in the region. Calculating the tariff

equivalent of the NTB is relatively straightforward in agriculture but would be more complex for manufactures because of the greater range and heterogeneity of products. NTB problem areas that may be included are: agriculture; industrial and regional policies; local content plans, export performance requirements and rules of origin (especially in the automotive sector); competition policy; NTBs operating at below national level; and stacking of measures.

**(IV.1.) 35. U.S. Agricultural Policy and Trade:  
Liberalization in the Western Hemisphere**

Robert Chambers and Earl Brown  
University of Maryland  
U.S.A.

An overview of existing U.S. farm policy and the likelihood of the U.S. adjusting its agricultural policies in response to regional trade liberalization agreements. Also, address the probable economic consequences of such adjustments, by focusing on the following three sections:

- (a) A brief summary of the history of U.S. farm policy to give the uninformed reader a feel for the cultural, social, and economic backdrop in which the policy is formulated.
- (b) An overview of existing U.S. farm policy as it affects trade in the region (where possible, an attempt will be made to assess quantitatively the incidence of U.S. agricultural policy on hemispheric markets).
- (c) A partial assessment of the prospects and economic consequences of hemispheric liberalization in agricultural trade.

**(IV.1.) 36. The WHFTA and Multifibre Agreement Restrictions  
on Textile and Apparel**

Isidoro Hodara  
H & H Trade  
Uruguay

- (a) Stock-taking of the existing MFA restrictions on Western Hemisphere exporters of textiles and apparel into the US and Canada.
- (b) The importance of textiles and apparel as a share of the total Western Hemisphere exports to the US and Canada.

- (c) MFA restrictions and the FTA: possible Uruguay Round results; possible courses of action under the FTA.

**(IV.2.) DOMESTIC TRADE REMEDIES**

**(IV.2.) 37. Safeguards in the Western Hemispheric Free Trade Area:  
An Economic Analysis of the Prospects for Conflict And  
Possible Approaches to Conflict Resolution**

James Cassing  
University of Pittsburgh  
U.S.A.

To clarify the issue of safeguards within the context of the countries of the Western Hemisphere and to identify where the issue is likely to assist or to hinder the process of moving toward a WHFTA. The topic would be developed with considerable reference to the countries of the proposed WHFTA and with specific reference to these countries' policies. The essential theme would be to expose potential conflict in existing policies with respect to safeguards and to expose the prospects for conflict resolution.

**(IV.2.) 38. Western Hemispheric Free Trade and U.S. Trade Laws:  
The Role of Section 301**

Steven Husted  
University of Pittsburgh  
U.S.A.

To examine the role that Section 301 of the U.S. trade laws may play in the ongoing trade relations with other countries of the WHFTA, and to discuss and analyze the various options available to these other countries with respect to this law. The history of Section 301 with special reference to disputes between the United States and other WHFTA countries, study the Canada-U.S. approach to dispute settlement, and propose some options for WHFTA.

**(IV.2.) 39. Antidumping and Countervailing Duties in a WHFTA**

Gilbert Winham and Heather Grant  
Dalhousie University  
Canada

To explore some of the issues surrounding antidumping duties and countervailing duties in a proposed western hemispheric free trade agreement with specific focus on dispute settlement of ADD and CVD actions. The ADD and CVD issue was the most politically difficult problem in negotiating the Canada-US FTA, and it will probably be equally difficult in any new negotiations. Hence, a

primary focus will be on the dispute settlement mechanism of ADD and CVD actions of the CUSFTA as outlined in Chapter 19 of the agreement. How has the mechanism functioned since the CUSFTA came into effect?

The possibility of extending the CUSFTA's dispute settlement mechanism of ADD and CVD to Mexico under NAFTA will also be addressed. Implications from Mexico's differing legal and administrative traditions--including Mexico's investigative agency (SECOFI)--will be examined. The final section will address the broader issue of extending chapter 19's dispute settlement mechanism to Latin America and other hemispheric trade agreements.

#### IV.3. DISPUTE SETTLEMENT

##### (IV.3.) 40. Dispute Settlement in a WHFTA

Blair Hankey  
Baker & Hostetler  
U.S.A.

The potential role and form of dispute settlement in a WHFTA. The emphasis will fall on the integration of sub-regional trading arrangements over the medium term.

After a brief discussion of the structure and functioning of dispute settlement mechanisms in existing free trade areas and common markets (including the U.S. - Canada FTA and the EC), and of other regional and multilateral economic dispute settlement mechanisms (such as the GATT, ICSID, and IACAC), the following issues will be explored:

- (a) the structure of a potential hemispheric dispute settlement mechanism;
- (b) the substantive law that might be applied, and the possibilities and problems associated with dispute settlement procedures that do not apply a common body of law;
- (c) the problems presented by the co-existence of different legal and administrative systems;
- (d) the significance, if any, of the Drago and Calvo Doctrines;
- (e) how a common hemispheric system of dispute settlement might promote integration among various regional trading blocs;
- (f) the potential implications for and relationship to the GATT dispute settlement system of a hemispheric dispute settlement mechanism.

#### IV.4. RULES OF ORIGIN

##### (IV.4.) 41. Rules of Origin in a WHFTA: A Legal Perspective

David Palmeter  
Mudge Rose Guthrie Alexander & Ferdon  
U.S.A.

An overview of the major issues of relevance for a WHFTA as regards rules of origin. This would include an assessment of different methods for determining origin, examples of rules of origin from existing free trade areas and customs unions, and implications of nonharmonization of rules across different trade pacts.

The paper would begin with a general discussion of rules of origin sufficient to provide background to a reader approaching the topic anew. The distinction between preferential and non-preferential rules would be discussed, with emphasis on preferential rules of origin of which the rule in any WHFTA would be an example.

Next, the paper would discuss and assess the different methods for determining origin, and would evaluate the advantages and disadvantages of each. Rules of origin presently used in free trade areas and customs unions could be covered next. This list might be expanded to include the rule of origin contained in NAFTA if it is available within the time allowed. Finally, the paper would conclude with a discussion of some of the major issues presented by rules of origin within free trade areas and customs unions, with a focus on the former.

Work will begin with a survey of the existing published materials on rules of origin, a review in some detail of current major issues in the field (such as the controversial Honda ruling by U.S. Customs denying preferential status under the Canada-U.S. Free Trade Agreement to automobiles exported by Honda from Canada to the U.S.), and a review of the developments in the on-going Uruguay Round negotiations, and any publicly available material concerning rules of origin in NAFTA.

**(IV.4.) 42. Rules of Origin in a WHFTA: An Economic Perspective**

Vivianne Ventura Dias  
ECLAC Brasilia  
Brazil

To review the following issues:

- (a) Major changes in the definition and measurement of rules of origin (RO) in the different FTAs and in the context of the European Market;
- (b) The discussion on ROs in the GATT and in the Uruguay Round;
- (c) Analysis of the US proposals on ROs in the NAFTA negotiations;
- (d) Analysis of the debate on ROs in the LAIA and MERCOSUR; and
- (e) Evaluation of the difficulties to achieve consensus on ROs for the establishment of a WHFTA.

**(IV.5.) TRADE IN SERVICES**

**(IV.5.) 43. Liberalization of Trade in Financial Services under the  
Enterprise for the Americas Initiative:  
Implications for Latin America and the Caribbean**

Jennifer Lester  
Cleary, Gottlieb, Steen and Hamilton  
U.S.A.

To anticipate the scope and contents of negotiations in financial services in a western hemispheric free trade area, and assess the implications of liberalizing trade in financial services for Latin America and the Caribbean (LAC).

- (a) Current status of trade in financial services in selected LAC countries and/or sub-regions, identifying the accessibility of these markets to foreign financial institutions and the major constraints on trade in this sector.
- (b) Approaches and positions adopted in negotiations on liberalizing trade in financial services in other fora (GATT, U.S.-Canada FTA, NAFTA, EC).
- (c) The scope of possible negotiations on trade in financial services within the context of the Enterprise for the Americas Initiative.
- (d) The U.S. legal and regulatory framework governing financial

services and likely U.S. goals in negotiations on trade in financial services.

- (e) Possible impact of liberalization of trade in financial services on LAC countries and some preliminary guidelines for measuring the cost/benefit of free trade in financial services.
- (f) Elements that LAC countries may wish to consider as regards the trade liberalization process in financial services. This may include, for example, incorporating certain safeguard mechanisms, or optimal time frame for implementation of liberalization measures.

#### **(IV.6.) TRADE-RELATED INVESTMENT**

##### **(IV.6.) 44. Foreign Direct Investment, CUSFTA, NAFTA, & WHFTA**

Leonard Waverman  
CIS, University of Toronto  
Canada

Foreign direct investment (FDI) flows and controls as they relate to western hemispheric trade liberalization. The focus will be on FDI flows into Canada, Canadian policy, and US reactions regarding CUSFTA, as well as those issues that are relevant for other countries. An analysis of non-US FDI will be included, chiefly Asian capital inflows and how these relate to liberalization. What has been the mix between investment creation and diversion?

FDI flows and controls for Mexico and several other LAC countries. What parallels exist between these countries and Canada? Finally, possible mechanisms (such as rules of origin) to handle FDI in a WHFTA.

#### **(IV.7.) INTELLECTUAL PROPERTY RIGHTS**

##### **(IV.7.) 45. Intellectual Property Rights, the Uruguay Round and WHFTA**

Diana Tussie  
FLACSO  
Argentina

How deal with intellectual property rights (IPRs) in trade with a focus on implications from the Uruguay Round for WHFTA:

- (a) The merging of intellectual property and trade;
- (b) The status of IPRs in the multilateral framework;
- (c) The diplomacy of IPRs; and
- (d) Costs and benefits of IPRs protection in a WHFTA.

#### **IV.8. ENVIRONMENT**

##### **(IV.8.) 46. Western Hemisphere Free Trade and Environment**

Charles Pearson  
SAIS, Johns Hopkins University  
U.S.A.

To accomplish three objectives:

- (a) To provide a concise analysis of the points of conflict between liberalizing trade and environmental objectives. This provides an analytical framework for sorting out the issues.
- (b) To summarize the institutional and empirical dimensions of the trade-environment issue.
- (c) To examine how trade and environmental objectives are reconciled in three integration agreements; the EC, the U.S.-Canadian Agreement and the current negotiations for NAFTA.

Some thoughts regarding how trade and environment objectives may be reconciled in a broader trade liberalization scheme of a Western Hemispheric FTA may also be provided.

##### **(IV.8.) 47. Western Hemisphere Free Trade Area: Legal Precedents for Handling of Environmental Issues**

William Knepper  
U.S.A.

Existing mechanisms in international law and ongoing trade negotiations which can be (and have been) utilized to minimize trade and environmental conflicts. What mechanisms currently exist (or are currently being proposed) which can serve to facilitate trade liberalization in the hemisphere while protecting the environment?

An examination of relevant provisions in the GATT, the EC, the U.S.-Canada FTA, and how environmental issues are being handled in the NAFTA negotiations, evaluating their possible relevance for WHFTA.



Where might be the most contentious areas regarding trade and the environment in the case of the WHFTA negotiations? What can be anticipated?

**(IV.8.) 48. Marine Protection Policies and Free Trade**

Nancy Bockstael and Ivar Strand  
University of Maryland  
U.S.A.

Some interesting repercussions from a trade liberalization pact between economies at significantly different levels of development may result from different preferences for public goods. This paper will address some of these implications in the context of trade liberalization in fisheries in the Western Hemisphere. An assessment will be made of the implications of U.S. domestic policies and international conventions for the protection of certain marine species in the context of free trade with nations whose preferences for income vs. environmental preservation are vastly different.

The negotiations between the U.S. and Mexico on two important and environmentally sensitive fisheries: tuna and shrimp. To investigate what has happened over time with the increasing regulation of U.S. harvesters relative to their Mexican counterparts. An attempt to assess the likely consequences of reductions in trade barriers for the environment and for the structure of the industry will follow. It might also prove enlightening to try to assess the extent to which barriers might be reduced; how the conflict might be or can be resolved. Relevant repercussions to other countries in the hemisphere may also be addressed.

**(IV.8.) 49. Pesticide Policy, the Environment, and Free Trade  
in the Western Hemisphere**

Erik Lichtenberg  
University of Maryland  
U.S.A.

Forms and effects of pesticide regulations throughout the Western Hemisphere focusing on the standards used to formulate regulations, their implications for trade--assessing the relationship between pesticide policy and trade patterns in the Western Hemisphere--and probable points of controversy in establishing a free trade agreement.

Factors influencing the relationship between pesticide policy and comparative advantage and available empirical evidence to

discuss likely impacts of pesticide policy alternatives under free trade. Interaction between pesticide policies and other policies affecting agriculture, such as farm price supports, input subsidy programs and farm credit.

#### **IV.9. LABOR**

##### **(IV.9.) 50. The Role of Labor in the Negotiation of Free Trade Agreements**

Laura Baughman  
Trade Partnership  
U.S.A.

To explore labor's strength (its successes and failures in trade negotiations) by examining its role in prior FTA agreements (U.S.-Israel FTA, and U.S.-Canada FTA), as well as the ongoing NAFTA negotiations. Labor alliances throughout the hemisphere with a focus on U.S., Canadian, and Mexican labor.

To assess and anticipate labor's role, and how can labor groups be brought into the negotiation process so as to ensure their support for the FTAs (or at the least, ensure their non-opposition), without compromising the FTAs' trade liberalization goals?

### **V. THE TRANSITION**

#### **V.1. NEGOTIATING STRATEGIES**

##### **(V.1.) 51. Western Hemisphere Free Trade: Getting from Here to There**

Sidney Weintraub  
University of Texas  
U.S.A.

How to get to a WHFTA by exploring and evaluating the possible models. The best model to reach a WHFTA is via sub-regional agreements. The merit of the approach, in addition to minimizing the problem of hub-and-spoke outcomes, is that it gets the priorities in order--first the sub-regional integration, and then negotiation between sub-regions. The NAFTA sub-region is clearly the most important, though other sub-regions can exert influence on liberalizing the substantive content of NAFTA in the negotiating process. One problem to be addressed is how to incorporate those

countries not now part of any sub-regional group. Also, should WHFTA include non-hemispheric countries?

**(V.1.) 52. From Mercosur to American Integration**

Luiz Carlos Bresser Pereira and Vera Thorstensen  
Getulio Vargas Foundation  
Brazil

- (a) The present options faced by Brazil and the Mercosur project: multilateralism, alliance with U.S., alliance with EEC;
- (b) International policies of Brazil and U.S. in the last 10 years;
- (c) The (true) National Interest of Brazil (and of Mercosur) in relation to the American Integration;
- (d) The (true) National Interest of the U.S.; and,

**V.2. HEMISPHERIC TRADE POLICIES & REFORMS**

**(V.2.) 53. Social Roots of U.S. Protectionism**

Seymour Martin Lipset  
George Mason University  
U.S.A.

The social roots of American protectionism in the context of Western Hemispheric trade liberalization agreement efforts. Based on detailed coverage of historical, political, economic and public opinion sources, it will examine the forces involved in the passage of the US-Canada Free Trade Agreement, and look into those active in the efforts to secure or oppose a fuller North American one which includes Mexico. To evaluate the strength and weaknesses of protectionist ideology and estimate potential effects on American public policy.

**(V.2.) 54. Latin American Trade Policies: Issues and Options**

ECLAC Washington  
U.S.A.

How trade policy can be used as an instrument to promote economic efficiency under an environment of growth, social equity, and macroeconomic stability through the discussion of four main topics:

- (a) Exchange rate instability: the behavior of real exchange rates

in Latin America during the last twenty years, makes a brief comparison with US, Europe and Japan, indicates the origins and consequences of exchange rate instability, and suggests some feasible ways to circumvent this problem;

- (b) Nature of the linkages among trade, industrial and fiscal policies: the interactions and potential conflicts among trade liberalization, industrial promotion and macroeconomic equilibrium;
- (c) The role played by multilateral organizations: key items of the multilateral negotiating agenda that a Latin American country would face after the realization of a unilateral trade reform; and,
- (d) The current features of regional integration: Brazil, Chile and Mexico could play three different, but complementary, roles in accommodating Latin American integration with the objectives of the Enterprise for the Americas Initiative.

### V.3. SUPPORTING POLICIES AND CONSIDERATIONS

#### (V.3.) 55. Domestic Requirements and Complementary Policies for a WHFTA

Gustav Ranis  
Yale University  
U.S.A.

The rationale for paying attention to a set of macro and micro policy requirements which must be in place at each point in time in the evolution of a presumed WHFTA. The policy actions will be divided into the following categories:

- (a) Those required before the system is even ready to seriously consider entering in to a free trade arrangement (e.g., stabilization policies).
- (b) Those essential to ensure that the domestic gains from free trade arrangements are appropriately redistributed and thus politically acceptable (here adjustment assistance programs will be a focus).
- (c) Those required to ensure that there is no subsequent souring of the political and economic environment which might threaten a policy reversal over time (e.g., anti-trust policy).

**(V.3.a.) 56. Financial Integration in the Americas: The Role of Exchange Rates in Inflation Convergence**

Eliana Cardoso  
Tufts University  
U.S.A.

The role of financial integration in the establishment of a Western Hemisphere Free Trade Area. In particular, whether monetary integration of the Americas is viable, and assess the benefits and costs of fixed exchange rates in Latin America. Consideration will also be given to what alternatives may exist as regards financial integration in a regional trade liberalization scheme.

- (a) Exchange rate risk or variability as a constraint to trade integration in the Americas.
- (b) Costs of fixed exchange rates; the renunciation of a national monetary policy and loss of seignorage.
- (c) Disinflation through use of fixed exchange rates:
  - (i) lessons from the European experience;
  - (ii) previous experiences with fixed exchange rates in Latin America in particular the use of the exchange rates as a nominal anchor in the late-1970s in the Southern Cone;
  - (iii) is the current situation different? Is there a small group of countries (Mexico, Colombia, Venezuela, and Chile) which form an effective currency area? How does the participation of the U.S. in this integration scheme change the picture?
- (d) Conclusions. How countries could proceed to prepare for a regional FTA in light of the aforementioned considerations.

**(V.3.a.) 57. Latin America's Renewed Access to International Capital Markets: Main Policy Issues**

Edmar Bacha  
Catholic University of Rio de Janeiro  
Brazil

The topic will be analyzed in four stages:

- (a) The main determinants, characteristics, and quantitative impact of the post-1989 capital inflows into the region;
- (b) A preliminary evaluation of the domestic policy problems generated by such inflows, as well the policy options currently being followed in different countries;

- (c) A recapitulation of the main lessons of the Southern Cone experience with financial liberalization in the 1970's, as well as with the developed countries experience with floating exchange rates in the 1980's; and,
- (d) The policy implications of an adequate management of foreign capital inflows, so as to maximize their positive contribution to domestic capital formation, while minimizing their negative impacts on domestic stabilization and structural reform policies.

**(V.3.b.) 58. Transnational Corporations and Western Hemisphere Trade Liberalization**

Raymond Vernon  
Harvard University  
U.S.A.

The influence of the operations of transnational corporations in the execution of trade liberalization schemes.

Transactions undertaken in any national territory can only be understood in a larger geographical context. When the entities that make up a transnational network engage in international transactions, they commonly are responding to a network strategy that influences the network as a whole.

The principal experiences of the GATT, the EC and the US-Canada free trade agreement for appraising the influence of transnational networks. The focus will be on how these corporations might affect the content, institutions, and operations of trade liberalization proposal for the western hemisphere. Such an approach may lead to some suggestions not now included in conventional presentations of the subject, including proposal that would link competition policies much more closely to trade policies.

**(V.3.b.) 59. Integrated Regional Production and WHFTA**

Van R. Whiting, Jr.  
University of California at San Diego  
U.S.A.

Recent trends in the regionalization of international industry and their implications towards a western hemispheric trade liberalization process.

To place the current process of hemispheric industrialization in an historical context, we are currently observing a third wave of competitive industrial restructuring via foreign investment for

regional markets. In contrast to earlier patterns of foreign direct investment (e.g. import-substitution industrialization and globalization of business strategies), this model neither seeks nor requires protection. The industrial slogan that reflects this trend is "sell locally, produce regionally, and source globally." A case study to illustrate the logic of integrated regional production will be the automobile industry, with some comparisons to electronics and agriculture.

To examine some intriguing implications from the shift to integrated regional production (IRP) on hemispheric trade liberalization. Of fundamental importance is the question of this industrial structure's compatibility with a hemispheric free trade area. It may be the case, for example, that IRP favors sub-regional free trade, though may actually impede hemispheric integration between the sub-regions. IRP may help us better understand the trends towards integration of the countries of NAFTA (and why the U.S. is negotiating first with Mexico rather than Chile), and of the MERCOSUR countries, including implications for other countries and sub-regions of the hemisphere.

**(V.3.b.) 60. Transnational Corporations, Liberalization and Integration: The Case of the Argentine Industry**

Bernardo Kosacoff  
ECLAC Buenos Aires  
Argentina

To analyze current tendencies in the participation of TNCs in the Argentine industry, starting with the new subsidiaries established in the country. Considering the disappearance of the conditions that prevailed under the import substitution model. The reshaping of their strategies will have a decisive weight on the productive specialization of the country, on its technological profile and its international reinsertion.

In the import substitution model, TNCs played a central role in the process of industrialization. They reached one third of the industrial output, specializing primarily in engineering, petrochemicals and foods, with an orientation towards satisfying domestic demand.

After the important changes of the eighties, the current economic conditions are very different. In particular, radical changes are evident in the macroeconomic conditions, the process of globalization in the international economy, and the advances in the process of integration of Mercosur, which despite its difficulties in achieving the consolidation of a common market, is having significant progress in the form of improvements in the terms of trade and in the allocation of resources in enterprise investment.

**(V.3.b.) 61. State Enterprises and Regional Integration**

Fabio Stefano Erber  
Federal University  
Brazil

In all Latin American countries the State has established enterprises under its total or partial control in order to produce goods or services which are indispensable inputs to the rest of the economic system. Their forward linkages warrant such enterprises a major role in the development of the Latin American countries. Moreover, because of the size of their investments, they have a deep influence on the development of industries and services which act as their suppliers and they have been one of the main instruments of their countries industrial and trade policies. For the same reasons they influence the local capital market and the State foreign and national finances.

Over the recent years State enterprises in Latin America have come under sustained attack and many countries have set up "privatization" programs, designed to transfer part of them to private ownership. Although it is probable that a strong presence of State enterprises will be maintained for a relatively long period, the differences between the national privatization programs will imply that in some sectors the integration previously established between two or more State enterprises will in the future involve State and privately-owned enterprises. A Western Hemisphere Free Trade Area broadens the scope of relationships since it may involve cooperation between State enterprises and State-regulated companies.

To explore the process of regional integration in two directions: first, the roles State enterprises can play in regional integration, both as suppliers and as purchasers of goods and services and the technical, economic, financial and institutional factors which influence such cooperation. Second, the possible consequences of regional integration for the State enterprises. A final section will present the main conclusions regarding the interplay between State enterprises and regional integration.

**(V.3.b.) 62. Trade Liberalization and Innovation Policies in MERCOSUR**

Daniel Chudnovsky  
Centro de Investigaciones para la Transformacion  
Argentina

- (a) A brief reference to the progress and questions set forth by the process of trade liberalization in MERCOSUR. The need to combine trade liberalization with other instruments such as innovation policies.



- (b) The new techno-productive paradigm and the form in which the generation and diffusion of innovations is conceived. The technological and organizational requirements set forth by the new conditions of competition in liberalized markets, open to trade and international investment.
- (c) The debate over trade liberalization and technological innovation. Market failures and externalities. The need for public policies in the respective markets so as to facilitate the diffusion of innovations, taking into account not only market failure but also those of governments.
- (d) The debate over North American industrial competitiveness and recent experiences with innovation policies in the United States. A brief reference to the Canadian, European and Asian experiences.
- (e) Trade, industrial and technological policies in Brazil and Argentina in the current macroeconomic context. The issue that should be addressed at the national level and in the negotiations within MERCOSUR. The possible reactions of the private sector to the sectorial agreements set forth in MERCOSUR and its different competitive needs. The possibility of cooperating with North American institutions to facilitate technological transfers in matters of institutional development for innovation policies.

**(V.3.b.) 63. The Interests of U.S. Business in NAFTA & WHFTA**

Sandra Masur  
Eastman Kodak Company  
U.S.A.

The position(s) of the U.S. private sector (from small companies to medium sized to MNCs) as regards regional trade liberalization, and to highlight some key issues that will shape these positions. In particular, the extent to which the U.S. private sector supports NAFTA, and the extent to which this enthusiasm can be expected to be replicated in the case of a hemispheric-wide FTA. The repercussions from the debate on social dumping (i.e., environmental enforcement and labor standards discrepancies), and options for handling these issues will be a focus.

**(V.3.b.) 64. The Role of the Hispanic Business Community  
Towards a Western Hemisphere Free Trade Area**

Alfonso Arenales  
U.S.A.

To provide an assessment of the influence the Hispanic business community in the United States may have on the establishment of a WHFTA. What role will and/or can the Hispanic business community play in a WHFTA?

To identify and analyze attitudes within the principal components of Hispanic opinion on the issue of free trade with Mexico and the Hemisphere at large. To develop a roster of such groups and their positions on free trade and examine their reasons therefore. The methodology will be personal interviews with key representatives of Hispanic opinion, and others privy to such opinion in various regions of the U.S.

**(V.3.b.) 65. Implications for the Latin American Private Sector  
of Hemispheric Trade Liberalization**

Siegfried Marks  
U.S.A.

How the private sector in Latin America and the Caribbean can best prepare for (and fully benefit from) a Western Hemisphere Free Trade Area. Primary attention will be given to how private companies can individually improve their competitiveness when direct and indirect trade barriers are lowered. Consideration may also be provided as to how private companies can collectively advance their interests in a future FTA.

It will describe how a company can calculate the impact on its "bottom line" when protection, subsidies, incentives, monopolistic pricing, special controlled exchange rates, and other barriers are lifted. The following viable strategies to operate under future conditions of free trade:

- (a) Continuing production and development of exports to the market of the free trade partner country.
- (b) Specializing in fewer products for export so as to benefit from economies of scale.
- (c) Discontinuing production and switching to imports of similar products for which the company has distribution network in the home market.
- (d) Forming a joint production venture with a company from the other free trade country in order to benefit from economies of

scale, specialization, and access to each other's market, technology, and capital.

It will be shown that to survive and operate successfully under conditions of free trade, many companies need to invest now in plant modernization and replacement of obsolete equipment, acquire new technology, and change outmoded distribution methods. "Reconversion Industrial" will prove expensive and require financing and/or foreign investment. The example of government planned "Reconversion" in El Salvador will be used to demonstrate how this process should not be carried out.

Additional consideration may be provided as to how private companies can work through local business associations to develop a common agenda regarding how best to pursue their aims in a future trade agreement. As an example, this might entail assessing how the private sector can organize to develop proposals for further advancement of needed government microeconomic policy reforms to accompany a free trade agreement.

#### **V.4. INSTITUTIONAL MECHANISMS TO BRING ABOUT AND SUSTAIN A WHFTA**

##### **(V.4.) 66. CECON as a Trade Consulting and Negotiation Forum**

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To analyze the functions of the Commission for Consultations (CECON) of the Organization of American States (OAS). Its mandate has been to act as an instrument of trade negotiations among the United States and the Latin American and Caribbean countries. After functioning for 21 years, some of the lessons that can be derived from the CECON experience should be relevant for the current process of hemispheric trade liberalization.

To evaluate possible alternatives for adapting the CECON to the conditions of hemispheric liberalization in the nineties, in particular to the transition towards a WHFTA.

##### **(V.4.) 67. Institutions in Support of WHFTA**

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The institutional elements needed to implement and sustain a WHFTA. To define the functions that these institutional arrangements must perform, and to explore the merits of working with existing institutions (such as the IDB, OAS, and ECLAC) as well as of creating new ones.

