



INTER-AMERICAN DEVELOPMENT BANK

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



IDB/ECLAC PROJECT

**SUPPORT TO THE PROCESS OF
HEMISPHERIC TRADE LIBERALIZATION**

JUNE 20, 1991 - MARCH 21, 1994

Final Report

17 JUN 1994

IDB/ECLAC PROJECT SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE LIBERALIZATION

FINAL REPORT

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IDB-ECLAC Project

"Support To the Process of Hemispheric Trade Liberalization"

ATN/SF-3723-RE
Res. DE-85/91

Summary

The Inter-American Development Bank (IDB) and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) executed a project to promote a dialogue on trade liberalization in the Western Hemisphere. The project organized several colloquia and conferences, which included the participation of government officials, entrepreneurs, academics, and other experts. The themes discussed were developed in analytical working papers covering a wide array of subjects related to hemispheric trade liberalization.

This final report describes the activities undertaken by the project and is organized as follows. Section 1 describes the execution of the project. Section 2 provides a description of the colloquia and conferences and the working papers. Appearing at the end of the report, Section 3 presents appendices which outline in sharper detail the activities of the project.

1 Organization

1.1 Executing Agency

The project was executed by ECLAC, through its Washington office. This office was responsible for hiring the consultants, the organization of the colloquia and conferences, and the dissemination activities. The director of ECLAC's office in Washington served as the project coordinator.

1.2 Steering Committee

The Steering Committee, consisting of the President of the IDB, Enrique V. Iglesias and the Executive Secretary of ECLAC, Gert Rosenthal, or their designated representatives, Nohra Rey de Marulanda and Isaac Cohen, provided overall guidance for the activities carried out within the framework of the project. The committee was responsible for establishing the lines of action, approving the work program, and ensuring operational, administrative, and technical coordination between the two

institutions. The Committee met several times formally and informally throughout the duration of the project. The summaries of formal meetings appear in Appendix 1.

1.3 Advisory Committee

The Advisory Committee made recommendations on the work program and agenda. The committee consisted of five members, well known for their expertise in the field of international trade:

Mr. William Cline, Senior Fellow, Institute for International Economics;

Ms. Louise Fréchette, Assistant Deputy Minister, External Affairs, Canada;

Mr. Jorge Gallardo, Consultant and Entrepreneur, Ecuador;

Mr. M. Alister McIntyre, Vice-Chancellor, The University of the West Indies and Former Deputy Secretary-General of UNCTAD;

Mr. Rubens Ricupero, Ambassador of Brazil to the United States.

Ms. Sylvia Ostry, Chairman of the Centre for International Studies, University of Toronto replaced Ms. Fréchette after the latter was appointed Canada's Ambassador to the United Nations.

The Advisory Committee held seven meetings with one informal discussion luncheon. Appendix 1, in addition to the the summaries of the formal Steering Committee meetings, also includes the summaries of the meetings.

1.4 Liaison Committee

To maintain effective links with the countries of the region, each member country of the IDB was asked to appoint a person to act as liaison with the program. Liaison persons were responsible for channelling the results of the activities to the various public and private sector agencies in their countries and for bringing to the attention of the project coordinator the interests of their governments.





2 ACTIVITIES

2.1 Colloquia

The colloquia brought together experts which included entrepreneurs, academicians, and government officials from North, South and Central America, the Caribbean, Japan, and Europe to consider the basic trade policy and technical issues implicit in hemispheric trade liberalization. Of the seven colloquia, five were held in Washington, D.C., one in Toronto, Canada and another in Sao Paulo, Brazil.

1st Colloquium: (February 23-24, 1992) discussed the project's goals with the Project Liaison Committee.

2nd Colloquium: (April 30 - May 1, 1992) addressed the implications of hemispheric trade policy for the multilateral trading system, and for relations with the rest of the world, particularly Europe and Japan.

3rd Colloquium: (May 31 - June 2, 1992; Toronto, Canada) discussed the wide range of trade liberalization efforts already underway in the hemisphere, namely, CARICOM, CACM, Andean Pact, MERCOSUR, and NAFTA, and their relation to a Western Hemisphere Free Trade Area.

4th Colloquium: (July 27-28, 1992) analyzed costs and benefits by country. The discussion emphasized the relevance of economic size, level of economic development, proximity to the North American market, and "macroeconomic readiness".

5th Colloquium: (September 28-29, 1992) highlighted potential negotiation issues, with an emphasis on safeguards and unilateral trade remedy actions, rules of origin, market access, environment and labor.

6th Colloquium: (December 1-2, 1992) focused on how hemispheric trade liberalization could be brought about, emphasizing the role of domestic policies in facilitating the transition.

7th Colloquium: (April 19-20, 1993; Sao Paulo, Brazil)

stimulated dialogue with Brazilian entrepreneurs on Brazil's integration into a hemispheric free trade arrangement.

2.2 Conferences

The conferences complemented the colloquia expanding on the issues raised earlier with a wider group of participants.

First Conference: (May 24-25, 1993; Santiago, Chile) considered trade liberalization arrangements, cost-benefit analyses at country and sector level, the negotiating agenda, and the transition.

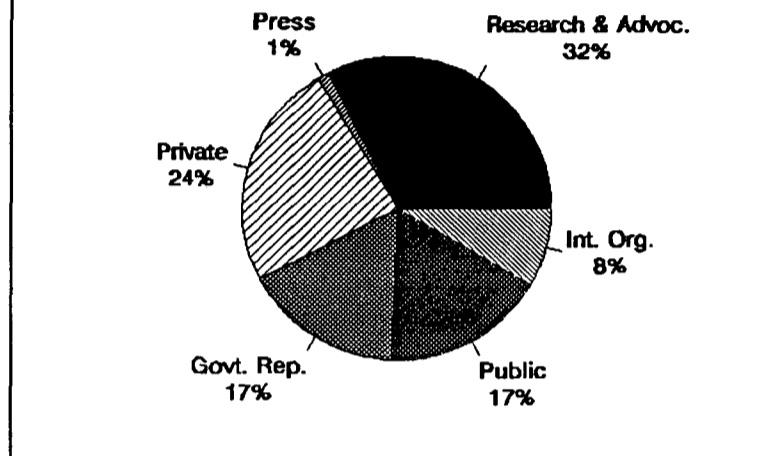
Second Conference: (November 1-2, 1993) assessed conditions and policies for maximizing the gains of a hemispheric free trade area and reviewed estimates of two CGE models on a Western Hemisphere Free Trade Area.

The list of participants, colloquia and conference summaries, and agendas are included in Appendix 2.

2.3 Participants

Four hundred and nine participants from forty one countries, from public and private sectors, research and advocacy institutions, international organizations, and the press, participated in the activities of the project. The diagram on the next page shows the distribution of the participants according to their affiliation by sector. The public sector included trade officials and other experts, who were not members of the liaison committee; regional and advocacy organizations included academicians, researchers, and not-for-profit advocates; private includes experts from the private sector, notably multinational corporations, export/import businesses, law and consulting firms involved in international trade.

Affiliation of Participants by Sector Conferences and Colloquia

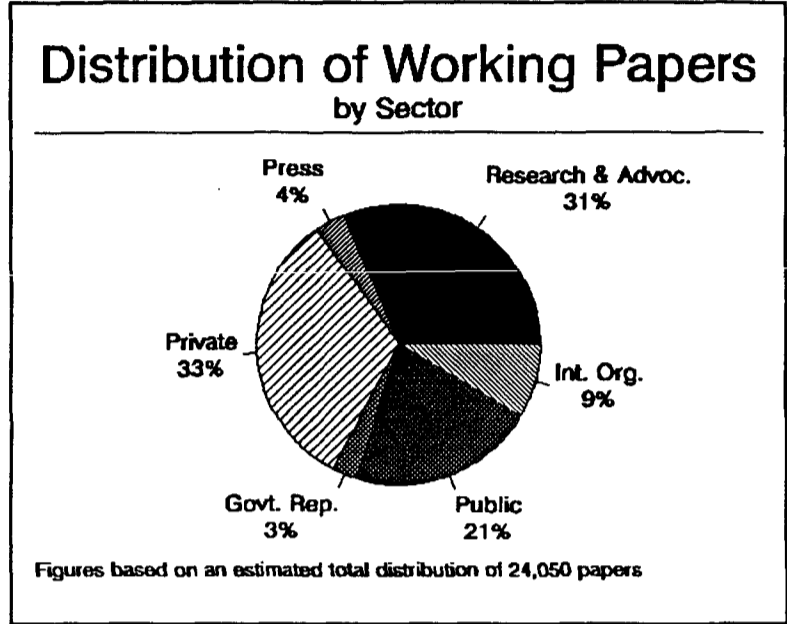


2.4 Working Papers

The Project produced seventy working papers. Sixty were commissioned to public and private sector experts from Latin America, the United States, Canada, Europe, and Japan. Ten were written by ECLAC staff. Appendix 3 includes the list of titles and authors of the working papers.

Approximately 24,000 copies of the working papers were distributed. Documents were made available at the six colloquia and the two conferences. Also, they were distributed through the Washington, D.C. ECLAC office. The working papers were listed in the newsletters of CEPAL-Washington CEPAL News, IDB's Economic and Social Development Newsletter, Development Policy, and the Council of Americas' newsletter, Washington Report.

The figure below shows a breakdown of the distribution of working papers by sector.



2.5 Publication

The final activity of the project is the publication of an edited volume of twenty project working papers. The volume is to be published in English, Spanish, and Portuguese.

J.C. ALLEN



Appendix 1

Contents

- * Summaries of the Formal Meetings of the Steering Committee
- * Summaries of Advisory Committee Meetings
- * List of Advisory Committee Members



Minutes of the First Steering Committee Meeting
IDB-ECLAC Project
Santiago, Chile June 21, 1991

1. Date and venue: The first steering committee meeting of the IDB-ECLAC Project was held at ECLAC headquarters on June 21, 1991. The meeting was held after a ceremony to inaugurate the project.
2. Participants: The Inter-American Bank was represented by Enrique Iglesias, President of the Bank, and Nohra rey de Marulanda, Manager of Economic and Social Development. On behalf of ECLAC, Gert Rosenthal, Executive Secretary, and Isaac Cohen, Director of the Washington Office, attended the meeting.
3. Steering Committee Responsibilities: The President of the IDB and the Executive Secretary of ECLAC designated Nohra Rey de Marulanda and Isaac Cohen as their respective representatives in the daily execution of the Project. Moreover, there was an agreement by the President and the Executive Secretary to meet biannually, while their representatives would meet when necessary, or at least monthly.
4. Advisory Committee: The Steering Committee entrusted Ms. Marulanda to consult with the Executive Directors of the IDB with reference to the designation of possible members of the Advisory Committee. In principle, the Committee decided on the following individuals: S. Weintraub (USA); S. Ostry (Canada); R. Ricupero (Brazil); A. McIntyre (Jamaica); J. Gallardo (Ecuador).
5. Issues with reference to government participation: The Committee entrusted Ms. Marulanda with drafting a letter, to be sent to the Governors of the Bank, to designate a representatives that would serve as a liaison with the Project. This letter should be signed by the titular heads of the Committee.
6. Project Personnel: The Committee instructed the Coordinator to hire personnel to assist in the Project's execution as soon as possible. The Coordinator is to propose candidates for the three positions to this Committee.
7. Consultants: With reference to the fees that will be paid to consultants drafting working papers, the Committee has set as a ceiling the amount of US 10,000. At least 60 papers have been planned for the Project. The Committee further decided that institutions and/or organizations will not be contracted to produce papers.
8. Colloquia: The Committee considered the possibility that colloquia be held not only in Washington, but also in other venues. The possibility of holding colloquia in, respectively, Canada, Central America, the Caribbean, Brazil, and Santiago will be considered.

9. Conferences: With respect to the two planned conferences, the Committee decided that one will be held in Washington and the other in Santiago, both to be scheduled near the end of the 18 month period designated for the execution of the Project.

10. Venue of next Steering Committee meeting: Finally, the Committee decided that the next meeting of the titular members will be held in Washington on a date convenient to all members.

**SUMMARY OF THE MEETING OF THE STEERING COMMITTEE
OF THE IDB/ECLAC PROJECT ON HEMISPHERIC TRADE
LIBERALIZATION (ATN-SF-3723-RE)
FEBRUARY 11, 1993**

1. IDB President Enrique Iglesias and ECLAC Executive Secretary Gert Rosenthal met at the Bank's headquarters on 11 February 1993. Also present were Norah Rey de Marulanda, Manager DES, and Daniel Szabo, Senior Advisor/DES, from the IDB, as well as the Project Coordinator Isaac Cohen, from ECLAC Washington.

2. The Steering Committee reviewed the project's satisfactory development to this date and examined the forthcoming activities that will be carried out before the project's completion anticipated for June 1993.

3. Concerning the possibility of organizing a seventh colloquium in Brazil, the Steering Committee authorized the initiation of consultations with the Brazilian authorities for the purpose of exploring dates and logistics.

4. Regarding the celebration of the two conferences which will culminate the project's activities, the Steering Committee decided to hold the first at ECLAC headquarters, in Santiago Chile, on 28-29 May and the second at IDB headquarters, in Washington, on 24-25 June.

5. The Steering Committee decided that it was convenient to initiate the final evaluation of the project before its completion. With this purpose, the project Coordinator was asked to submit to the Bank the names of two experts, a Latin American and a North American, to carry out the evaluation together.

6. It was decided that it would be useful to hold two more meetings of the Advisory Committee, one in Brazil during the seventh colloquium, and the other in Washington before or in between the two conferences.



IDB/ECLAC PROJECT ATN-SF-3723-RE

Support to the Process of Hemispheric Trade Liberalization

**Summary of the First Meeting of the Advisory Committee
Washington, D.C.
November 25, 1991**

The discussion focused on the various elements of the work program including project objectives, overall strategy, proposed topics, the colloquia, and potential consultants.

PROJECT OBJECTIVES

Fundamentally, the purpose of the project is to inform governments of the region of the main issues involved in a Western Hemisphere Free Trade Area (WHFTA) so that they may be able to make their own decisions regarding their participation and means to proceed. Rather than a purely intellectual exercise, the project is designed to address concrete and practical concerns; to provide instruments to the governments to assist them in reaching their own conclusions.

PROJECT STRATEGY AND SCOPE

Suggestions regarding the focus of the project followed from the overall objectives. It was recognized, particularly in light of the heterogeneity of the region, that broad issues of common interest among the countries need to be addressed.

The issues suggested include:

- (1) definition of a WHFTA (what specifically does it entail? What can the countries anticipate?);
- (2) global and macroeconomic considerations (e.g., WHFTA in the context of salient current global dynamics);
- (3) rationale for a WHFTA (What can be gained? What are the stakes?);
- (4) concrete measures regarding how to proceed towards implementation of a WHFTA (what are the countries' options? How can the transition period be best managed?);
- (5) reconciliation between WHFTA and existing subregional

integration schemes (how will these schemes be affected? How can they serve as an intermediary step towards the establishment of a WHFTA?); and (6) domestic constraints from a WHFTA (What are the considerations and implications of a WHFTA on domestic issues? What complementary policies are necessary?).

In light of these common interest issues, suggestions were made to revise the initially proposed four main topic headings. Most of the emphasis was focused on revising the first main heading: costs and benefits of a WHFTA. This included suggestions to invert the order of subcategories (country studies first, then region, then global considerations), to reducing its scope (perhaps eliminate the "sectoral and further disaggregation"), and to include some global and macroeconomic issues not currently addressed.

Other observations regarding the main topic headings:

- (1) the proposed four headings are not equally weighted (costs and benefits and contents of WHFTA appear to take lionshare of issues and importance);
- (2) regarding the second heading, contents of WHFTA: while the subcategories are clear, how these topics will be addressed is not;
- (3) efforts should be made to anticipate the priority negotiating issues in the contents heading (i.e., not only issues of today, but also anticipated areas of growing interest in the future); and
- (4) a separate main heading was suggested: "alternatives for the transition."

It was observed that the work program as it currently stands may be too ambitious, and, similarly, that there may exist too much diffusion of effort. Perhaps fewer papers, more strategically focused may better serve the project. Suggestions from the advisors regarding possible consultants for the project will be sent to ECLAC/Washington.

It was also observed that the project as presented incorporated a bias from which can be drawn the conclusion that the establishment of a WHFTA is a priori a positive development. There was hence a suggestion that efforts be made to ensure that the dialogue be balanced, open, and critical. This would include incorporating, for example, different perspectives from different regions of the hemisphere. It was acknowledged that while the

project is subject to certain institutional constraints, objectives are defined by the existing plan of operations approved by the Bank's member governments, there was room to cover the spectrum of perspectives within the existing framework of the project.

PROJECT COLLOQUIA

There was some discussion about the agenda for the six colloquia. It was proposed that each of the main topic headings coincide with a colloquium. In addition, it was suggested that one colloquium will be held in Canada and provide Canadian perspective(s) on a WHFTA. The purpose of the first colloquium in January with members of the Liaison Committee be twofold:

- (1) to provide the governments with a strategic overview of the project and hence the broad issues which pertain to the meaning of a WHFTA and the considerations regarding its implementation; and
- (2) to solicit ideas from members of the Liaison Committee regarding what they hope to receive from the project.

PROJECT TOPICS

Suggestions regarding subheadings and individual topics included:

- (1) Costs and benefits country case studies need to be carefully chosen. Several approaches were recommended. One, choose the countries according to typology (e.g., by degree of openness, and/or by trade concentration with U.S.). Second, develop a manual (highlighting common cost and benefit considerations) that can be applied to all countries. Third, develop a country-specific trade model for the region to estimate costs and benefits from trade liberalization (perhaps differentiating by several types of countries, and analyzing by sector);
- (2) The financial side of trade needs to be included;
- (3) Environmental issues as they relate to trade should be emphasized;
- (4) Labor adjustment issues, particularly important from U.S. perspective, are very important;
- (5) NTBs and dispute settlement should be a priority in the contents of WHFTA, tariff reductions less so.

- (6) Costs and benefits analyses need to go beyond trade flows, focusing on investment flows as a result of a WHFTA as well.

The meeting, in sum, served several constructive purposes: (1) to elucidate the project objectives; (2) to help better focus the project strategy, in large part by addressing areas of common interest regarding a WHFTA; and (3) to help prioritize the individual topic areas.

IDB/ECLAC Project

Support to the Process of Hemispheric Trade Liberalization

**Summary of the Second Meeting of the Advisory Committee
Washington, D.C.
February 6, 1992**

The meeting began with a review by ECLAC of the proceedings of the first colloquium of the project, and a summary of the IDB-ECLAC overview of the issues document. The advisors followed with their reactions.

ECLAC Review

Much of what was verbally summarized of the first colloquium can be found in print in the summary handed out to the advisors at the meeting, and will not be repeated here. In general, the project was well-received by the "liaison committee." The attendance was impressive, as was the quality of participants and their interest in the project. They expressed a need for assistance in helping their governments to make critical decisions as regards participation in hemispheric trade liberalization proposals. The project should serve as a vehicle to promote a dialogue on the issues, and as a means to build intellectual capital.

The representatives expressed broad coincidence of interest with the proposed IDB-ECLAC agenda as regards the issues to be studied. This included an interest in learning lessons from the GATT, an emphasis on cost-benefit analyses (at the sectoral as well as country and regional level), an emphasis on the technical aspects of the anticipated negotiations agenda, and a focus on the sub-regional integration systems.

A brief review by ECLAC of the most recent version of the IDB-ECLAC overview of the issues document followed. Revisions have been made to reflect suggestions both from the advisors and from the liaison committee. Some logistics of the project were also addressed. In particular, the project has been extended for six months to facilitate the designation of a theme for each of the five colloquia. The themes are to correspond to the five main topic headings as outlined in the IDB-ECLAC document.

Reaction from Advisors

(1) The project is on the right track. Progress has been

made in the presentation of the issues as evidenced in the IDB-ECLAC document which reflects suggestions made in the last advisory committee.

(2) There is a need for flexibility in the project in light of changing global events. Witness how events at the GATT have changed since the last meeting. Changes in the U.S. political climate need to be taken into consideration.

(3) The papers presented by the consultants of the project need to be practical, non-academic, and integrated.

(4) Some of the topics as presented in the IDB-ECLAC document are more balanced than others. Some which are presented largely from a northern perspective are found in the negotiation agenda (IV), and include the topics of TRIMS, TRIPS, environment, and labor. In these areas in particular, there is a need to better reflect certain complexities (including the interaction of topics) and nuances (including a balanced view).

(5) Cost benefit analysis should be the centerpiece of the project; the spinal column. As presented in current document, it is not. Perhaps as much as one-third of the resources from the project should be devoted to developing an empirical model (perhaps similar to the EC's Cecchini Report). ECLAC Santiago might coordinate this effort.

(6) The project should take up the offer made by Switzerland in the first colloquium for technical assistance.

(7) The colloquia should not be viewed as the major events of the project. The most important end result will be final body of research.

(8) The advisory committee should see a list of the topics as well as possibly the consultants who are to produce the papers soon if it is to provide more than rubber stamp approval.

In response to the observation regarding the need to develop an empirical model, the question was raised as to whether the project could better the efforts currently ongoing at the ITC. Nevertheless, ECLAC will explore the possibility of developing a model, and will discuss the matter with ECLAC Santiago.

IDB/ECLAC Project ATN/SF-3723-RE
Support to the Process of Hemispheric Trade Liberalization
Summary of the Third Meeting of the Advisory Committee
May 28, 1992

1. Three main topics were discussed at this meeting: (1) the substantive progress report prepared by ECLAC; (2) the use of an econometric model to evaluate the costs and benefits of a Western Hemispheric Free Trade Area; (3) the need to balance different perspectives.

2. On the basis of the progress report, the Advisory Committee acknowledged the advancement already made and remarked the broad range of issues covered. The Committee noticed, however, that the overall content of the project will only emerge until all the consultants have been hired to cover the issues described in the working paper no. 2. Thus, the list of papers presented in the progress report constitutes a partial fulfillment of the more comprehensive final outcome.

3. Returning to a point raised in previous meetings, the Committee again discussed the idea of developing an empirical model, perhaps similar to the EC's Cecchini Report. The merits of this idea were extensively reviewed, and the Committee was informed that ECLAC would make a proposal on the basis of the evaluation of 12 models carried out by the United States International Trade Commission in 1991 (USITC Publication 2508, May 1992).

4. The Committee suggested that ECLAC and the IDB would be the most qualified institutions to conduct the quantitative exercise on the Western Hemispheric Free Trade Area, although it was also recognized that such effort would take at least two years to be concluded. Therefore, it would be beyond the scope of the present project.

5. Finally, the Committee recalled the need to preserve a balance within the project between different perspectives, derived from national outlooks, as well as between academics and practitioners

6. Attached is the list of participants.

PARTICIPANTS TO THE THIRD ADVISORY COMMITTEE MEETING

THURSDAY, MAY 28, 1992

MEMBERS OF THE ADVISORY COMMITTEE

Mr. William Cline
Mr. Jorge Gallardo
Ambassador Rubens Ricupero

IDB

Mr. Enrique Iglesias, President IDB
Ms. Nohra Rey de Marulanda, Manager DES
Ms. Rosa Olivia Lawson, Deputy Manager DES
Ms. Muni Figueres de Jiménez, Division Chief REG/ITD
Mr. Daniel Szabo, Principal Advisor REG/DEP

ECLAC WASHINGTON

Mr. Issac Cohen, Director
Ms. Ines Bustillo, Economic Affairs Officer
Mr. Ronald Sprout, Economist
Mr. José Tavares de Araujo, Economist

IDB/ECLAC Project

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**Summary of the Fourth Meeting of the Advisory Committee
Washington, D.C.
July 8, 1992**

1. With the participation of Messrs. Cline and Ricupero, the meeting was devoted to two topics with primary emphasis on: (a) the development of an empirical model to evaluate the costs and benefits of a Western Hemispheric Free Trade Area (WHFTA); and (b) a review of the third colloquium.
2. The ITC's efforts to evaluate existing empirical models and assess the building of its own model for a WHFTA was outlined by ECLAC. A preliminary estimate by the ITC on the construction of a model for the hemisphere included the use of at least 10.5 man-years of professional staff and 3 man-years of support staff.
3. The advisors concurred on several points: (a) the development of a model that would add credibility to the Project remains a priority; (b) a cooperative approach with the ITC merits consideration; and (c) a less ambitious model could be built with fewer resources, of between \$200,000 and \$300,000.
4. After a discussion of the different alternatives, the advisors recommended: (a) the construction of the less ambitious model based upon an assessment by the IDB and ECLAC of the availability of the project's resources; (b) should available resources be deemed insufficient, ECLAC should explore the possibility of carrying out a joint effort of model construction that could involve several interested Latin American governments and the ITC.
5. An estimate of the time frame for the construction of the less ambitious model concluded that preliminary results should be available by June 1993 and final results by December 1993.
6. The IDB-ECLAC project, as a preliminary step and whichever alternative of model construction finally prevails, will produce a working paper describing and evaluating the existent models.
7. To conclude, ECLAC presented a brief review of the last colloquium, held in Toronto, May 31 - June 2. A written summary of the proceedings will soon be circulated.



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**Summary of the Fifth Meeting of the Advisory Committee
Washington, D.C.
September 18, 1992**

1. With the participation of Messrs. Ricupero, Gallardo, and McIntyre, and the Executive Secretary of ECLAC, the meeting was devoted to discussions on the progress of the project, including the remaining colloquia, a quantitative model, and the two conferences scheduled for next year.

2. Regarding the model, it was recognized that given limited resources and time, a focus on a sample of countries or sample of products might be a feasible means to proceed. It was suggested that one approach, as a spinoff, might be to develop a software which could provide governments the means to assess the impact of hemispheric trade liberalization possibilities on their particular countries (i.e., develop the tools to analyze country costs and benefits). It was also felt that an important role of the project would be to evaluate existing models.

3. Some discussion was devoted to the role and format of the conferences (scheduled for February and March 1992). What should the final outcome be? Should there be a final communique, for example? Position papers per major project headings? Who should come? It was recognized that one important purpose of the conferences should be the dissemination of project results in the form of project working papers.

4. Broader discussions centered on the role of the project in light of evolving global realities, some of which may adversely affect the likelihood of a WHFTA. For example, the resistance in the U.S. over NAFTA, and the uncertain resolve of the U.S. administration to negotiate FTAs with Latin America (beyond Chile). One suggestion was to conduct a reappraisal of the direction of the project after the second conference to take stock of these realities. It was recognized, nevertheless, that such possible ominous trends justify even more the purpose of the project. The importance of trade liberalization for Latin America and U.S. exports can only increase.

5. It was recommended that John Weeks, the Canadian trade negotiator, could be invited to the fifth colloquium to complement the participation by Jaime Zabudovsky.

6. Finally, it was also recommended that the next advisory committee meeting be held in November, before the sixth colloquium (scheduled for November 30 - December 1) and after the U.S. elections.

IBB/ECLAC PROJECT

Support to the Process of Hemispheric Trade Liberalization

Summary of the Sixth Meeting of the Advisory Committee

**Washington, D.C.
November 19, 1992**

1. With the participation of Messrs. Cline, Gallardo, Ostry and Ricupero, the meeting was devoted to drawing an overview of the prospects for hemispheric trade liberalization in the present context offered by the electoral outcome in the United States and the course of events related to the Uruguay Round.
2. The political transition in the United States comes at a time when Latin America and the Caribbean represent one of the most important and fastest growing markets for U.S. exports. Hence the NAFTA may be ratified and Hemispheric trade may remain a policy priority for the U.S. government. In the meantime, Latin American and Caribbean partners may be able to consolidate their economic adjustment programs.
3. The outcome of the Uruguay Round remains uncertain and a stagnant global economy is not conducive to support further Hemispheric trade liberalization. The fast-track clock is ticking and the time left to submit a GATT agreement is running short (it must be submitted by March 1993). The Clinton Administration may be politically capable of requesting and being granted a brief extension of fast-track procedures if the negotiations on agriculture conclude soon, thus allowing for a subsequent resolution of other issue areas such as services and market access.
4. Regarding the project's activities, the timing seems ripe for disseminating results. The objectives should be to educate and to help avert a reversal of trade liberalization and integration efforts in the Hemisphere.
5. Finally, there may be two additional Advisory Committee meetings next year, before and after the formal conferences which are scheduled for the first half of 1993.

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**Summary of the Seventh Meeting of the Advisory Committee
Washington, D.C.
June 22, 1993**

With the participation of project advisors, Messrs. Cline, Gallardo, Ricupero, Ms. Ostry, and project evaluator, Joaquin Izcue, the meeting was devoted to a review of the progress of the project to date. This included an assessment of recent past events--the Sao Paulo colloquium and Santiago conference, in particular--and a review of what remains--the final conference, the models, the book, the formal project evaluation process and, more generally, issues of dissemination.

In general, it was observed that the basic purpose of the project--that of igniting a debate--has been achieved. The Sao Paulo colloquium was singled out as particularly effective in this regard. Both the Sao Paulo colloquium and the Santiago conference displayed the value of examining the issues in different countries, and to different groups. In Sao Paulo, the involvement of the Brazilian private sector was an important ingredient to its success. Consideration is being given to co-hosting additional colloquia in other countries where interest has been expressed.

Dates have not yet been set for the final conference. An effort has been made to include NAFTA players at a senior level, and the IDB is currently waiting to hear from them. It is important that the final papers and the models results be disseminated at this conference. A special session updating the status of the Uruguay Round and NAFTA may be merited.

Preliminary results from the two CGE models commissioned by the project are expected in July. One of these modelling efforts will continue beyond the project with IDB support. Once again, some debate ensued on the merits of modeling. The models cannot capture everything, and hence it is important not to overestimate the importance of the models and their results. On the other hand, they can serve as a further basis for dialogue and debate.

The task of formally evaluating the project was discussed. Completion of the first draft of the evaluation is planned for early August. It would be helpful if the second conference and the models are included in the final analysis.

Dissemination of the efforts of the project was discussed at length. More attention needs to be focused on how to reach the private sector in Latin America, as well as relevant groups in Europe and Japan. Some suggestions were made, though further thought and effort is needed. It was suggested that an executive summary and/or a free-standing introduction of the book be written so that it could be distributed separately, as a brochure.

Members of the Advisory Committee

1. William Cline
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3. Alister McIntyre
Vice-Chancellor
The University of the West Indies
Kingston, Jamaica
4. Sylvia Ostry
Chairwoman
Centre for International Studies
University of Toronto
Toronto, Canada
5. Rubens Ricupero
Brazilian Ambassador to the U.S.
Washington, DC, U.S.A.





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Appendix 2

Contents

- * List of Participants by Country
- * List of Participants by Sector
- * Seven Colloquia: Agendas, List of Participants, and Summaries
- * Two Conferences: Agendas, List of Participants, and Summaries



Definition of Terms:

G.R = Government Representative

Private= Private sector

Public= Public sector

R&A = Research and/or advocacy organization

Int. Org.= International organization

Other=includes members of the press and labor unions

Ttl= Total



IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION

List of Participants



<u>COUNTRY</u>	<u>PARTICIPANT</u>	<u>AFFILIATION</u>
Argentina	Marcelo Cañellas	Gvt.Rep
	Beatriz Paglieri	Public
	Celia de Luca	Public
	Antonio Vincenzotti	Public
	Elvio Baldinelli	Priv/R&A
	Julio Berlinski	R&A
	Graciela Chichilnisky	R&A
	Daniel Chudnovsky	R&A
	Eugenio Diaz Bonilla	Public
	Marcelo Jorge Garriga	Public
	Alieto Guadagni	Public
	Mónica Hirst	R&A
	Bernardo Kosacoff	Int. Org.
	Jorge Lucángeli	Public
	Eugenio Maffuci	R&A
	José Luis Manzano	R&A
	Alfredo Morelli	Public
	Julio Nogués	Int. Org.
	Félix Peña	Pub/R&A
	Fernando Porta	R&A
	Jesús Sabra	Public
	Jorge Sakamoto	Pub/R&A
	Pablo Sanguinetti	Pub/R&A
Miguel Scagliotti	Pub/R&A	
Diana Tussie	R&A	
Juan Mario Vacchino	Int. Org.	
Ana María Vartalitis	Public	
Carlos H. Waisman	R&A	
Australia	W. Max Corden	R&A
	Samuel Laird	Int. Org.
Bahamas	Marvis Holmes-Hanek	Gvt.Rep
Barbados	Albert Brathwaite	Gvt.Rep
Belgium	Charles Ghislain	Gvt.Rep
	Christian Lepage	Public
	Patrick Van Haute	Public
	Jean Benoit Boucher	Public
Bolivia	Silvio Javier Comboni	Gvt.Rep
	Juan L. Cariaga	Private
	Marcelo Vaca Guzmán	Private
Brazil	Milton de Pinha Junior	Gvt.Rep
	Fernando Coimbra	Public
	Olavo Cesar Silva	Public

Heloiza Camargos Moreira	Public
Rubens Barbosa	Public
Evandro Didonet	Public
Marcelo de Paiva Abreu	R&A
Jose Augusto Albuquerque	R&A
Antonio Antunes	Int. Org.
Livio Amato	R&A
Mancel Dantas Barreto	Private
José W. Bautista Vidal	Private
Antonio F. Guimaraes Bessa	Private
Regis Bonelli	R&A
Carlos A. Primo Braga	Int. Org.
Luiiz C. Bresser Pereira	R&A
Joao Paulo Candia Veiga	R&A
Wilson Cano	R&A
Eliana Cardoso	R&A
Fernando H. Cardoso	Public
Normelio Moora da Costa	Private
Maurice Costin	Private
Luciano Coutinho	R&A
Flavia Nucci Dezotti	Private
Gilberto Dupas	Private
Fabio S. Erber	Public
Marcus Vinicius de Freitas	Private
Luis Fernando Furlan	Private
Marco Aurelio Garcia	Other
Jorge H. Gouvea Vieira	Private
Kaldair J. Ionon	Private
Manuel Luzardo de Almeida	Private
Pedro H. Mariani	Private
Carlos E. Moreira F.	Private
Gilberto Mosmann	Private
Pedro da Motta Veiga	Private
Yoshiaki Nakano	R&A
Luis F. Panelli Cesár	Public
José C.A. de Oliveira, Jr.	Private
José E.A. Pereira	Private
Lia Valls Pereira	R&A
Francisco Petros	Private
Samuel Pinheira Guimaraes	Public
Otiz Pomin	Private
Eustaquio Jose Reis	Private
Joao Paulo dos Reis Velloso	Private
Rubens Ricupero	Public
Francisco M. Rocha F.	Public
Olavo da Rocha e Silva	Private
Joao J.C. Sá	Private
Laerte Stubal Filho	Private
José Tavares de Araujo, Jr.	Int. Org.
Vera Thorstensen	R&A
Paulo Tigre	Private
Ricardo Tolipan	R&A
Vivianne Ventura Dias	Int. Org.

Canada

Philip Yang	Public
Cheng Jia Yue	Private
Alvaro Antonio Zini	Int. Org.
Michael Hart	Gvt.Rep
Alan Alexandroff	Private
Jonathon Baker	Public
Albert Berry	R&A
Bruce Campbell	R&A
Douglas I. Campbell	Public
Kathy Cannings	R&A
James E. Carter	Private
Jay Coghill	Public
Anthony Lacaud Cooper	Private
David Crane	Other
John M. Curtis	Public
Don Dewees	R&A
Edgar J. Dosman	Pub./R&A
Don Etchison	R&A
Glen T. Fischer	Private
Jeremy Fox	Private
Louise Frechette	Public
Gary German	Private
Stan E. Gooch	Public
Allan Gotlieb	Private
Gordon Gow	Private
Heather Grant	R&A
Jerry Haar	R&A
Blair Hankey	Public
Harry Hargadon	Private
Richard Harris	R&A
George Haynal	Private
Gerald Helleiner	R&A
John Hoicka	Public
Michael Kelly	Private
Peter Kissick	Private
Robert Kreklewich	R&A
Francois Lecavalier	Public
Claudette Mackay-Lassonde	Public
Shu-Yan Mok	Public
F. William Orde Morton	Private
Halina Ostrovski	Private
Sylvia Ostry	R&A
Stephen J. Randall	R&A
J. Michael Robinson	Private
Alan Rugman	R&A
Fred Sheehy	Public
Fernando Traficante	Public
Effie J. Triantafilopoulos	Private
Ennio Vita-Finzi	Private
Leonard Waverman	R&A
Ann Weston	R&A
Hugh Wilkinson	Int. Org.

	Gilbert Winham	R&A
	Ronald J. Wonnacott	R&A
	John Wood	Public
	Roy Woodbridge	Private
	Adam H. Zimmerman	Private
Chile	Andrés Velasco	Gvt.Rep
	Ricardo Vicuña	Public
	Manuel R. Agosín	R&A
	Augusto Aninat del Solar	Private
	Héctor Assael	Int. Org
	Andrés Bianchi	Private
	Andrea Butelmann	R&A
	Nicolás Flaño	Int. Org
	Stephany Griffith-Jones	R&A
	Alejandro Jara	Public
	José Luis López	R&A
	Ramón López	R&A
	Patricio Meller	R&A
	Verónica Montesinos	R&A
	Cristián Morán	Private
	Eduardo Moyano	Public
	Juan Salazar	Public
	Francisco Sercovich	Int. Org.
	Alfredo Sfeir Younis	Int. Org.
Colombia	Luis A. Torres Castro	Gvt. Rep.
	Carlos Gustavo Cano	Int. Org.
	Marta Fernández de Lynch	R&A
	Alfredo Fuentes	R&A
	Luis J. Garay	Public
	Juan F. Gualy	Private
	Cynthia Leigh Gualy	Private
	Juan Carlos Jaramillo	Int. Org
	Jorge Méndez	R&A
	José Antonio Ocampo	Public
	Jorge Ordoñez Gomez	Int. Org.
	Guillermo Perry	R&A
	Carlos Quijano	Int. Org.
	Enrique Umaña	Public
C. Rica	Anabel González	Gvt.Rep
	Rodolfo Castro	Private
	Claudio González Vega	R&A
	Carlos M. Echeverría E.	Private
	César Jaramillo	Public
	Eduardo Lizano	Private
	Carlos Pomareda	Int. Org.
	Sylvia Saborío	Public
	José Salazar	Public
	Juan Manuel Villasuso	Private

Dominican Public	Roberto Lamarche Cruz	Gvt.Rep
	Horacio Alvarez	Private
	Andrés Dauhajre	Private
	Tomás Pastoriza	Private
	Roberto B. Saladin Selin	Private
Ecuador	Wilma Salgado Tamayo	Gvt.Rep
	Danilo E. Carrera Druet	Private
	José Carrión	Private
	Marcos A. Espinel	Private
	Jorge Gallardo	Private
	Edison Ortiz	Private
	Germánico Salgado	R&A
Walter R. Spurrier	Other	
El Salv.	Rolando Mena Guerrero	Gvt.Rep
	William Pleitez	Gvt.Rep
	Carlos Acevedo	R&A
	Jaime Acosta	R&A
	René León	R&A
France	David Appia	Gvt.Rep
	Antoine Blanca	Public
	Pierre Grandjouan	Public
Germany	Arno Schwed	Gvt.Rep
	Dieter Dettke	R&A
	Kai Kaiser	R&A
	Reinhart Wettman	R&A
Guat.	Arnoldo Castillo Barajas	Gvt.Rep
	C. Humberto Vivar Miranda	Public
	Betty Lobos Bollat	Public
	Salomón Cohen	Public
	Arturo Fajardo	Priv./Pub.
	Diana de Masariegos	Int. Org.
	Juan Alberto Fuentes	Int. Org.
	Eduardo Sperisen	Private
	Jorge González del Valle	Int. Org.
	Guyana	Hamid Khan
Nigel Gravesand		Public
Desiree Field-Ridley		Int. Org.
Fay Housty	Int. Org.	
iti	Ericq Pierre	Gvt.Rep

Honduras	Oscar Rivas Najar	Gvt.Rep
	Marta Julia Cox	Public
	Gerardo Zepeda Bermudez	Int. Org.
Israel	Raphy Merom	Gvt.Rep
Italy	Mauro Piconi	Gvt.Rep
	Jorge Grandi	R&A
Jamaica	Cherrie Orr	Gvt.Rep
	Richard Bernal	Public
	Anthony Hill	Public
	Jennifer Lester	Private
Japan	Hisashi Ono	Gvt.Rep
	Akio Hosono	R&A
	Mitsuhiro Kagami	R&A
	Shujiro Urata	R&A
Mexico	Marco Provencio	Gvt.Rep
	Agustín García López	Public
	Alejandro Valenzuela	Public
	Miguel Leaman	Public
	Guillermo Aguilar	Public
	Carlos Bazdresch	R&A
	Rafael Fernández de Castro	R&A
	David Ibarra	Public
	Salvador de Lara	Public
	Santiago Levy	Public
	Nora Lustig	R&A
	Alejandro Nadal	R&A
	Manuel Sandoval O.	Public
	Miguel A. Solís	Public
	Enrique Sotelo	Private
Gabriela Suárez	Public	
Eduardo Zepeda Miramontes	R&A	
Nether.	Paul Wilke	Gvt.Rep
	Cees Coops	Public
	Jan Heidsman	Public
Nicaragua	Pablo Pereira	Gvt.Rep
	Amilcar Ibarra Rojas	Public
Panama	Juan A. Varela	Gvt.Rep
Paraguay	Orlando Bereiro Aguilera	Gvt.Rep
	Carlos Knapps	Private
Peru	César Peñaranda	Gvt.Rep

	Luis José Diez Canseco	Int. Org.
	Fernando González Vigil	Private
	Drago Kisic	Private
	Raúl Salazar	Int. Org.
	Daniel Schydrowsky	R&A
	José R. Serrano Herrera	Int. Org.
	Arturo Vásquez	R&A
Portugal	Joao Padrao	Gvt.Rep
Pto.Rico	Amadeo J.D. Francis	Public
	Kathryn A. Funk	Public
	David E. Lewis	R&A
	Tere Nolla	Public
	Francisco J. Pavia	Public
Spain	María Pérez Ribes	Gvt.Rep
	Blanca Revenga	Public
Sri Lanka	Sarath Rajapatirana	Int. Org
Switz.	Martin von Walterskirchen	Gvt.Rep
Trinidad & Tobago	Leo Pujadas	Gvt.Rep
	Edwing Carrington	Int. Org
	Winston Dookeran	R&A/Pub.
	Henry Gill	Private
	Anthony Bryan	R&A
Turkey	Vesile Kulacoglu	Int. Org.
U.K.	Patrick Low	Int. Org.
	Hans W. Singer	R&A
	Chris Stevens	R&A
United States	Myles Frechette	Gvt.Rep
	Don Abelson	Public
	James Wallar	Public
	Karen Mathiasen	Public
	Dale Alexander	Private
	Robert E. Baldwin	R&A
	Jane L. Barber Thery	Private
	Laura M. Baughman	Private
	C. Fred Bergsten	R&A
	Bruce Blackman	Public
	Robert A. Blecker	R&A
	Colin Bradford	Int. Org.
	Drusilla Brown	R&A
	Earl Brown	R&A
	David Bruce	R&A
	John Bruton	Private
	Richard Boltuck	Private

Ronald Cass	R&A
James Cassing	R&A
Jorge Chapa	R&A
Carrie Clark	Public
Norris Clement	R&A
William Cline	R&A
Dan Crisafulli	Int. Org.
Eric Dannemaier	Private
I. M. Destler	R&A
Adrian Dickson	Other
Rudiger Dornbusch	R&A
Richard Feinberg	Public
Paul Fekete	Private
Peter B. Field	R&A
Stanley Fischer	R&A
Albert Fishlow	R&A
Lowell Fleischer	Private
Barbara Fleiss	Private
Carole Ganz Brown	R&A/Pub
William B. Garrison	Private
Barnett Greenberg	R&A
Eric Griego	Public
Carol Grigsby	Public
Joseph Grunwald	R&A
Peter Hakim	R&A
Hugh Haworth	Public
Raúl Hinojosa-Ojeda	R&A
Gary C. Hufbauer	R&A
Steven Husted	R&A
Dennis James	Private
Kenneth Jameson	R&A
Michael Klein	R&A
William Knepper	R&A
Anne O. Krueger	R&A
Paul Krugman	R&A
Stephen Lande	Private
Robert Z. Lawrence	R&A
Seymour M. Lipset	R&A
Ronald McKinnon	R&A
Siegfried Marks	Private
Peter Morici	R&A
Michael Mussa	Int.Org.
N. David Palmeter	Private
Eliza Patterson	Public
Kathleen Patterson	Private
Robert A. Pastor	R&A
Charles Pearson	R&A
Jorge Pérez-López	Public
Don Podesta	Other
Rodrigo Prudencio	R&A
Gustav Ranis	R&A
Clark Reynolds	R&A
Sherman Robinson	R&A
Francis Rushing	R&A

	Jorge Salazar-Carrillo	R&A
	Dominick Salvatore	R&A
	Ronald Scheman	Private
	Jeffrey Schott	R&A
	Emily Schwartz	Other
	Helen Shapiro	R&A
	Robert Sherwood	R&A
	Clinton R. Shiells	Public
	William Spriggs	R&A
	Robert Stern	R&A
	Mark P. Sullivan	Public
	Carmen Suro-Bredie	Public
	Lance Taylor	R&A
	Stuart Tucker	R&A
	Joseph Tulchin	R&A
	Raymond Vernon	R&A
	J. A. Villamil	Private
	Sidney Weintraub	R&A
	Thomas White	Public
	Van R. Whiting	R&A
	Paul Wonnacott	Pub/R&A
Uruguay	Miguel J. Berthet	Gvt.Rep
	Carlos Irigaray	Public
	Lilian Arbiza Franca	Public
	Alberto Couriel	Public
	Isidoro Hodara	Private
	Carlos Pérez del Castillo	Priv/Pub.
	Juan José Real	Int. Org.
	Carlos Sanguinetti	R&A
	Roberto Vázquez	Public
Venez.	Humberto García Larralde	Gvt.Rep
	Pedro Emilio Carrillo	Public
	Luis Xavier Grisanti	Public
	Evelyn Horowitz	Int. Org.
	Eduardo Mayobre	Int. Org.
	Moisés Naím	R&A
Virgin Islands	Carlyle Corbin	Public



IDB/ECLAC PROJECT
PARTICIPANTS BY SECTOR

Country	G.R.	Private	Public	R&A	Int. Org.	Other	Ttl
Argentina	1	1	13	11	2		28
Australia				1	1		2
Bahamas	1						1
Barbados	1						1
Belgium	1		3				4
Bolivia	1	2					3
Brazil	1	27	12	13	5	2	60
Canada	1	19	14	17	1	1	53
Chile	1	3	4	7	4		19
Colombia	1	2	3	4	4		14
Costa Rica	1	4	3	1			9
Dominican Republic	1	4					5
Ecuador	1	5		1		1	8
El Salvador	2			3			5
France	1		2				3
Germany	1			3			4
Guatemala	1	2	3		3		9
Guyana	1		1		2		4
Haiti	1						1

Country	G.R.	Private	Public	R&A	Int. Org.	Other	Ttl
Honduras	1		1		1		3
Israel	1						1
Italy	1			1			2
Jamaica	1	1	2				4
Japan	1			3			4
Mexico	1	1	10	5			17
Netherlands	1		2				3
Nicaragua	1		1				2
Panama	1						1
Paraguay	1	1					2
Peru	1	2		2	3		8
Portugal	1						1
Puerto Rico			4	1			5
Spain	1		1				2
Sri Lanka					1		1
Switzerland	1						1
Trinidad & Tobago	1	1		2	1		5
Turkey					1		1
U.K.				2	1		3

Country	G.R.	Private	Public	R&A	Int. Org.	Other	Ttl
U.S.A.	1	17	18	51	2	3	92
Uruguay	1	2	4	1	1		9
Venezuela	1		2	1	2		6
Virgin Islands			1				1
Ttl	38	94	104	131	35	7	409

*Sri Lanka
**Trinidad y Tobago



IDB/ECLAC PROJECT

SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE LIBERALIZATION

FIRST COLLOQUITUM

Inter-American Development Bank
1300 New York Avenue, N.W.
Room Andres Bello
Washington, D.C. 20577

THURSDAY, JANUARY 23 1992

- | | |
|----------------------|---|
| 08:00 - 09:00 | Registration |
| 09:00 - 10:00 | Orientation
Nohra Rey de Marulanda
DES Manager, IDB |
| 10:00 - 10:30 | Opening Remarks
Enrique Iglesias
President, IDB |
| 10:30 - 11:00 | Economic Overview of Latin America and the
Caribbean
Gert Rosenthal
Executive Secretary, ECLAC |
| 11:00 - 11:30 | Comments by Panel
Chair: Nohra Rey de Marulanda
DES Manager, IDB
Panelists: C. Fred Bergsten, Director, IIE
Carlos Primo Braga, Economist, IBRD
Santiago Levy, Professor, Boston U. |
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11:30 - 11:45	Coffee Break
11:45 - 12:30	Administrative Matters
13:00 - 14:30	Lunch Offered by President Iglesias
14:30 - 15:00	IDB/ECLAC Project Isaac Cohen, Director, ECLAC, Proj. Coordinator
15:00 - 15:30	Questions and Answers
15:30 - 15:45	Coffee Break
15:45 - 18:00	Presentations: Government Representatives
18:30 - 20:00	Reception Offered by the IDB

FRIDAY, JANUARY 24 1992

09:00 - 11:00	Presentations: Government Representatives
11:00 - 11:30	Coffee Break
11:30 - 12:00	Wrap-up session Isaac Cohen

IDB/ECLAC PROJECT

Support to the Process of Hemispheric Trade Liberalization

FIRST COLLOQUIUM SUMMARY OF THE DISCUSSIONS

1. On January 23 and 24, the first colloquium of the IDB/ECLAC project took place at the IDB headquarters in Washington, DC. The purpose of this colloquium was to inform the project's "liaison committee" about the goals of the project as well as gather their suggestions with respect to the topics that would be of interest to include in the work program. Attached is the list of participants.

2. The colloquium started with Nohra Rey de Marulanda, DES Manager, providing an overview of the nature of the project and the role to be played by the members of the "liaison committee."

3. In the Opening Remarks, Enrique Iglesias, President of the IDB, placed the Enterprise for the Americas Initiative (EAI) in global and regional contexts. On both levels, there is great change, many challenges, yet much promise as well. The hemisphere has in fact been experiencing a "silent revolution." EAI itself has stimulated the integration process within Latin America. It is a proposal that does not deny the ongoing sub-integration efforts of the hemisphere, but in fact includes these efforts. In this context, there is a need to open up a dialogue to discuss the options, and to maintain direct contact with the governments of the region.

4. Gert Rosenthal, Executive Secretary of ECLAC, provided further regional context for EAI and the IDB-ECLAC project. There are some very encouraging signs for the region including modest economic growth in 1991 coupled with a reduction in inflation, growing access to international capital markets, a positive change in attitudes, improvement in debt indicators, and growth of intra-regional trade. By unilaterally opening up, the region has in fact put its house in order at considerable risk. It is too early to say whether the world is breaking up into inward-oriented trading blocs or moving to the ideal envisioned in the Uruguay Round. At any rate, the region is better off continuing its course of domestic reforms and regional integration regardless of the global outcome. The purpose of this project is to lay out to the governments the options available so that they may exploit the opportunities and minimize the risks.

5. Three panelists, C. Fred Bergsten, Director, Institute for

International Economics; Santiago Levy, Professor, Boston University; and Alberto Primo Braga, economist, The World Bank made comments to the above mentioned presentations. Mr. Bergsten asserted that Latin America and the Caribbean may become a "modest locomotive for world growth," as a result of the economic adjustments undertaken during the 1980s and that the prospects of a free trade agreement would allow to lock-in reforms, provide an insurance against future protectionism, and stimulate investment confidence. Mr. Levy, however, warned that the costs and benefits of unilateral adjustment must be weighed against those of bilateral or multilateral trade liberalization and emphasized the need to reevaluate the domestic programs of adjustment so as to take into consideration severe economic and social inequities. Mr. Braga stated that Latin America has "scored high" in unilateral as well as in multilateral liberalization, despite balance of payments difficulties. He added that domestic investment in building human capital, infrastructure and communication networks could make the region more attractive to investors seeking to globalize production strategies.

6. In the afternoon, Isaac Cohen, Director, ECLAC/Washington, and the coordinator of the project, presented an outline of the issues to be studied when considering the formation of a Western Hemisphere free trade area as described in the attached working paper "A Western Hemisphere Free Trade Area: An Overview of the Issues" (Distributed at the colloquium).

7. In general, there was consensus on the proposal of a framework of what to study about a Western Hemisphere Free Trade Area (WHFTA). Government representatives emphasized, in particular, the need to address cost and benefit considerations as well as practical negotiating issues. In addition, several representatives pointed out the importance of studying the existing sub-regional integration systems. In this respect, it was considered very useful to draw an inventory of trade barriers by countries and sub-regions, as well as to analyze the progress of trade reforms.

8. The need to analyze costs and benefits from trade liberalization at the country level by types of countries was especially noted. Such analysis should ideally include an assessment of the impact on trade, investment, employment, and GDP. It was specifically mentioned that smaller countries might not receive a proportionate share of the benefits, consequently, the feasibility and desirability of preferential treatment schemes between countries in which benefits and costs are asymmetrically distributed is merited. In addition, the impact of trade liberalization on sectors such as agriculture, industry, services, energy will differ, hence there is a need for disaggregation at the sectoral level.

9. Special emphasis was placed on the usefulness of addressing practical, concrete concerns, and allowing for flexibility in the agenda. A focus on the practical issues that constitute the negotiating agenda, such as rules of origin, safeguards, non-tariff barriers, dispute settlement procedures, would be of great value to prepare for the negotiations. It was also noted that the agenda had to be flexible so as to accommodate to forthcoming events such as the outcome of the Uruguay Round or NAFTA, that would unfold during the duration of the project.

10. Finally, at the wrap-up session, Isaac Cohen and Nohra Rey de Marulanda summarized the main issues addressed during the colloquium.



IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION

FIRST COLLOQUIUM

Inter-American Development Bank
1300 New York Avenue, N.W.
Room Andres Bello
Washington, D.C. 20577

THURSDAY, JANUARY 23 1992

- | | |
|---|--|
| 1) C. Fred Bergsten
International Inst. of Economics
Washington, DC | 8) Milton de Pina Junior
Ministry of Finance and Planning
Rio de Janeiro |
| 2) Santiago Levy
Boston University
Boston, MA | 9) Canada
Michael Hart
External Affairs and Int. Trade
Ottawa |
| 3) Carlos Primo Braga
The World Bank
Washington, DC | 10) Chile
Ministry of Economy
Santiago, Chile |
| <u>Government Representatives</u> | |
| 4) Argentina
Beatriz Pagliari
Ministry of Economy
Buenos Aires | 11) Colombia
Luis A. Torres Castro
Ministry of Finance
Bogota |
| 5) Bahamas
Mavis Holmes-Hanek
Ministry of Agriculture and Trade
Nassau | 12) Costa Rica
Anabel Gonzalez
Ministry of Trade
San Jose |
| 6) Barbados
Albert Brathwaite
Prime Minister's Office
Bridgetown | 13) Dominican Republic
Roberto Lamarche Cruz
Central Bank
Santo Domingo |
| 7) Brazil
Fernando Coimbra
U.S. Brazilian Embassy
Washington, DC | 14) Ecuador
Wilma Salgado Tamayo
Ministry of Finance
Quito |

- 15) **Germany**
Arno Schwed
Ministry for Economic Cooperation
Bonn
- 16) **Guatemala**
Ministry of Economy
Guatemala
- 17) **Guyana**
Hamid Khan
Ministry of Trade
Georgetown
- 18) **Haiti**
Ericq Pierre
IDB
Washington, DC
- 19) **Honduras**
Marta Julia Cox
Embassy of Honduras
Washington, DC
- 20) **Israel**
Raphy Merom
IMF
Washington, DC
- 21) **Italy**
Mauro Piconi
- 22) **Jamaica**
Cherrie Orr
Ministry of Foreign Affairs
Kingston
- 23) **Mexico**
Miguel Lehman
Embassy of Mexico
Washington, DC
- 24) **The Netherlands**
Paul Wilke
Royal Netherlands Embassy
Washington, DC
- 25) **Nicaragua**
Amilcar Ibarra Rojas
Ministry of Economic Development
Managua
- 26) **Pablo Pereira**
Ministry of Economic Development
Managua
- 27) **Panama**
Juan Varela
Ministry of Trade
Panama City
- 28) **Paraguay**
Orlando Bareiro Aguilera
Ministry of Finance
Asunción
- 29) **Peru**
Cesar Peñaranda
Ministry of Finance
Lima
- 30) **Portugal**
Joao Padrao
Embassy of Portugal
Washington, DC
- 31) **Spain**
Maria Perez Ribes
Embassy of Spain
Washington, DC
- 32) **Switzerland**
Martin Von Walterskirchen
Secretariat of State
Berne
- 33) **Trinidad and Tobago**
Leo Pujadas
Ministry of Planning and
Development
Trinidad
- 34) **United States of America**
Myles Frechette
USTR
Washington, DC
- 35) **Karen Mathiasen**
Department of Treasury
Washington, DC

36) James G. Waller
Department of Treasury
Washington, DC

37) Uruguay
Miguel J. Berthet
Ministry of Finance
Montevideo

38) Venezuela
Humberto Garcia Larralde
Ministry of Development
Caracas

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Manager SED

40) Juan P. Perez Castillo
Deputy Manager REG/DEP

41) Muni Figueres
Chief of Division
REG/ITD

42) Daniel Szabo
Chief Advisor
GER/PED

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RTC

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44) Isaac Cohen
Director
Washington, DC

45) Ines Bustillo
Economic Affairs Officer

46) Ron Sprout
Economist

47) Daniel Lederman
Junior Expert

48) Maria Fabara Nuñez
Administrative Assistant

49) Rex Garcia
Statistical Assistant



IDB/ECLAC PROJECT

SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE LIBERALIZATION

SECOND COLLOQUIUM

*Inter-American Development Bank
Andrés Bello Auditorium
1300 New York Avenue, N.W.
Washington, D.C. 20577*

THURSDAY, APRIL 30 1992

- 08:00 - 09:00 Registration*
- 09:00 - 09:30 Opening Remarks by President Enrique Iglesias, IDB*
- 09:30 - 10:45 "Why a Free Trade Agreement is in the Western Hemisphere's Interest" by R. Dornbusch, MIT*
Discussants: J. Reis Velloso, IBMEC, Brazil
A. Bianchi, Consultant, Chile
Chair: Nohra Rey de Marulanda, IDB
- 10:45 - 11:00 Coffee Break*
- 11:00 - 12:15 "Trading Blocs and Multilateralism" by P. Krugman, MIT*
Discussants: H. Assael, ECLAC
G. Perry, Fedesarrollo, Colombia
Chair: E. Carrington, Ambassador, Trinidad & Tobago
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-
- 12:15 - 14:15 *Lunch Break*
- 14:15 - 15:30 *"North American Free Trade Area: Needed Stimulus for WHFTA and Beyond" by R. Pastor, Emory University*
Discussants: E. Lizano, Consultant, Costa Rica
R. Blecker, American University
Chair: G. Rosenthal, Executive Secretary ECLAC
- 15:30 - 15:45 *Coffee Break*
- 15:45 - 17:00 *"WHFTA and Japan: Perceptions and Relations" by A. Hosono, University of Tsukuba*
Discussants: P. Motta Veiga, FUNCEX, Brazil
C. Echeverría, FEDEPRICAP, Costa Rica
Chair: E. Mayobre, Venezuela
- 18:00 - 20:00 *Reception Offered by the IDB*

FRIDAY, MAY 1 1992

- 09:00 - 10:15 *Round Table: "Prospects for Hemispheric Trade Liberalization"*
Panelists: H. Singer, University of Sussex
M. Corden, SAIS, Johns Hopkins University
A. Fishlow, Berkeley University
Chair: Rosa Olivia Lawson, IDB
- 10:15 - 10:30 *Coffee Break*
-
-

10:30 - 12:30

Lessons from other Multilateral Trade Liberalization Agreements

EEC by S. Griffith-Jones & C. Stevens, University of Sussex

Israel - US FTA by K. Patterson & D. James

*Discussant: J. Bruton, American Chamber of Commerce of Mexico, Mexico
G. Chichilnisky, Columbia University*

Chair: I. Hodara, H & H Trade, S.A., Uruguay

12:30 - 13:00

Closing Remarks, ECLAC

Presentation by author:

20 minutes

Discussants' comments:

20 minutes (10 minutes for each)

Audience participation:

35 minutes

Panelists:

10 minutes



IDB/ECLAC PROJECT

Support to the Process of Hemispheric Trade Liberalization

Summary of the Second Colloquium

"Global Issues"

Washington, D.C.

April 30 - May 1, 1992

1. In the context of two opposing global forces at work (one of integration, the other disintegration), and of substantial, largely promising domestic economic and political change within the Western Hemisphere, a major question for the countries of the region is how to insert themselves into the world economy, how to link up to the international arena. What are the alternatives that this integration can take, the cost and benefit considerations, and the strategies to consider? With a focus on a Western Hemispheric free trade area (WHFTA), while drawing on lessons from trading regimes and agreements elsewhere, this colloquium provided the framework to address such questions.

I. BENEFITS AND COSTS OF A WHFTA

2. Many opportunities exist for the countries of the hemisphere, though with these come substantial risks. It was recognized that a WHFTA represents one such important opportunity. To assess a priori the net effects of a WHFTA, however, is not possible in light of many uncertainties--including the current and medium term global context, the many possible manifestations that a WHFTA could take, and the alternative means to proceed. To a great extent, "much depends on how it is done." Similarly, it is important to bear in mind that while there are gains from trade liberalization in a free trade area (FTA), these gains will not accrue automatically, because opportunities should be seized.

I) BENEFITS

(a) Economic Gains

3. Trade liberalization brings in its wake many familiar economic benefits, fundamentally increased efficiency and greater economic growth. Static gains accrue from an improved allocation of resources on the basis of existing comparative advantages. Dynamic gains, probably more significant, result from an increase in efficiency in production and the development of new comparative advantages.

4. One difficulty in assessing a priori the economic gains from trade liberalization in the context of a regional FTA stems from the difficulty in sorting out the effects from trade creation with those from trade diversion. Geography and the existing trade flows may indicate, however, that trade diversion may be relatively small in a WHFTA. A WHFTA in this sense might be considered a "natural" trading area.

(b) Beyond Economic Gains

5. At any rate, it was widely recognized that there is much more than economic gains to be had in a WHFTA. There is much more than "free trade and cookies" at stake. Economic integration can produce favorable political repercussions such as more peaceful and stable relations between members. Compare the historically hostile relations between the major European countries prior to the formation of the European Community (EC) with the political climate today. Similarly, it was contended that the impending North American Free Trade Agreement (NAFTA) could reduce political barriers concomitant with the economic. NAFTA will serve to "sensitize and civilize" each member country towards each other.

6. NAFTA and WHFTA also may serve as catalysts to inject renewed vigor into the multilateral trading system in two ways. First, Western Hemispheric FTAs may provide critical leverage for the United States and the Latin American and Caribbean (LAC) countries on the EC and Japan, in particular towards renewed efforts at furthering the multilateral trade liberalization process. Second, a regional FTA could provide an important laboratory for working out solutions that have eluded the General Agreement on Tariffs and Trade (GATT). A smaller number of negotiators, in some cases perhaps more like-minded on the issues, may result in more substantial accomplishments at the negotiating table. Achievements in the regional forum in turn could facilitate the multilateral negotiations.

(c) Nature and Distribution of Inter-Country Gains

7. It was noted that the nature of some of the gains from a WHFTA will likely vary according to country. For the United States, for example, closer trading relations with LAC can help alleviate potential and real concerns as regards security interests and migration trends. This is to say that the widespread poverty and extreme inequalities of the Hemisphere need to be a genuine concern for the United States and a WHFTA is perhaps one of the most effective means to address it.

8. For the LAC countries, two significant dividends from an FTA were noted: (1) greater and more stable access to the U.S. market; and (2) the locking-in or institutionalization of the domestic reforms that have been ongoing throughout most of LAC over the past decade. A WHFTA would make policy backsliding very difficult. Both these dividends would also apply to the United States as well, though not with equal force and perhaps not with such effectiveness.

9. It was also observed that the benefits from a WHFTA would not be even across countries. For example, the greater a country's existing trade with potential members in a regional FTA, the greater the benefits to that country from such an agreement. Other things equal, this would imply that membership in a WHFTA might be more compelling for countries, such as Mexico and Venezuela, which engage primarily in intra-hemispheric trade (and predominantly with the United States), than for countries, such as Chile and Argentina, which trade mostly with countries outside the hemisphere.

10. In addition, the greater the trade barriers between two countries, the greater the benefits from barrier reductions between the two.

11. Perhaps more fundamentally, it was observed that the more developed countries of the region would tend to benefit more from a WHFTA than their poorer neighbors. In part, because the more developed countries will tend to be in a better position--in light of better infrastructures and more established institutions, etc.--to take advantage of the opportunities that would arise.

II) COSTS

12. Some costs are inevitable. While it may be possible to devise a WHFTA whereby net economic gains result, there will be losers. While one perspective put forth that it is meaningless to

determine who gains more (and who gains less), it was also contended by some that such distributional considerations are politically very important. Hence, these distributive aspects will play an important role, along with needed policies implemented to redress the inequalities, towards a sustainable WHFTA.

(a) Economic Costs

13. It was contended that inequalities between domestic sectors within economies may at least initially increase with a WHFTA. In absolute as well as relative terms, some sectors and groups will be harmed unless effective compensatory mechanisms can be devised.

14. It was also noted that the economic effects from trade liberalization depend on the terms in which it takes place. Immiserizing trade, for example, is a possibility if export growth contributes to terms of trade deterioration and, hence, decreased import capacity. This consideration is particularly germane to the LAC countries.

15. In addition, those countries which currently have preferential access to the U.S. market (CBI and Andean countries) might see benefits eroded from a WHFTA.

16. It was also recognized that an important consideration is the potentially large cost to those (probably small) countries that could be left out. Much of the costs would be manifested not only in trade volume losses (from trade diversion), but also in a deterioration in the excluded country's terms of trade vis-a-vis the member countries of the FTA, as well as in reduced investment attractiveness.

(b) Beyond Economic Costs

17. As with some of the gains, some of the costs may go beyond economics. It was observed, for example, that a loss of sovereignty might ensue from membership in a WHFTA. Domestic policymaking and economic policy vis-a-vis the rest of the world would necessarily have to be less flexible.

18. It was also contended, however, that loss of sovereignty would be less significant in the case of an FTA in contrast to a customs union (CU). Furthermore, barriers to the rest of the world would probably tend to be lower in an FTA (where the lowest barriers among the member countries would tend to set the policy) than in a CU. In these respects, a WHFTA may be preferred over a CU.

II. SKEPTICISMS AND CAVEATS

19. There may be two fundamental reasons for skepticism about a WHFTA from the U.S. perspective. First, on the export side, the LAC market is small relative to markets elsewhere. On the other hand, gains from increased exports to LAC, however relatively small, would still accrue from a WHFTA. Perhaps more importantly, what is the alternative? It was argued that markets in the EC and Japan are increasingly less accessible.

20. Second, on the import side, there is the concern over competing with such low wages as those from LAC. This is a critical issue, one that lends credence to the merits of going slow, and to provide adequate adjustment programs.

21. As to the current global context, the importance of a successful Uruguay Round (UR) was stressed as a critical ingredient, capable of producing favorable net effects for the Hemisphere and beyond. And while it was generally acknowledged that the UR negotiations would likely be pulled together, observations regarding why the multilateral trading system has been languishing and some implications were also noted.

22. Reasons for the difficulties encountered by the GATT system include the growing importance of new and more complex issues at the negotiating table, the changing character of protectionism, the growing importance of new players in the world economy (Japan in particular), and, perhaps most fundamentally, the erosion of hegemonic stability.

23. Some problems and tensions may be exacerbated by an FTA. From an increase in the volume of trade within the region, one can expect a greater number of disputes as well as some new problems. Groups and sectors will be hurt from the change. In addition, some of the trade disputes arising from a WHFTA may be more intractable than those in the past. This is in part the consequence of the substantial progress in ridding the economies of the region of many of the more transparent barriers at the borders (tariffs) leaving the "roots and stumps" (NTBs, for example) to tackle.

24. Finally, two sobering considerations. First, the feasibility of extending NAFTA into a WHFTA was called into question. This was posited in part because of the diversity of the countries involved. It was also contended that the motives of the United States remain unclear. Will the United States be committed to an FTA beyond

NAFTA?

25. Second, the contention that the U.S. economy cannot be expected to serve in the 1990s as the engine of growth, as it did in the 1980s. It's demand boom is over. And in fact, a WHFTA would have the dubious distinction of including among its membership some of the most indebted economies in the world. And much needed capital for the hemisphere will likely have to be found in other parts of the world. A WHFTA cannot afford to be inward-oriented.

III. POLICY CONSIDERATIONS TOWARDS A WHFTA

I) AN EXTROVERTED WHFTA

26. One of the most important characteristics of a desirable WHFTA is that it be open-oriented vis-a-vis the rest of the world. It must be compatible with the multilateral trading system; a "building bloc" rather than a "stumbling bloc." Regional FTAs need not conflict with the principles of the GATT, and it was observed that a WHFTA, as currently conceived, could be GATT compatible.

27. An important corollary for the countries of the region is that they must not close options with other regions of the world. Alternatively phrased, there must be a constructive role for Japan and Europe in particular in any WHFTA. Both the EC and Japan have an interest and stake in LAC's development.

28. Perhaps Japan in particular has exhibited this through public sector support, witness its contribution in the Multilateral Investment Fund (MIF), of the Enterprise for the Americas Initiative (EAI).

29. On the other hand, the private sector in Japan is much more cautious as regards a WHFTA and private investment from Japan much less forthcoming than public funds. In this vein, the nature of the rules of origin devised in any WHFTA has a very critical role to play as regards private investment from regions outside the hemisphere.

II) COMPENSATORY MECHANISMS

30. One fundamental strategic objective in a WHFTA--and one that will be very difficult to achieve--must be to distribute the gains so as to enfranchise the losers, while at the same time without alienating the winners. This calls for compensatory mechanisms within countries and between countries.

(a) Domestic Compensatory Mechanisms and Other Domestic Policies

31. The need for domestic adjustment mechanisms implies a constructive role for the state to ensure that considerations of fairness and development be adequately addressed.

32. In addition, there are other domestic policies that must be undertaken and domestic conditions that need to be met, so as to maximize the net gains of a WHFTA and ensure its sustainability. It was argued that some of the discussions have been putting the cart before the horse. An FTA, it was contended, is the "icing on the cake," and before you can get there, you need to "eat your vegetables."

(b) Preferential Treatment and Harmonization Arrangements Between Countries

33. The need and desirability of preferential treatment between countries was much debated. On the one hand, it was felt that such policies may contribute to a resurrection of some of the failed trade policies of the past. On the other hand, some felt that policies should be devised that would be able to address the asymmetry of the relations; that could be transparent and temporary, and hence not a drag on competition. It was also argued that these mechanisms were even more important than in the case of the EC, in light of the greater development gap between countries of this hemisphere.

34. A very similar debate also ensued which focused on the necessity for harmonization arrangements--of wages and environmental standards in particular. Too much harmonization, it was argued on the one hand, may not be in the best interest of either the U.S. or the LAC countries. It would erode some of the comparative advantage of the lower wage country. It would also result in higher prices for consumers in the U.S. It was hence argued that perhaps we need to "live with the differences and trade on the basis of them."

35. Yet, it was also suggested that perhaps the objective should be to try to bridge the income differential between the U.S. and the LAC countries (roughly 9-to-1) to more closely coincide with comparative advantages based on productivity differentials between the two (roughly 3-to-1).

36. At any rate, perhaps pushing for equality too soon would be counterproductive. The central focus might better be an emphasis on greater economic growth. Furthermore, some felt that bringing too much into the negotiations and attempting the overly ambitious would reduce the likelihood of achieving progress, to avoid letting "perfection be the enemy of good."

III) TIMING

37. Considerations of timing are critical. On the one hand, the sense among many was that now existed a window of opportunity for a WHFTA. There is a need to take advantage of the momentum towards reform in LAC before it slows, and a need to capitalize on the initiative put forth by the United States before the initiative wanes. Otherwise, the pendulum may swing back on both sides. There may be indications that this is already happening.

38. On the other hand, while momentum needs to be maintained, we must not be hasty. There are merits in going slow. Much can be learned from EC experience on this. Let's be fully aware of what we are getting into.

39. In addition, the timing of the negotiations between countries of the Hemisphere--the order of negotiations and country groupings--is critical. Much concern was expressed about the "hub and spoke" strategy. This may speak for going slow as well.

40. After NAFTA, what next? Limited resources and logistics may realistically demand that bilateral agreements between the U.S. and LAC countries be the primary route to a hemispheric FTA. If so, some argued that the more open countries (and those who have already "eaten their vegetables") deserve the reward of being next.

41. In contrast, a proposal was put forth that Brazil be next in line after NAFTA. Such a strategy would bring sizable gains to the U.S. and hence political support and perhaps greater commitment in the U.S.. It would also make it much more difficult for other LAC countries to remain outside. It was alternatively suggested that perhaps it would make more sense that Mercosur, of which Brazil is

a part, be next in line to negotiate with North America.

IV. LESSONS FROM OTHER TRADE LIBERALIZATION AGREEMENTS

I) THE EUROPEAN COMMUNITY

42. Lessons were drawn from integration experiences of the EC. Public funds can play a vital role in mitigating inequalities that would tend to result from trade integration and in providing for needed infrastructural projects to ensure sustainability of the integration effort. Guaranteeing private funds by the state also merits consideration. While ancillary support should develop in stages (in part to remain in synchronization with political support), it is nevertheless important to raise the issues at an early stage.

43. As regards the EC's experience with preferential arrangements with its developing country trading partners, it was concluded that such preferences have been effective under particular circumstances. Evidence suggests that success occurred in cases where large preference margins existed, and in countries which were able to take advantage of the preferences (i.e., countries with the supply capacity to respond to the opportunities).

II) THE UNITED STATES - ISRAEL FTA

44. Lessons were drawn from the United States-Israel FTA on what can be expected from an FTA with the United States.

45. The U.S.-Israel FTA is the first entered into by the United States, and has been in existence for seven years. This provides for ample time to extract a track record of its viability. The agreement is fully consistent with the GATT (with Article XXIV in particular), in part because the rules of origin (35% domestic content) are not unduly restrictive. The agreement is short (certainly relative to the U.S. - Canada FTA) and this provides for much needed flexibility. However, it is interesting to note that in case of conflict between the FTA and the GATT, the FTA prevails. Furthermore, anti-dumping and countervailing duties were specifically excluded from the agreement.

46. While the agreement has perhaps served both countries better than the counterfactual of an absence of such a treaty, certain difficulties from the perspective of Israel--in particular, some erosion of benefits--have arisen. This erosion has stemmed from the ability of the U.S. Congress to override the agreement (which is entered into by the Executive Branch), from the ability of individual states to do the same, and at times from the tendency for subsequent legislation on other matters--often inadvertently--to supersede the FTA.

IDB/ECLAC PROJECT

SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE LIBERALIZATION

SECOND COLLOQUIUM

*Inter-American Development Bank
Andrés Bello Auditorium
1300 New York Avenue, N.W.
Washington, D.C. 20577*

THURSDAY, APRIL 30 1992

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Uruguay |
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- 78) Dan Szabo
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- 79) Muni Figueres de Jimenez
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- 80) Gloria Tait
Senior Official

THIRD COLLOQUIUM

TRADE LIBERALIZATION ARRANGEMENTS IN THE WESTERN HEMISPHERE: CUSFTA, NAFTA, AND OTHER SUB-REGIONAL INTEGRATION SCHEMES

Centre for International Studies (CIS)
Inter-American Development Bank (IDB)
Economic Commission for Latin America and the Caribbean (ECLAC)
The Canada-Latin American Forum (FOCAL)

Ramada-Renaissance Hotel
90 Bloor Street East
Toronto, Ontario
Canada

SUNDAY, MAY 31

19:00 Registration, Ramada Renaissance Hotel

20:00 Dinner

Stan E. Gooch, Assistant Deputy Minister, Latin
America and Caribbean Affairs, Department of
External Affairs and International Trade

Chair: Edgar Dosman, Director, FOCAL

MONDAY, JUNE 1

08:00 Registration

08:45 Welcome

Nohra Rey de Marulanda, Manager DES, IDB
Isaac Cohen, Director, ECLAC-Washington
Edgar Dosman, Director, FOCAL
Leonard Waverman, Director of CIS, University of
Toronto

09:00 **Opening Panel: Setting the Stage**

Chair: George Haynal, Acting Vice President,
 Corporate Banking, Royal Bank of Canada

Sylvia Ostry, Chairman CIS
 Anthony L. Cooper, Vice President, Caribbean and
 Latin America, Scotia McLeod
 Richard Harris, Professor, Department of
 Economics, Simon Fraser University

10:00 Discussion

10:45 Coffee Break

11:00 **Round Table Nº 1:**
 The Distribution of Benefits and Costs

Chair: Claudette Mackay-Lassonde, Assistant Deputy
 Minister, Trade and International Relations
 Division, Ministry of Industry, Trade and
 Technology

 (1) **Albert Berry, Professor, Department of**
 Economics, University of Toronto: "Small and
 Medium Business Under Trade Liberalization:
 Canadian and Latin American Experiences".

 (2) **Ann Weston, Director, Trade and Adjustment**
 Program, North-South Institute: "Free Trade
 with a Human Face? The Social Dimensions of
 CUSFTA and the Proposed NAFTA".

11:30 Discussion

12:45 Luncheon

Chair: Gerry E. Helleiner, Professor, Department
 of Economics, University of Toronto

 "Institutional Framework for Hemispheric Trade
 Liberalization"

Isaac Cohen, Director, ECLAC-Washington

14:45

Round Table № 2: Sectoral Analyses

Chair: Michael Kelly, Director, Investment Promotion & Services, Investment Development Division, Investment Canada

- (1) **Stephen Randall**, Professor, Faculty of Social Science, University of Calgary: "Oil Industry Development and Trade Liberalization in the Western Hemisphere"
- (2) **Leonard Waverman**, Director, CIS, University of Toronto: "Investment, CUSFTA, NAFTA, and WHFTA"
- (3) **John Whalley**, Professor, Department of Economics, and Director, Centre for the Study of International Economic Relations, The University of Western Ontario: "Services and the US-Canada Relationship Beyond the FTA"

15:30

Discussion

16:30

Coffee

16:45

Round Table № 3: Negotiating Issues

Chair: John Curtis, Senior Policy Advisor, Department of External Affairs, Canada

- (1) **Blair Hankey**, International Trade Counsel, Baker & Hostetler: "Dispute Settlement in a WHFTA"
- (2) **Gilbert Winham**, Professor, Department of Political Science, Dalhousie University, Canada, and **Heather Grant**, Dalhousie Law School, Canada: "Antidumping and Countervailing Duties in a WHFTA"
- (3) **Carlos M. Sada**, Consul General of Mexico, Toronto: "Mexico's Negotiating Experience in NAFTA"

17:30

Discussion

18:30

Break

19:30

Dinner at the Faculty Club, University of Toronto

Chair: David Ibarra, Consultant, ECLAC/PEMEX, Mexico

Roy Woodbridge, President, Ottawa World Trade Center

TUESDAY, JUNE 2

09:00

**Round Table # 4:
Hemispheric Sub-Regional Integration Schemes:
CARICOM, CACM, CBI, ALADI, ANDEAN PACT, MERCOSUR**

Chair: Sidney Weintraub, Professor, LBJ School of Public Policy, University of Texas, Austin and Center for Strategic and International Studies, Washington, DC

Rubens Barbosa, Chief, Department of Integration, Ministry of Foreign Affairs, Brazil
(MERCOSUR)

Desire Field-Ridley, Advisor to the CARICOM Secretariat, Guyana

Jorge Luis Ordoñez, General Secretariat, ALADI

José Rafael Serrano, Coordinator, Cartagena Treaty Board (ANDEAN)

Gerardo Zepeda-Bermudez, Deputy Secretary General, SIECA (CACM)

10:00

Coffee

10:15

Discussants:

Anthony Bryan, Senior Associate, Carnegie Endowment for International Peace, Washington, DC

Juan Alberto Fuentes, ECLAC, Chile

Steve Lande, President, Manchester Trade, Ltd., Washington, DC

Alejandro Jara, Coordinator, Trade Affairs, SELA, Caracas, Venezuela

Jorge Mendez, Latin American Corporation for International Economics (CLADEI), Bogotá, Colombia

Felix Peña, Deputy Assistant for MERCOSUR, Ministry of Foreign Affairs, Argentina

11:15

Discussion

12:15

Wrap-up by Sidney Weintraub

12:45

Luncheon

Chair: Jorge Gonzalez del Valle, Consultant, Guatemala

"The IDB's Loan and Technical Cooperation Support for Hemispheric Integration"

Nohra Rey de Marulanda, Manager, DES, IDB

14:30 **Round Table №5: Business Perspectives**

Chair: Leonard Waverman, Director, CIS

Adam Zimmerman, CEO, Noranda Forest Inc.
Marcos A. Espinel, President, FINAGRO, Ecuador
Pedro Henrique Mariani, President, Bank of Bahia,
 Brazil

15:30 Discussion

16:00 Coffee

16:15 **Closing Panel: "Where Do We Go From Here"**

Chair: Edgar Dosman, Director, FOCAL

The Honorable Allan Gotlieb, Stikeman Elliot,
 Toronto
Regis Bonelli, Catholic University, Rio de
 Janeiro, Brazil
Alan Alexandroff, Tory Tory Deslauriers, Toronto
Rafael Fernández de Castro, International Studies
 Department, ITAM, Mexico
Gerald Helleiner, Professor, Department of
 Economics, University of Toronto
Drago Kistic, Macroconsult, Peru

17:15 Discussion

17:45 Summary Remarks: Isaac Cohen, Director, ECLAC-
 Washington

18:00 Conclusion and Acknowledgements: Leonard Waverman,
 Director, CIS



IDB/ECLAC Project

Support to the Process of Hemispheric Trade Liberalization

Summary of the Third Colloquium

**"Trade Liberalization Arrangements in the Western Hemisphere:
CUSFTA, NAFTA, and Other Sub-Regional Integration Schemes"**

Toronto, Canada

May 31 - June 2, 1992

1. This colloquium provided a forum to discuss a wide range of practical topics about hemispheric trade liberalization among a diverse group of participants, drawn from throughout the hemisphere from academia, the private sector, governments, and international organizations. The sessions addressed many negotiating issues germane to trade agreements, the costs and benefits from liberalization and a Western Hemisphere Free Trade Area (WHFTA), and hemispheric integration processes, including the role of institutions and the inter-related roles of Canada, Latin America and the Caribbean (LAC) countries and the United States. Throughout the colloquium, lessons from Canada and the Canadian - United States Free Trade Agreement (CUSFTA) were drawn. Elaboration of some of these themes is provided below.

2. The overall tone of the colloquium was one of cautious optimism. While the issues and processes are complex, it was recognized that opportunities do exist. There are also mutual interests between the major players in the hemisphere. The need for a rules-based hemispheric order was recognized. There was less agreement on where to go from here, and how to get there.

I. COST AND BENEFIT CONSIDERATIONS

i) ECONOMIC GAINS

3. It was widely recognized that the Enterprise for the Americas Initiative (EAI) and, in particular, a WHFTA are promising developments for the hemisphere. There are opportunities to be seized.

4. Anticipating impacts from a WHFTA, however, is complicated in part by the lack of precedents. The various regional trade liberalization arrangements throughout the world are all very much distinct. Assessing impacts is further complicated by the fact that the EAI remains largely a vision rather than a concrete blueprint.

5. Nevertheless, some assessments were noted with some variation in results. One study concluded that large potential income gains to all regions of the Western Hemisphere from a WHFTA were possible. The largest gains would likely accrue to the LAC. Static gains, for example, to LAC countries (exclusive of Mexico) were calculated to be in the order of 11 percent of regional GDP.

6. On a more general level, it was observed that there was much room for trade creation in the hemisphere in the light of relatively small intra-hemispheric trade flows. On the other hand, the large inter-hemispheric trade flows, particularly between the United States and other regions of the world, point to the importance of maintaining an open-oriented WHFTA vis-a-vis the rest of the world. With this clearly being in the interest of the U.S., likelihood of a WHFTA becoming a fortress may be slim. In this vein, several participants contended that the costs from trade diversion are likely to be modest.

7. While it was noted that gains will likely be realized from a free trade agreement (FTA), trade liberalization itself is probably not the "driver" in the economic growth and development process. Domestic conditions and policies are probably more important. Trade liberalization, in other words, tends to be only part of a more comprehensive process, typically serving as a signal or shorthand for this broader process, from which economic gains derive.

8. Similarly, it was observed that while trade liberalization by itself will not likely attract foreign direct investment (FDI), LAC countries now experiencing an inflow of capital and investment are those which have been undergoing trade liberalization, though accompanied by a host of other market friendly reforms. FDI flows are a function in large part of stability and political considerations, as well as of country size.

ii) INTRA-COUNTRY DISTRIBUTIONAL CONSIDERATIONS FROM TRADE LIBERALIZATION

9. Distributional considerations were discussed at some length. This included the role and special concerns of, and anticipated impacts on the small and medium size enterprise (SME) from trade liberalization. While expectations may be that freer trade will adversely affect the SME, and while some evidence--such as the Chilean experience--may support this, more data and a better understanding of the dynamics is needed. The Canadian experience, for example, shows a tendency for much growth among SMEs during the trade liberalization period to date.

10. With trade negotiations encompassing much more than trade issues, discerning distributional effects becomes more complicated. An FTA may affect social and distributional concerns directly, but also indirectly through its effect on domestic policymaking. Certain domestic regulations or policies with a strong social dimension may be constrained.

11. Economic theory tells us that the factor of production which is less mobile or less intensively used will experience a decrease in its return with trade liberalization. The concern for the impact of trade liberalization on the Northern unskilled worker is well-founded. In fact, LAC needs to be prepared to respond to Northern concerns of minimum labor standards. This is not just for defensive reasons (to avoid unilateral remedy action) but also to ensure that competition among LAC countries does not bid wages down. It is necessary to learn from Europe how to achieve a degree of harmonization through the raising of standards. At a bare minimum, there is a need for monitoring and evaluation of labor conditions in member countries of NAFTA as well as of WHFTA.

12. Short term adjustment costs from liberalization can have significant distributional effects, and hence need to be addressed. Such costs are often understated. These short term considerations, for example, tend not to be captured in existing empirical models.

iii) VARYING IMPACTS PER COUNTRY TYPE

13. There was recognition of the need to take account of varying effects from trade liberalization on different regions in the hemisphere and on countries at different stages in the development and liberalization process.

14. Particular concern was expressed as regards the impacts on the small countries of the region. There was concern on several fronts: (a) of trade and investment diversion from the Caribbean countries as a result of NAFTA; (b) of a docking clause without any input on the substance of the trade agreement from those countries which might dock; (c) of erosion of preferential arrangements; and (d) of constraining conditionality.

15. On the other hand, it was noted that moving from a non-reciprocal arrangement to a reciprocal one contained some benefits: likely greater security and access to the U.S. market, and similarly, a greater range of products to be liberalized.

iv) TRADE LIBERALIZATION EFFECTS: THE CANADIAN EXPERIENCE AND LESSONS

16. While free trade may be good policy, it has not particularly been good politics in Canada's case. Four out of five Canadians believe Canada should participate in NAFTA. Yet, fewer than one in three have a positive attitude toward it.

17. The trade liberalization process in Canada largely preceded the CUSFTA. The experience was one of gradual trade liberalization accompanied by economic growth. The oil and petrochemical industries were cited as examples of Canada's shift to market forces in trade and investment policy (in contrast to Mexico) prior to an FTA with the U.S.

18. Concerned about being excluded from the U.S. market, Canada entered the trade talks for defensive reasons. The Canadian experience with the FTA has not been easy. While systematic assessments of CUSFTA's effects on Canada's economy have not yet been forthcoming, a fairly widespread perception, supported by much anecdotal evidence, attributes some firm relocations to the U.S. and consequential unemployment to the agreement.

19. This may be short term. Productivity may be rising from trade liberalization. Gains in employment may be accruing in other sectors (most of these are projected in the service sector). It is also true that Canada's exports to the U.S. have increased during the period since the CUSFTA was signed. At any rate, it is very difficult to sort out the effects from trade liberalization with the current recession in Canada.

20. Another concern is the perceived negative impact of free trade on Canada's cultural identity and nationality.

21. Some lessons from the Canadian experience include: (a) reduced expectations of major economic improvements following an FTA with the U.S. or trade liberalization more generally; and (b) public support may wane without adjustment policies; social policy needs to be seen as an investment.

II. NEGOTIATION ISSUES

i) NEGOTIATION PROCESS

22. The negotiation process in some respects differs widely today from the past. The issues are more complex and involve much more than trade issues at the borders. Negotiations today imply very major economic reforms.

23. The frontiers of the negotiation agenda are elastic. "Everything's on the table." The U.S. - Japan Structural

Impediments Initiative (SII) may serve as a harbinger of what's to come. The most important new issues are labor and the environment as they relate to trade. Environmental issues will probably become the more dominant of the two, given trends in the lobbying strength of the "greens" relative to labor.

24. Furthermore, while enough is known about how to deal with liberalizing goods, not much is known about services.

25. However, some aspects of the negotiation process have not changed. It is an educational, not an ideological process. Countries have much to learn and hence to gain from the negotiation process.

26. Secondly, negotiations are cumulative. Be they multilateral, bilateral, or regional, negotiations build on each other.

27. Ultimately, the negotiation process is essentially political, a function of domestic politics. This means that gains are sometimes incremental, because the process can go only as quickly as the public allows. The negotiations "can only solve what the traffic will bear, and inevitably some issues will fall off the table in the process."

28. There is a need for an appropriate data base. Without adequate information, one cannot negotiate rationally. With it, there exists a level and well-defined playing field.

ii) RULES OF ORIGIN

29. The importance of rules of origin and their effect in particular on FDI flows was recognized. It is true that tougher rules of origin encourage greater FDI, but this also encourages inefficiency and ultimately is welfare reducing.

iii) DISPUTE SETTLEMENT

30. The importance of dispute settlement (DS) mechanisms was stressed throughout the colloquium. A DS mechanism provides for predictability and enforceability; a means of "putting teeth into an agreement."

31. Dispute settlement arrangements can vary by degree of formality ranging from negotiation, to mediation, to nonbinding arbitration, to binding arbitration. A qualitative difference exists between the first two types and the latter two, as the latter bring a third party into the process creating a political impetus to comply. DS arrangements vary widely in existing regional trade agreements, the strongest form of a tribunal found in the Andean Pact, and the weakest in CARICOM.

32. The innovative DS arrangement for antidumping (AD) and countervailing (CV) duty actions of Chapter 19 of the CUSFTA has proved to be one of the most important elements of the agreement. This mechanism provides for the judicial review of AD and CV duty actions by means of binational panels. The review assesses the compatibility of an AD or CV duty action with the domestic law from which the action originated. It is binding and in lieu of judicial review by a domestic court.

33. Clearly, the DS mechanism of Chapter 19 merits consideration as a model for a WHFTA. It is arguably working well in the CUSFTA context, and in fact has been viewed as one of the most successful DS mechanisms developed in recent years. The binational panels tend to promote greater consistency and objectivity in AD and CV duty practices, serving to de-politicize the process from the top down.

34. The application of Chapter 19 DS, at least for a transition period in an FTA hence has several advantages for LAC to consider: (a) it gives exporters confidence of being treated fairly; (b) it would familiarize LAC with the procedures and legal system of North America; and (c) it would initiate recognition that some surrender of national autonomy is inevitable in any FTA. DS in general is fundamental, a necessary fall-back mechanism when trading with a more powerful neighbor.

35. A very important consideration, however, is whether Chapter 19 DS can be effectively applied in a broader trade agreement in light of widely different legal systems and trade rules throughout the hemisphere. In fact, it was observed that many LAC countries do not even have CD and AD systems. Is it worthwhile to develop these mechanisms for a transitory period? It was argued that LAC hasn't needed these mechanisms in the past in light of high trade barriers. Such mechanisms are critical in any trade liberalization process, as is a Chapter 19 DS mechanism.

36. The role of DS in environmental and labor issues was raised. It was noted that one option advocated by labor and environmental groups as a means to enforce social standards is to have labor and environmental experts participate in the dispute panels. It was also pointed out, however, that as a prerequisite to DS on such issues, there is a need for agreement on rules and standards, and this has not yet come about.

III. HEMISPHERIC INTEGRATION

i) INTEGRATION PROCESS

37. Many at the colloquium commented on the "renaissance of integration" in LAC; on a "new nationalism." Abandoning earlier concepts of integration (ones that served to aggregate national

inefficiencies), the region has adopted open-oriented integration, taking account of market logic and democratic systems. The efforts to integrate today, unlike those of the past, make more economic sense.

38. There was nevertheless some debate as whether the integration process has been characterized by convergence and consolidation or disorder and fragmentation. Some argued that a more systematic framework, or means to proceed, is needed. Is it enough that the region shares a common positive attitude and stance towards more open and rational economies?

39. In this vein, there was considerable concern over the bilateral "hub-and-spoke" integration method--alternatively referred to as the "solar" or "imperial" system. It was recognized that this method is the worst scenario, and it is not better coming from Mexico than from the United States.

40. One approach was to explore what should be done. This included: (a) "no policy convergence without representation"; a democratized rules system weighted by population, not income per capita; and (b) intra-LAC country negotiations prior to LAC-North American negotiations (With the exception of Mexico and the Caribbean Basin, it was argued that intra-LAC relations are more important than those with the United States).

41. Another approach was to envisage what will likely occur, and what steps, albeit limited, LAC can take to influence events. Some argued that the "hub-and-spoke" model will be the method of integration. Consequently, the LAC countries need to bargain hard to get the best deals possible, and emphasized that there are means to mitigate the bargaining power of the U.S., such as multinational DS panels and common institutions.

42. The importance of accession to regional FTAs was stressed. It was noted that a docking clause in NAFTA would be a way to avoid the "hub-and-spoke" process. Further, with such a clause, future negotiations could focus on issues of transition rather than the contents of new trade agreements. At the time of the colloquium, it was not clear whether such a clause was being included in the NAFTA negotiations. It was observed that the U.S. had not yet flushed out a position on a docking clause.

43. There was some concern regarding potential accession into regional groupings other than NAFTA as well. How open, for example, is MERCOSUR to new members? It was recognized that there was a need for greater transparency as regards accession to regional groups.

44. More generally, it was observed that there exist two great markets of the region, the U.S. and Brazil, and that from these two are emerging two major blocs in the region. Much depends on

the behavior of these two blocs. The hemispheric trade liberalization initiative has to be centered eventually on NAFTA and Mercosur.

ii) ROLE OF INSTITUTIONS

45. There was debate regarding the institutionalization process to accompany a WHFTA. On the one hand, some expressed concern about prematurely creating formal structures. Form should follow function, and the functions needed presently, it was argued, are that of monitoring and dialogue. Institutionalization should be gradual. Existing institutions should be used rather than creating new ones.

46. It was noted that the bilateral framework agreements between the U.S. and LAC countries are a form of institutionalization which serve the function of dialogue. The U.S. is exploring how to institutionalize regional trade pacts.

47. It was also noted that integration in the Western Hemisphere is not on the same level as European Community (EC) integration, and hence may not require the institutions that the EC does. The objective in a WHFTA should be a rules-based regime including maintenance of national law with non-national review (similar to Chapter 19 in CUSFTA).

48. On the other hand, some argued that there was an institutional lag in the hemispheric integration process and a danger of not being able to sustain the process, if certain institutional measures, such as those undertaken by the EC, were not pursued.

49. ALADI's role in the integration process was much discussed. Some participants emphasized the advantages of transforming ALADI to serve as the "embryo" of the hemispheric integration process. Through ALADI, a WHFTA would have the "flavor and color" of LAC. Will Latin Americans be brought together because of a U.S. initiative? Because it will be imperative or because it is a good idea? Should Canada and the U.S. not be invited to join ALADI?

50. It was recognized that NAFTA was a potential flashpoint for ALADI and the region. NAFTA represents a very unique and challenging situation for ALADI because it is the first time that an ALADI member will be signing an FTA with nonmembers. Hence, must Mexico automatically extend its privileges from NAFTA to the other ALADI members?

51. The roles of the IDB, OAS, and ECLAC were also addressed. It was proposed that these three institutions could furnish basic support for the transition to a WHFTA. It was argued that it was better to work with the resources available in these existing

institutions rather than create new institutions.

52. The tasks which would need to be addressed by the three institutions during the interim include: (a) information gathering and dissemination; (b) analytical problem solving; and (c) technical cooperation. Precedents of these institutions working together were cited as in the time of the Alliance for Progress.

(iii) SMALL COUNTRY CONCERNS

53. A number of concerns regarding implications of the integration process on small countries--the Caribbean Basin countries in particular--were expressed as noted in #14. On more general terms, the issue centers on how to negotiate among unequals.

54. Suggested prescriptions include: (a) phase-in arrangements; (b) anti-dumping provisions for the small country; and (c) strengthening subregional systems to increase bargaining strength (don't rush; move together).

55. Specific requests from CBI countries regarding NAFTA include: (a) that concessions under NAFTA which supersede those existing under CBI be immediately extended to CBI members; and (b) that access conditions to NAFTA be provided to CBI members.

56. It was noted, however, that it was unlikely that the U.S. would be willing to extend the benefits of NAFTA to the Caribbean countries. The EAI is designed to reward those countries that are undergoing trade liberalization (hence, the logic of Chile as "next in line").

57. Further, it was asserted that the Caribbean countries are hardly being ignored by the United States. Preferential treatment is being provided in CBI. In addition, these countries will receive benefits from the Multilateral Investment Fund of the EAI, even when they are not IDB members, and access to financial resources via Puerto Rico (through the "936" program) is available to all of them.

58. More generally, others observed that the options for small countries were limited. Either they sign an agreement in which they have no influence on or they don't sign an agreement. Further, with the possible exception of the CBI countries, it is unlikely that the U.S. will break its reciprocity principles on behalf of "small markets that don't count."

(iv) CONSIDERATIONS OF DOMESTIC POLICY, PRECONDITIONS, AND TIMING

59. The issue is not whether to liberalize, but how. And there are many different ways to do this. Thus, considering different types of liberalization becomes the critical consideration.

60. It was recognized that many preconditions need to be addressed before entering an FTA. Further, it was observed that while it is true that the current regional integration schemes are different from the past (more open and rational), there still was a long way to go for most of the countries before they would be ready to join with the U.S. in an FTA. The trade barriers, while much lower than in times past, nevertheless remain high.

61. There has been impressive change in attitudes and commitments. It's impressive, for example, that tariff reductions in Mercosur are now automatic. And there has been a dramatic change in the economic climate in LAC: domestic, foreign, and public confidence is back as evidenced in the financial markets. Mexico has followed a blueprint for success and has exceeded expectations.

62. However, there is much to be done in the region as a whole. As regards the integration process, the complicated mix of signing agreements will probably eventually sort themselves out, but only if the commitment to opening the LAC economies becomes a full reality.

63. Privatization was singled out as a necessary policy to accompany trade liberalization. The inadequate pace of privatization in some instances is a major obstacle.

64. Market policies need to assume environmental considerations. "Eco-efficiency" must be an objective. Sustainable development need not adversely affect economic and export growth.

65. It was argued that exchange rate policy could be used as a tool to provide some degree of freedom from the tendency towards harmonization with other economies of the region. The exchange rate, in other words, could serve as a shock absorber; as a mechanism to preserve some sovereignty and to allow differences in domestic policies.

66. Participation of the private sector in negotiations and policy decisions is crucial. Without the private sector, after all, trade liberalization will amount to zero.

67. Losers from liberalization need to be compensated. This is not only appropriate on moral grounds, but is also makes political sense.

68. Issues of timing were much discussed. The sequence of

policies and conditions is important. First, macro stabilization must precede trade liberalization. Second, unilateral trade liberalization, before embarking on an FTA, is in the interest of any country. Third, the transition period has to start before the LAC country enters an FTA.

69. There was disagreement regarding the best pace in which to proceed. One perspective pointed out that the process of forming a hemispheric FTA is a very long term proposition. And for most of the countries, it will be a waiting process to some extent: waiting for the outcome of NAFTA, and then of the Chile- U.S negotiations. In addition, countries will not be eligible to enter into negotiations until certain domestic conditions are met.

70. Hence, why this sense of rush? Now is the time for intensely practical working groups (on DS, subsidies, intellectual property, services, etc.). We need a vision of where we are going, rather than only reactionary responses to events.

71. There is a need for further study of many issues. One of these is policy sequences. What is the optimal sequence as regards policies towards financial liberalization vs. trade liberalization? Liberalization policies vs. adjustment (social) policies?

72. In contrast, another perspective implied that there was a sense of urgency, and that the long term process will bestow its costs on the region. The LAC countries are in competition with each other for the U.S. market. Mexico has a decided advantage in going first. To some extent, gains for one country translate into costs for others.

73. There was concern regarding how this time-consuming and disorderly process will affect the private sector and investment.

74. Need for more studies? The fundamental issues are well-known. Domestic changes are far more important than regional trade integration.

75. From the perspective of the NAFTA countries, they are fully aware of their hemispheric obligations (including the role of ALADI). Yet it is important for others to realize, that negotiators of NAFTA are not waiting. It seems hemispheric integration will proceed one way or another. While the discussions such as those of this colloquium are helpful, "integration is on us now."

76. We can learn a lot from the European Community. They set dates, abide by them, and they are reasonable dates. Maybe it could be agreed that by 1995 a major part of the liberalization process could be completed.

(v) MUTUAL INTERESTS AND ROLES OF CANADA, LAC, AND THE U.S. IN A WHFTA

77. Much of the discussion focused on how Canada and LAC could better serve their mutual interests. A central purpose was the promotion of a dialogue in identifying and maximizing reciprocal arrangements between Canada and LAC.

78. While some of this discussion was in the context of how to better deal with the "elephant" in between them, it was also acknowledged that the United States deserves credit for taking the initiative of a WHFTA. A central issue then is whether this elephant is a rogue or is friendly.

79. The Canadian perspective has been one of ambivalence towards the U.S. and FTAs. While Canadians are multilateralists at heart, this commitment has been tempered by events and needs.

80. It was acknowledged that Canada has historically paid little attention to LAC. After the collapse of markets in the 1930s, Canada turned its back on LAC. This was a mistake.

81. Ties have not been pursued in part because of the perception that Canadian-U.S. relations would suffer; in part because of the perception was that it was tough to do business with (a non-democratic and unstable) LAC; in part because there has not existed adequate institutional and educational capacity to follow and link up with LAC.

82. Yet the Canadians' role in LAC development can be important, mutual interests can be identified and pursued. For example, from a LAC perspective, there is much to learn from Canada's experience of being the most successful trader with the United States. Canada's high standard of living can be linked to a longstanding commitment to international trade and to trading intensively and extensively with the United States.

83. Some possible specific roles for Canada for the hemisphere include: (a) facilitate the negotiation process between the U.S. and LAC; (b) participation more in preferential arrangements for the Caribbean (e.g., expand CARIBCAN into Central America); (c) help clarify the status of a docking clause of NAFTA; and (d) join ALADI.

84. What does LAC have to offer? In terms of potential trade growth, presently LAC may be the most dynamic area of the world. Expansion of trade into the region by both the United States and Canada could go far towards alleviating some fundamental problems--of deficits and recessions--of these two economies.

**IDB-ECLAC PROJECT
THIRD COLLOQUIUM**

**TRADE LIBERALIZATION ARRANGEMENTS IN THE
WESTERN HEMISPHERE: CUSFTA, NAFTA, AND OTHER
SUB-REGIONAL INTEGRATION SCHEMES**

*Centre for International Studies (CIS)
Inter-American Development Bank (IDB)
Economic Commission for Latin America and the Caribbean (ECLAC)
The Canada-Latin American Forum (FOCAL)*

*Ramada-Renaissance Hotel
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SUNDAY, MAY 31

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Project Administrator

ECLAC



IDB/ECLAC PROJECT

SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE LIBERALIZATION

FOURTH COLLOQUIUM

Inter-American Development Bank
1300 New York Avenue, N.W.
Room Andres Bello
Washington, D.C. 20577

MONDAY, JULY 27 1992

- 08:00 Registration
- 09:15 Opening Remarks by Isaac Cohen, ECLAC
- 09:30 "Creating an Hemispheric Free Trade Area: Selected Issues
from an Argentine Perspective" by Julio Berlinski,
Instituto Di Tella, Argentina
- Discussants:** Winston Dookeran, Trinidad & Tobago
Renato Baumann-Neves, ECLAC, Chile
Richard Newfarmer, World Bank
- Chair:** Rosa Olivia Lawson, IDB
- 10:45 Coffee Break
- 11:00 "Brazil-US Relations and the Enterprise for the Americas
Initiative" by Marcelo P. Abreu, PUC/RJ, Brazil
- Discussants:** Luiz J. Garay, Colombia
Sarath Rajapatirana, World Bank
- Chair:** Paul Taylor, State Department
- 12:15 Break

- 14:15 "Potential Benefits and Costs of the Enterprise for the Americas Initiative: the Chilean Case" by Manuel R. Agosin, Universidad de Chile
- "A Small Country Perspective of an FTA with USA" by Andrea Butelmann and Patricio Meller, CIEPLAN, Chile
- Discussants:** Elvio Baldinelli, Banco de Bosto
Eustáquio José Reis, IPEA, Brazil
- Chair:** Alejandro Nadal, Colegio de Mexico
- 15:30 Coffee Break
- 15:45 "The Potential Impact of the North American Free Trade Agreement on the Mexican Economy" by Nora Lustig, Brookings Institution
- Discussants:** Antonio Antunes, ALADI, Uruguay
Fernando Gonzalez Vigil, Peru
Clark Reynolds, Stanford University, California
- Chair:** Richard Feinberg, Inter-American Dialogue
- 18:00 Reception

TUESDAY, JULY 28 1992

- 09:00 Introductory Remarks by Enrique Iglesias
- 09:30 "Trade Liberalization in Services: Outlook for Central America" by Juan Manuel Villasuso, Costa Rica
- Discussants:** Carlos Alberto Primo Braga, World Bank
José Casar, ILET, Mexico
- Chair:** Edison Ortiz, Ecuador
- 10:45 Coffee Break

11:00 Round Table: Agriculture and Trade Liberalization
Panelists: Rafael Trejos, IESCARIBE
Earl Brown, University of Maryland
Eugenio Diaz Bonilla, Argentina
José M. Salazar Navarrete, Costa Rica
Roberto Vazquez Platero, Uruguay
Carlos Gustavo Cano, Colombia
Chair: Carlos Pomareda, IICA

12:45 Break

14:45 Round Table: Industry and WHFTA
Panelists: Mark Dutz, World Bank
Mitsuhiro Kagami, Visiting Scholar, IDB
Yoshiaki Nakano, Fundação Getulio Vargas
Ramon Lopez, University of Maryland
Francisco Sercovich, UNIDO
Chair: Paulo Renato Souza, IDB

16:30 Closing Remarks

17:30 Liaison Committee Meeting



IDB/ECLAC project
Support to the Process of Hemispheric Trade Liberalization

Summary of the Fourth Colloquium
"Cost-Benefit Analyses at the Country and Sectoral Levels"
Washington, D.C., July 27-28, 1992

1. This colloquium provided the opportunity for in depth discussion of several issues raised in previous meetings of the project. Among them: a) the scope and format of a Western Hemispheric Free Trade Area (WHFTA); b) the interests towards a WHFTA from the perspective of different Latin American countries; c) the harmonization of policies; d) the role of the Uruguay Round.

2. Four country case studies were reviewed: Argentina, Brazil, Chile, and Mexico. They cover a wide range of prevailing conditions in the region, regarding trade arrangements. At the time, Mexico was about to sign an FTA with Canada and the U.S.; Chile accomplished the most complete trade reform in Latin America; Brazil is not too enthusiastic about the idea of a WHFTA, but its participation is crucial for the success of this enterprise; and Argentina illustrates the case of a country that is keen to follow simultaneously three types of trade liberalization: unilateral, subregional (MERCOSUR), and regional.

3. A general conclusion from these case studies is that the interests towards a WHFTA may vary according to the size, geography, and macroeconomic conditions of each country, but the nature of the costs and benefits is the same for all. It was characterized as a choice between the (long run) welfare gains to be extracted from economies of scale and scope, and the (short run) costs of economic restructuring .

4. Three sessions were devoted to the impact of trade liberalization on industry, agriculture, and services.

I. COUNTRY CASE STUDIES**i) Argentina**

5. The debate on the Argentine case was based on five characteristics of that economy: a) three-quarters of its exports are based on natural resources; b) despite two decades of export promotion policies, the anti-export bias of the trade regime persisted; c) a strong tendency towards exchange rate instability; d) the adoption of several trade regimes; e) the obligations within the MERCOSUR project.

6. Considering the fragility of economic ties between member countries, the welfare gains to be generated by MERCOSUR are still uncertain. However, if Argentina and Brazil succeed in the fight against inflation, MERCOSUR might become an important instrument of regional integration, and could pave the way for wider projects.

ii) Brazil

7. The discussion of the Brazilian case was organized around the following topics: a) Brazil-U.S. relations in the eighties; b) the impact of domestic economic reform on Brazil-U.S. relations; c) new directions in economic integration in Latin America (NAFTA, Enterprise for the Americas Initiative, MERCOSUR, Andean Pact, etc); d) U.S.-Brazil relations and bloc formation in the Americas.

8. One question stimulated a lively debate: why Brazil doesn't export more to the U.S.? Several answers were suggested: the comparative advantages of the Brazilian economy; the U.S. protectionism; as well as the role of trade in both economies. This debate highlighted, once again, how critical will be these bilateral links within the context of a WHFTA. To be sure, the scope and format of the economic community to be created by the Enterprise for the Americas Initiative will be shaped, to a great

extent, by the size and structure of U.S.-Brazil trade.

9. The role of strategic trade policies was another controversial issue. Brazil is the only Latin American country where such policies would be feasible. Are they worth trying? Under what conditions? Brazil had, indeed, a long experience on industrial policy, and a major part of it met the criteria suggested by the literature on strategic trade policy. But, as it is well known, that experience was developed under the guidelines of the import substituting model. The problem now was described as how to resume it within the parameters of an open economy.

iii) Chile

10. Four trade policy alternatives were considered for Chile: a) a bilateral FTA with the U.S.; b) an FTA with MERCOSUR; c) a multilateral FTA with the U.S.; d) the permanence of unilateral trade liberalization.

11. It was recognized that these alternatives can be complementary. There is growing evidence that open economies are in better condition to implement free trade arrangements. Although the most beneficial solution would be a multilateral agreement with the U.S., this can be achieved only in the long run. An FTA with MERCOSUR would be an important instrument to build a regional system of alliances, and to stimulate new investment flows. Perhaps the least interesting option is a bilateral FTA with the U.S., but admittedly it is the easiest to follow in the short run.

12. A concern was expressed regarding the use of antidumping (AD) and countervailing (CV) duties after the establishment of an FTA. This subject was discussed at some length and, again, the importance of dispute settlement mechanisms was stressed. The model under consideration was Chapter 19 of the agreement signed between Canada and the United States. Whether U.S. negotiators are willing

to spread the use of this mechanism throughout the continent remained an open question.

iv) Mexico

13. Five main topics were treated in the session on Mexico: a) an account of NAFTA negotiations; b) a brief review of the recent literature on quantitative assessments of NAFTA; c) the potential impact of NAFTA on the Mexican economy; d) free trade agreements and loss of sovereignty; e) NAFTA and Latin American integration.

14. Will NAFTA become a building block of hemispheric integration? A major part of the discussion was centered around this issue. According to some participants, if the Uruguay Round establishes a more favorable environment for international trade, the Enterprise for the Americas Initiative will become less attractive for Latin American countries. In such a case, EAI could be confined to NAFTA.

15. In any case, once NAFTA is signed, Mexico will have to reconcile it with the Montevideo Treaty, that governs those trading arrangements agreed within the framework of the Latin American Integration Association (LAIA). It is not clear yet if this will become just a mere formality, or if it will turn into a delicate political problem.

II. SECTORAL STUDIES

i) Industry

16. The session on industry dealt with five main topics: a) the relations between trade liberalization and competition policies; b) the effects of globalization on intra-industry and intra-firm trade; c) the role of investment in the creation of dynamic comparative advantages; d) the impact of trade reforms on the profile of competitiveness of industrial sectors; e) the links

between trade policy and income distribution.

17. Although trade liberalization can be a catalyst for the restructuring process of industries and firms, a set of complementary policy reforms is needed, in order to establish transparent rules of competition. Three types of barriers to efficient restructuring should be removed: those that weaken discipline, hinder mobility, and limit the availability of resources.

18. The role of government should not be restricted to the task of ensuring a competitive environment in the domestic market. A major driving force behind trade liberalization policies is to secure the gains from the current globalization trends in the world economy. Few countries have enduring comparative advantages, since they are periodically reshaped by technical progress and investment decisions. Thus, there is a wide range of public policies to be implemented in the areas of basic and applied sciences, industrial R&D, training and management, and long run credit conditions.

19. The Brazilian case was taken as an illustration of the beneficial effects of trade liberalization. Several decades of strong protectionism allowed the coexistence of sophisticated industries and highly unequal patterns of income distribution. However, the available evidence, based on entrepreneurial expectations, suggests that the majority of the industrial sector is prepared to face the challenge of international competition. If this is the case, the most relevant impact of the current trade reform will be a reduction in mark-ups and an expansion of the internal market, that will facilitate the negotiation of a free trade agreement within the hemisphere.

ii) Agriculture

20. The session on agriculture provided an overview of U.S. farm

policy, a brief summary of its history, and a general debate on the problems of this sector in Latin America. The background information for this debate was rendered by the Inter-American Institute for Cooperation on Agriculture (IICA).

21. It was argued that EAI may offer two interesting perspectives for Latin American farm products: the permanent access to the U.S. market and the establishment of common rules and policies in the region. In order to achieve these goals, the harmonization of macroeconomic policies would be a necessary condition.

22. It was also contended that the peculiarities of the rural sector may create two opposing forces within a WHFTA, one towards enduring protectionism, the other towards deeper integration. The European experience is a compelling illustration of this apparent paradox.

iii) Services

23. The discussion on services was focused on Central America, with particular reference to the following sectors: financial services, transport, information and communications, and tourism. The interplay between three factors were considered: a) the reform of the public sector in Latin America; b) the rhythm of innovations in data processing technology; c) the prospects of GATT negotiating agenda.

24. Two perspectives were considered appropriate for the analysis of services in Central America, a domestic perspective and an international perspective. The former would be a study of supply and demand for services in the region, aiming to assess the local supply in terms of quality, availability, and competitiveness of different services. The latter would discuss the interests and the bargaining power of Central America in regard to the Uruguay Round.

IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION

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- | | |
|---|--|
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| 2) Manuel R. Agosin
Universidad de Chile
Santiago, Chile | 11) Andrea Butelman
CIEPLAN
Santiago, Chile |
| 3) Antonio Antunes
ALADI
Montevideo, Uruguay | 12) Carlos Gustavo Cano
Consultant
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- 21) Nicolas Flaño
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**IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION**

FIFTH COLLOQUIUM

The Negotiating Agenda and Perspectives

Inter-American Development Bank
1300 New York Avenue, N.W.
Andres Bello Auditorium
Washington, D.C. 20577

MONDAY, SEPTEMBER 28, 1992

08:00 Registration

09:00 Opening Remarks, President Enrique V. Iglesias, IDB

09:30 "From MERCOSUR to American Integration", Luiz Carlos Bresser Pereira,
Getulio Vargas Foundation, Brazil

Chair: Isaac Cohen, ECLAC-Washington

10:45 Coffee Break

11:00 Round Table No. 1
Market Access in a Western Hemispheric Trade Area (WHFTA)

- (1) Santiago Levy, SECOFT, Mexico
- (2) Samuel Laird, GATT
- (3) Samuel Pinheiro Guimaraes, Brazilian Embassy, France
- (4) Patrick Low, The World Bank

Chair: Nohra Rey de Marulanda, Manager
Economic and Social Development Department, IDB

- 12:30 Lunch Break
- 14:15 Round Table No. 2:
Rules of Origin
- (1) David Palmeter, Mudge Rose Guthrie Alexander & Ferdon
 - (2) Vivianne Ventura Dias, ECLAC-Brasilia
 - (3) Carlos Sanguinetti, C.I.D. Uruguay
- Chair: Sergio Bitar, Chile
- 15:45 Coffee Break
- 16:00 Round Table No. 3:
Domestic Trade Remedies
- (1) James Cassing, University of Pittsburg
 - (2) Steven Husted, University of Pittsburg
 - (3) Wilson Cano, University of Campinas
 - (4) Richard Boltuck, Trade Resources Company
- Chair: Lucio G. Reza, Manager
Project Analysis Department, IDB
- 18:00 Reception

TUESDAY, SEPTEMBER 29, 1992

- 09:00 Round Table No. 4:
Intellectual Property Rights
- (1) Diana Tussie, FLASCO, Argentina
 - (2) Robert Sherwood, Consultant
 - (3) Luis José Diez-Canseco, WIPO
 - (4) Carole Ganz Brown, National Science Foundation
- Chair: Rosa Olivia Villa-Lawson, Deputy Manager
Regional Cooperation, IDB

- 10:30 Coffee Break
- 10:45 Round Table No. 5:
Trade in Services
- (1) Jennifer Lester, Cleary, Gottlieb, Steen & Hamilton
 - (2) William Garrison, Telecommunications Consulting Group
 - (3) Hugh Haworth, S.E.C.
 - (4) Luciano Coutinho, C.E.R.I., Brazil
- Chair:** Tomás Pastoriza, Banco de Desarrollo Dominicano
- 12:15 Lunch Break
- 14:15 Round Table No. 6:
Labor and Trade
- (1) Robert Blecker, American University
 - (2) William Spriggs, Economic Policy Institute
 - (3) Laura Baughman, "The Trade Partnership"
 - (4) Marco Aurelio Garcia, C.U.T., Brazil
 - (5) Daniel Schydrowsky, American University
- Chair:** Halina Ostrowski, Canadian Council of the Americas
- 16:15 Coffee Break
- 16:30 Round Table No. 7:
Environment & Trade
- (1) Charles Pearson, SAIS-Johns Hopkins University
 - (2) William Knepper, Council of the Americas
 - (3) Alfredo Sfeir Younis, The World Bank
 - (4) Gilberto Dupas, Institute of Advanced Studies
University of Sao Paulo, Brazil
- Chair:** Janet Welsh Brown, World Resources Institute
- 18:30 Liaison Committee Meeting



IDB/ECLAC Project

Support to the Process of Hemispheric Trade Liberalization

**Summary of the Fifth Colloquium
"The Negotiation Agenda"
Inter-American Development Bank
Washington, D.C.
September 28 - 29, 1992**

1. The central focus of the colloquium, the actual and anticipated negotiation issues of hemispheric free trade agreements (FTAs), was placed in the context of three levels of activity: globally, characterized by great uncertainties, as recently manifested in EC currency instabilities; regionally, depicted by a seemingly irreversible hemispheric trend towards "competitive integration"; and domestically, by the "miraculous change" in attitudes and domestic reforms in Latin America and the Caribbean (LAC). While regionalism is here to stay, and the North American FTA (NAFTA) is very much a reality, a Western Hemisphere FTA (WHFTA) remains hypothetical. The trade component of the Enterprise for the Americas Initiative (EAI) still remains "an intention." Will a WHFTA also become a reality? And how might it look? What will be the main negotiating issues?

2. An underlying, secondary thread of the colloquium addressed anticipated effects from a WHFTA and the national interests at stake. The focus here was largely on two key players, the U.S. and Brazil. While the significance of this debate is evident in terms of these countries' relative economic weight in the Hemisphere, lessons can also be derived for other LAC countries.

3. Characterized more by divergent perspectives than consensus, and more by questions raised than answered, the colloquium displayed how difficult and complex the current trade negotiation issues are. The new trade agenda goes beyond the border issues of tariff reductions, addressing domestic policy and ultimately issues of sovereignty. The nature of this agenda is a reflection in part of the success in prior GATT rounds of tariff reductions.

I. National Interests

4. As a precursor to a discussion on the negotiating issues, the probability and desirability of a WHFTA, particularly from the standpoint of the U.S. and Brazil, were addressed. Will NAFTA be extended? Should NAFTA be extended?

i) U.S. and Brazil

5. Brazil represents approximately 50% of South America's area and population, 60% of its GDP, 36% of its foreign trade and 25% of its external debt. Brazil has probably the most diversified economic structure in all of LAC. Therefore, the main adjustments to be made and negotiation difficulties to be encountered in the process of forming a WHFTA would refer to the effects of an FTA with the U.S. for the Brazilian economy and the (much smaller) consequences for the U.S. economy of an FTA with Brazil.

6. One perspective argued that the U.S. interest in multilateralism has been waning concomitant with its hegemonic power. While regionalism may be second best in theory for the U.S., it is first best in reality in light of the given options. The United States' interest in regionalism stems from its relations with non-hemispheric countries (a perception that trade opportunities abroad may be closing, and a perception that pursuing regionalism may actually open up some opportunities abroad via greater bargaining power), and from its recognition that there is much commercial potential in LAC for the U.S. This view holds that, from the U.S. perspective, NAFTA should be extended into a WHFTA.

7. A somewhat different perspective questioned the U.S. commitment to regionalism beyond NAFTA. U.S. commercial interests are located in other parts of the world, as evidenced by the concentration of trade and investment flows to Europe and Asia. Further, U.S. interests in Mexico (viewed largely as a nearby pool of cheap labor to compete with the Asians) are unique and not extendable to the rest of the Hemisphere. While NAFTA represents an important change of direction in U.S. foreign policy, it does not signify a step towards a WHFTA. In fact, the success of NAFTA and the success of Mexico within NAFTA may become more of an obstacle than a step towards establishing a WHFTA since Mexico may be reluctant to forego its preferential status with the U.S.

8. On the Brazilian interest, one perspective held that the national interest of Brazil--that of committing itself to a WHFTA--does not coincide with the national (official) position. While multilateralism is more important to Brazil than to Mexico, Brazil cannot bring about multilateralism. (Not even the U.S. can do that). And Brazil can't afford to be marginalized. The share of processed Brazilian exports to the U.S. is relatively higher than to other regions, and it is one indicator of the relative sizeable gains to be had from focusing more on the U.S. market. In addition, Europe and Japan have priorities other than focusing on economic relations with LAC.

9. Further, while stabilization of the Brazilian economy is a very important pre-requisite to integration with the U.S., a commitment to a WHFTA may expedite stabilization. If integration with the U.S. is an additional argument for the stabilization of Brazil, then it is a good argument. Brazil needs to "pay and see."

10. Another perspective asserted that Brazil, while officially interested in integration with the U.S., holds a position of healthy skepticism; one that is concerned with preconditions. First, there is a need for clarification about the accession clause of NAFTA. Second, there is more than trade liberalization involved here for Brazil; in fact there may be constitutional constraints in such an integration scheme. In addition, it is unclear as to the optimal logistics between progressing with Mercosur and negotiating with the U.S. How does Brazil negotiate with the U.S., e.g., before the common external barrier of Mercosur is erected, or unless Mercosur is abandoned? Finally, there is concern over U.S. trade policy. While U.S. barriers are low on average, there are high tariff spikes that adversely affect Brazil and others (orange juice is an example).

ii) National Interests in a Larger Context

11. More critical conclusions emerge from yet another viewpoint, stemming perhaps from a more explicit treatment of the profound structural differences and development gaps within the Hemisphere. As for the U.S., the argument goes, the consumer markets in LAC are too small to offer any substantial aggregate gains from trade. In contrast, and in light of hemispheric demographic trends, there are tremendous incentives for U.S. foreign direct investment (FDI) in the Hemisphere, to be surely strengthened by a WHFTA. NAFTA, in fact, is much more than an FTA; it is a capital market integration process. Greater economic impacts of NAFTA, as well as from a WHFTA are likely to stem more from investment liberalization than from trade liberalization. A redistribution from wages to profits in LAC may be one result of the investment liberalization process. From the U.S. perspective, this will not contribute to a growth in LAC consumer markets for U.S. exports.

12. As for the LAC countries, a WHFTA may unevenly distribute the gains and losses between countries as well as between capital and labor from trade and investment liberalization. There is likely to be a concentration of benefits in those countries that are currently exporting manufactures. Liberalization may only reinforce existing comparative advantages, increasing the dependency on primary products and worsening the terms of trade for the poorer countries of the region. An FTA could aggravate this trend since members are likely to lose some leverage over domestic industrial policies. Finally, the timing of a WHFTA from

the standpoint of LAC exporters may be less than propitious; the U.S. economy is not likely to be the engine of growth in the 1990s that it was in the 1980s.

13. A final outlook and approach compared the effects on LAC from unilateral trade liberalization (apertura) with opening accompanied by a WHFTA. Apertura by itself, it was argued, puts downward pressure on domestic profits, and with overvaluation, tends to set in motion a vicious circle of domestic firm closings from import competition, capital inflow, more overvaluation, more firm closings.

14. What does WHFTA add to this? While LAC can't expect enormous gains from such an FTA, the result is likely to be more favorable when apertura is accompanied by a WHFTA than by itself. LAC can lock into reforms and hopefully maintain stable access to the U.S. market. The net effect of apertura with a WHFTA will hopefully result in short term costs yielding to long term gains. LAC has a defensive interest to get into NAFTA, as the losses from exclusion are great. Perhaps a third path, that of an export-led, intra LAC-led strategy, would be the best option.

15. As it has been the case throughout the other colloquia, concern over the national interests of the small countries of the Hemisphere was also voiced. What should they do? What can they do? One reply focused on the lack of options, in contrast to such a country as Brazil, available to the small country. Being excluded from a regional FTA for a small country would have much greater adverse consequences than in the case of a larger country. From a small country's perspective, it was argued, joining a WHFTA is much less equivocal.

II. Negotiating Agenda

i) **Market Access**

16. Nontariff barriers (NTBs) were the focus of the market access discussions including, the importance of measuring NTBs precisely for purposes of negotiating an orderly phasing out or down of NTBs (and briefly, some guidelines on how to do so); NTBs in the Hemisphere; the scope of NTB negotiations in NAFTA (which consisted of quite sophisticated blending of several techniques to reduce NTBs) and anticipated scope of NTB negotiations in a WHFTA.

17. It was contended that, particularly in relation to the industrialized countries, there has been substantial reductions in NTBs in many LACs. Many NTBs have been swept away. Those that have been used for balance of payments purposes are largely no longer in existence.

18. Nevertheless, many NTBs remain throughout the Hemisphere. In fact, three trade-specific NTBs were characterized as the "cutting edge of protectionism:" (a) anti-dumping (AD); (b) customs valuation (which can add as much as 20% to the price of imports); and (c) technical standards (with the interface between standards and the environment of particular and growing concern).

19. Perhaps the most important NTB is AD. While the experts in this NTB have been the industrialized countries, AD is spreading and becoming ubiquitous. The economics of AD is poor. There is bound to be price discrimination between two markets, often having nothing to do with predatory activity. Hence, the injury test is key.

20. An "unoriginal plea" was made to look more closely at safeguards as addressed by GATT as a substitute for AD. There will likely be growing pressures for unilateral measures as trade liberalization proceeds and trade frictions increase. The hemispheric FTAs (Canada-U.S. FTA [CUSFTA] and NAFTA) have failed to adequately address the tendency to resort to AD rather than safeguards as a safety valve mechanism.

21. As regards concern over LAC access to U.S. markets, one recommendation was that unilateral trade liberalization by LAC countries not be undertaken; that balanced concessions be pursued at the least, with perhaps a transitional period in which asymmetry or preferential treatment towards LAC be provided. Unilateral liberalization, it was argued, would aggravate balance of payments problems for LAC economies and bring with it exchange rate difficulties. The reduction of barriers needs to be gradual and simultaneous. Otherwise, less competitive sectors in the U.S. will slow barrier reduction in the U.S. and create trade imbalances in the Hemisphere (i.e., tendencies towards trade deficits in LAC countries vis-a-vis the U.S.) which will have to be compensated by capital inflows or trade surpluses with other trade partners for the LAC countries.

22. This perspective is in striking contrast to that provided by some in previous colloquia, who have argued that the more the LAC economy has followed the path of unilateral trade liberalization before joining an FTA, the less will be the cost of trade diversion.

ii) Rules of Origin (RO)

23. Complexity and uncertainty characterized the discussion of rules of origin. More questions were raised than answers provided. Which RO method is best? All measures appear to suffer from deficiencies. For example, the change in tariff heading method (CTH), while perhaps preferred by some trade negotiators, suffers from a tendency to become dated, is expensive, and it is

plagued with customs classification problems. The value added measure makes it harder for less developed countries to obtain preferential access to an FTA since, other trends remaining the same, the lower the wages, the lower the value added. The ideal strategy, it was suggested, may be to decrease trade barriers overall, and consequently decrease the importance of RO.

24. What are the consequences of RO? On the positive side, ROs are duty preferences and may make FTAs more politically amenable and hence more likely. In addition, RO decrease unnecessary transport costs which arise from trade deflection.

25. On the other hand, ROs represent quotas typically implemented to satisfy special interests. Further, these quotas, if too strict, can serve as barriers not only between members and non-members of an FTA, but between members as well. In fact perverse results are possible. RO that are too high might result in companies preferring to source outside the region and pay the tariffs, instead of source inside and get the preferential tariff rate (if local sources are too expensive and existing tariffs are already relatively low). Is the RO a mechanism to prevent regional integration from becoming global?

26. Does the complexity and proliferation of different ROs necessarily inhibit trade? Or is it conceivable that with multiple transformation rules, there would be less trade diversion? Is it possible to seek RO harmonization? Is it desirable? To what extent has ownership, in contrast to location of production, become an issue?

iii) Domestic Trade Remedies

27. Safeguards in general and U.S. trade laws, "301" laws and the U.S. procedure on AD and countervailing duties (CVD) in particular, were the focus of the discussions.

28. Safeguards, or temporary government actions to protect a domestic economy, are essentially exceptions to the rule. The fundamental question is how to agree on these exceptions, not whether there will be any.

29. There is, however, little agreement even on the purpose of safeguards. Are they to facilitate adjustment (i.e., for economic efficiency purposes), to address distributional concerns, or to facilitate the negotiation process (i.e., for political efficiency purposes)? The third rationale may be the best.

30. Some discussion centered on how safeguards are treated in the GATT, the desirability of keeping safeguards within the GATT framework, and the divisions that have surrounded safeguards within the GATT. Important issues include selectivity,

degressivity, legitimization of gray area measures, timing, surveillance, and compensation.

31. Other than the escape clause of Article XIX, there are six other exceptions to Article XXIV (which sanctions FTAs on three conditions), and include allowances for agricultural supports, restrictions for balance of payment purposes, and allowances for restrictions for health, safety, and law enforcement reasons. The criteria to activate the escape clause (which provides governments an escape from GATT obligations by allowing trade barriers to safeguard producers seriously injured by trade liberalization) have been met with much dispute and dissatisfaction over the interpretation.

32. A safeguards policy of a WHFTA should aim at motivating acceptance of efficient structural change and compensating for market failure. Actual safeguard policy instruments can be judged on four criteria: (a) adjustment (factor reallocation in the right direction should be encouraged over a finite time horizon); (b) efficiency; (c) focus (the more narrowly focused, the fewer the side effects); and (d) viability (it must be politically palatable).

33. There is a very difficult balance to strike between using safeguards to facilitate desired change vs. using safeguard-like instruments to obstruct desired change. There is legitimate concern that such instruments, rather than serving as needed "safety valves," be used instead to achieve "back door protectionism." Concern was expressed at the colloquium that the latter purpose may be the growing intent of the U.S. Such an outcome could aggravate LAC's ability to adequately address its foreign debt, since access to the U.S. market is critical in order to finance debt payments.

34. Along similar lines, it was argued that while safeguards are preferable to AD and CVD actions, the latter will continue to be used as "safety valves" in a second best world. Here we can draw lessons from the U.S. International Trade Commission in terms of applying techniques in the determination of injury. Progress in developing rigorous techniques at the ITC has been palpable, and can be transferred elsewhere. The objective is to decrease policy discretion. When the methodology is deemed acceptable, the debate changes in focus; the controversy is found elsewhere.

35. Finally, some discussion centered on the "301" U.S. trade laws. This policy represents an effort to open up markets for U.S. exporters, when unjustifiable or unreasonable trade practices, as determined by the U.S., take place among its trading partners. The threat of retaliation by the U.S. has been the enforcing mechanism.

36. Several points were raised concerning the "301" policy.

First, as illustrated by the example of the Argentinean export tax on soybean products, the determination can be made arbitrarily, and the outcome counterproductive from the standpoint of the U.S. (There tends to be a failure to look at the big picture; the repercussions elsewhere.). Secondly, "301" laws won't go away with hemispheric trade agreements. There have been two cases against Canada since CUSFTA. In fact, with the increase in trade from an FTA, one can expect greater trade frictions and this may increase the likelihood of greater use of "301" laws. This points to the need for effective dispute settlement, perhaps along the lines of Chapter 19 in CUSFTA. On the positive side, "301" laws may serve the constructive purpose of encouraging countries to widen the scope of negotiations.

iv) Intellectual Property Rights

37. Intellectual property rights (IPRs) were placed in the context of the evolution of trade negotiations at the GATT. It is a new game today, with new rules. To proceed with integration and further trade liberalization, we need to focus attention on the much more difficult issues of harmonization including the area of IPRs. Trade negotiations today deal with policies, not products as in the prior GATT rounds.

38. Different perspectives on the role of IPRs emerged, underscoring that it perhaps remains one of the more divisive issues in trade negotiations. On the one hand, one perspective saw it as largely a "North vs. South issue." IPRs such as patents confer monopoly rights, devised to encourage creativity. Yet underlying all national legislation is an attempt to find a proper balance between the encouragement of creativity and the maximisation of social welfare arising from the fruits of the innovation. The nature and the scope of this balance is likely to vary per country; significant differences are likely at different levels of economic and technological development.

39. Policy harmonization in the area of IPRs, the argument continues, implies to a large extent policy "Americanization." This "upward harmonization" of protection poses serious obstacles to the possibility of industrial development for countries at lower levels of technological development. A more gradual and flexible approach to accommodate different levels of technological development is needed.

40. Another perspective saw IPRs as largely a win-win situation; the enforcement of such protection serves the interests of any country interested in development. Intellectual property should be viewed as an input to development, as part of any economy's infrastructure, rather than a barrier to trade. Human resource development is greatly reduced without this protection because companies are less inclined to invest.

41. Examples were provided throughout LAC, from software, to apples, to cut flowers, of the need to protect results so as to stimulate research and innovation. Of all of LAC, only Mexico, it was argued, has reached an intellectual property infrastructure threshold sufficient to stimulate technical innovation and facilitate technology transfers.

42. While there may be much more hope for harmonization of intellectual property systems, as levels of development in the region harmonize, an argument was made that convergence rather than harmonization is the appropriate approach towards IPRs at this time.

43. The importance of institution building and of increasing the capacity of countries to enforce IPRs was underscored. A harmonized or convergent system will be undermined, if countries do not have the capacity to enforce the rights.

v) Trade in Services

44. The discussion on trade in services revealed diversity, complexity, and controversy. So diverse are services and so predominant in most economies, that to aggregate them all by referring to them as a sector is misleading. The range in complexity of services (and their implications on the quality of employment) is wide, from housekeeping to computer services.

45. Equally misleading is the tendency to conceptually separate services from goods. The myth of the economic development theory of the evolution from primary to secondary to tertiary "sectors" has been dispelled in the 1980s. The new technological paradigm establishes a close (and simultaneous) relation between goods and services.

46. Trade liberalization in services in the Hemisphere raises important issues of specialization. The U.S. has a clear comparative advantage in services associated with advanced technology. How then can we prevent integration from inhibiting development of such services in LAC? Liberalization could mean that LAC be relegated to users of services, rather than developers. Similarly, a division of labor in services could result in a LAC specialization in low-wage, low-skill services that have traditionally been nontradeables. This specialization, however, would necessitate migration of LAC labor to the U.S., and would not be acceptable to either side.

47. Tampering with hemispheric specializations in services raised the concern that LAC would be taking a step backward, to import-substitution again, though in services this time rather than goods. The effects from such policy may again be perverse. It was argued, in response to this concern, that selective protection

rather than indiscriminate protection is the choice.

48. Some of the discussions focused on particular types of services, specifically trade issues in telecommunications and financial services. Telecommunication services, alongside telecommunication goods, serve the critical role of a "highway" or infrastructure for other economic services. Trade liberalization in telecommunications services and goods necessarily include domestic policy issues of government procurement and competition policy. The importance of transparency and non-discrimination in any liberalization effort was stressed. Where competition is allowed, an independent regulatory agency is crucial.

49. Discussions of trade liberalization in financial services addressed the types of financial barriers that exist in the Hemisphere; U.S. liberalization objectives; possible costs and benefits from such liberalization; a possible role for the U.S. Securities and Exchange Commission (SEC); and other policy considerations when liberalizing financial services, particularly the appropriate sequencing of policies.

50. Some benefits from trade liberalization in financial services would presumably stem from the resulting increased pressures of competition. On the other hand, there was concern whether some small financial sectors in LAC could withstand the competition. There is a risk that opening up may lead to instability in investments and in exchange rates. Trade liberalization in financial services may lead to large and unstable capital flows and create balance of payments problems. Safeguard provisions may be needed, particularly for the small country.

51. The sequencing of liberalization may be critical. Should domestic financial liberalization be a pre-requisite to trade liberalization in financial services? Is there a correct policy sequence between financial liberalization in general (i.e., within as well as across borders) and trade liberalization in other goods and services? Or should they and can they be addressed simultaneously?

52. One position has argued that domestic financial deregulation should precede liberalization of trade, so as to reduce the likelihood of a net outflow of capital in search of higher interest rates abroad. Another perspective held quite adamantly during the discussions that financial liberalization should never precede trade liberalization. The risk of opening up the financial sector first is too high. Witness the effects of financial liberalization in Mexico and Argentina where large volumes of short-term capital have contributed to overvalued exchange rates and large trade deficits. In LAC, investors are not protected as they are in the U.S. Some LAC stock markets are greatly overvalued, and are susceptible to large devaluations.

The goal should be to attract long-term investment, not speculative short-term capital, in order to strengthen the balance of payments.

vi) Labor and Trade

53. The skepticism of U.S. labor towards NAFTA was placed in the context of some dismal U.S. labor market trends. Real wages in the U.S. have been declining over the past two decades. Disaggregated, only the postgraduate labor market in the U.S. is doing better in real wage terms, albeit marginally, since 1973. Real wages for college graduates have decreased by 10%; for high school graduates by 20%; for pre-high school by 25%. These trends have been masked in two ways: the growth of two-worker households; and an increase in household debt. Added to this is the trend that there has been essentially no job growth in the past four years in the U.S.

54. A fundamental concern is that these trends will be reinforced or accelerated as a result of NAFTA as it stands and possibly from a WHFTA. The NAFTA debate has been forward looking, without adequate assessments on labor of the ongoing liberalization efforts in Mexico and of the impacts from CUSFTA. As negotiated, while carefully crafted to protect certain interests, NAFTA speaks to only certain types of U.S. workers; that is, professionals.

55. The role and importance of LAC labor movements with a focus on South American labor relations was addressed. Lessons from the EC and the European trade union movements can help shape a positive agenda for labor unions in the Hemisphere in a WHFTA.

56. Is there some combination of provisions that is acceptable to labor in the U.S. and Canada that would ensure their support for future FTAs, or are these agreements always doomed to opposition from North American labor? Doomed was the conclusion of one perspective. This was based on an assessment that the "wish list" of U.S. and Canadian labor implied major long-term (and unattainable) changes from NAFTA as it stands.

57. How effective will this opposition be? This was answered in part by addressing the evolution of the effectiveness of North American labor in FTAs from the U.S.-Israel FTA, to CUSFTA, to NAFTA. The growing strength of labor's influence is in part a function of the perception among labor that there has been more to lose. In the future, North American labor's influence will largely hinge on three aspects: (a) who the future FTA candidates are (opposition will be easier to organize if the candidate's exports currently face substantial barriers in the U.S. and Canada); (b) the extent to which NAFTA will negatively affect U.S. and Canadian employment; and (c) the administrations in

power in the U.S. and Canada (opposition will be greater if a Democrat is President or a Liberal is Prime Minister, in which case the unions cannot afford to fail in the eyes of their membership).

58. Discussion emerged regarding the extent to which the issues raised by labor should be included in trade pacts. While these issues are paramount, gains from trade come from differences, including differences in labor conditions. Do we want to dictate labor conditions across countries, or would it not be better to leave some issues to domestic policies?

59. One response: yes, it is in our interests to dictate labor standards for the same reason that it is done between states in the U.S. (which after all began as a free trade zone), namely to avoid harmonization at the lowest common denominator. Another reaction: we trade economists tend to think we can wall off things. It is not just an FTA that we are talking about here; the process of hemispheric integration has in fact opened up a Pandora's box. We would be better served to at least think about these "nontrade" issues more as they do in Europe and in the Mercosur countries.

vii) Environment and Trade

60. This round table focused primarily on impacts and perspectives as regards the inter-relationship between environmental concerns and trade liberalization.

61. The nature of the impacts reviewed was twofold: effects of the environment on trade; the repercussions of trade liberalization on the environment. As regards the former, empirical work provides little evidence that trade patterns and comparative advantages are significantly influenced by differences in pollution and environmental standards.

62. As regards the latter, some discussion centered on the merits of "trickle-down environmentalism": the hypothesis that trade liberalization can beneficially affect the environment since more resources will be available from freer trade to address environmental concerns.

63. One position held that the two must be addressed simultaneously; that sequencing--efficiency first, environmental projects second--is not viable. One means to address them simultaneously is through incentive structures, through prices. One rule of thumb: natural resources are consistently undervalued. Social prices tend to be higher than the actual market prices of these resources. If these resources were valued at their real (social) opportunity costs, economic activity could be more compatible with sustainable development.

64. This raises the need to be able to more rigorously measure the value of natural resources; at the least, a definition of acceptable levels of natural resource expenditures. One related consideration espoused was the formation of a multilateral group of scientists so as to better obtain objectivity in decisions regarding the interface between environment and trade, and as a means to minimize the risk of using environmental issues as NTBs.

65. At least two perspectives emerged from the discussions on the role of FTAs on environmental issues. First, trade negotiations over the years have successfully reduced tariffs and are now encountering much more difficult issues. These issues are not going to go away. In fact, if they are not adequately addressed, trade pacts will be blocked. New rules, new treaties, new mechanisms will be required. And labor and environmentalists will have to be represented.

66. The environmental issues are the most contentious and the most fiercely fought about. There is a growing interest and militancy among U.S. non-governmental organizations (NGOs). Environmental groups are lining up on either side, yet those that are the most effective in lobbying tend to be against NAFTA.

67. A second perspective expressed caution and concern about overloading FTAs. The extent to which FTAs should include "nontrade" issues remains a very important unresolved issue. Several guidelines can help: (a) there is a limited role for trade measures in addressing nontrade issues; (b) other tools are available to achieve the same objectives; (c) the more targeted the tool, oftentimes the more effective; (d) unilateral is less desirable than multilateral; (e) a carrot is preferable to a stick.

68. At any rate, either the high point or the low point depending on one's perspective, has been reached in this Hemisphere regarding the debate on trade and the environment. The intensity of the debate will not be as great as it has been in the case of NAFTA to date.

69. A final, albeit very important observation during the discussions. The debate has focused largely on Northern defined perspectives. What should the negotiation agenda be as regards environment and trade from the vantage point of the South?



**IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION**

FIFTH COLLOQUIUM

The Negotiating Agenda and Perspectives

**Inter-American Development Bank
1300 New York Avenue, N.W.
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Washington, D.C. 20577**

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- 55) Canada
Roger Wilson

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**IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION**

SIXTH COLLOQUIUM

The Transition

**Inter-American Development Bank
1300 New York Avenue, N.W.
Andrés Bello Auditorium
Washington, D.C. 20577**

TUESDAY, DECEMBER 1, 1992

- 08:00 Registration
- 09:00 Opening Remarks, Isaac Cohen, ECLAC - Washington
- 09:30 Round Table No. 1:
 "The Transition"
- (1) S. Weintraub, University of Texas*
- (2) M. Fernández de Lynch, Consultant*
- (3) R. Feinberg, Inter-American Dialogue
- (4) I. Cohen, ECLAC - Washington
- Chair: N. Rey de Marulanda, IDB
- 10:45 Coffee Break
- 11:00 Round Table No. 2:
 "U.S. Trade Relations in Historical Perspective"
- (1) S.M. Lipset, George Mason University*
- (2) I.M. Destler, University of Maryland
- (3) P. Fekete, The Brock Group
- (4) R. Baldwin, University of Wisconsin
- (5) R. Z. Lawrence, Harvard University
- Chair: P. Field, North-South Center

- 12:45 Lunch Break
- 14:45 Round Table No. 3:
"Complementary Policies and Considerations"
- (1) G. Ranis, Yale University*
 - (2) J. Tavares de Araujo, IDB*
 - (3) R. Vernon, Harvard University*
 - (4) J. Nogués, World Bank
- Chair: J. Tulchin, The Wilson Center
- 18:00 Reception

WEDNESDAY, DECEMBER 2, 1992

- 08:30 Round Table No. 4:
"Microeconomic Issues"
- (1) V. Whiting, Jr., University of California, San Diego*
 - (2) B. Kossacoff, Volkswagen Foundation/ECLAC Project*
 - (3) S. Marks, Sigmar International*
- Chair: E. J. Dosman, FOCAL, Canada
- 10:00 Coffee Break
- 10:15 Round Table No. 5:
"Macroeconomic Issues"
- (1) M. Klein, Tufts University*
 - (2) L. Taylor, Massachusetts Institute of Technology*
 - (3) K. Cannings, University of Montreal*
 - (4) K. Jameson, University of Utah
 - (5) A. Velasco, New York University
- Chair: R. McKinnon, Stanford University
- 12:15 Lunch Break

14:15 "Criteria for Readiness," Myles Frechette, Assistant United States Trade Representative

Chair: G. Hufbauer, Institute for International Economics

15:15 Coffee Break

15:30 Round Table No. 6:
"The Role of the Public Sector"

- (1) D. Chudnovsky, CENIT, Argentina*
- (2) F. Stefano Erber, IPEA, Brazil*
- (3) C. Bradford, OECD, France
- (4) A. Aninat, World Trade Center Santiago, Chile

Chair: R. O. Lawson, IDB

16:45 Closing Remarks

17:00 Liaison Committee Meeting

* project consultant



IDB/ECLAC Project

Support to the Process of Hemispheric Trade Liberalization

**Summary of the Sixth Colloquium
"The Transition"**

**Inter-American Development Bank
Washington, D.C.
December 1 - 2, 1992**

Introduction

This was the last colloquium in a series of six. Whereas the previous forums focused mostly on costs and benefits and the negotiation issues, this colloquium centered on how hemispheric trade liberalization can and should be brought about. Again framed in the current global economic context (much of which provides scant basis for optimism and support), the issues of transition discussed included the paths to integration, institutional considerations, necessary policies (macro and micro, immediate and longer-term), and the relationship between the private and public sectors.

A transition to a wider hemispheric free trade agreement (FTA) remains a hypothetical exercise without a U.S. commitment. Hence, in this vein, considerable analysis also focused on U.S. trade policy; past, present, and future.

Paths to Integration

The hemisphere is characterized by fuzzy sets of overlapping integration groups that make it virtually impossible to clearly see through the maze. Nevertheless, we must attempt to sort things out, and there are some guidelines to follow in this endeavor.

First, we have to be willing to set priorities in the short to medium term, and in particular, between subregional integration and hemispheric integration. Integration widening should not occur to the exclusion of deepening. Nevertheless, a certain degree of trade-off between the two is unavoidable as the larger the number of FTA partners, the lower will be the level of commitment.

Laggards should not be allowed to slow the process. Some countries are ready to move faster than others, and they should not be penalized because others are not ready. On the other hand, care must be taken not to unduly penalize those countries that

may be at least temporarily excluded from any free trade arrangement perhaps *because* they are not yet prepared. The costs of exclusion can be high, and provisions should be attempted to minimize this.

There are now essentially two paths to take towards a Western Hemispheric Free Trade Agreement (WHFTA). One is to expand the North American Free Trade Agreement (NAFTA) through its accession clause.

As it stands, NAFTA does not preclude countries outside the hemisphere from joining. There was little consensus during the colloquium on the merits of this policy. One argument held that an open accession clause would best facilitate a multilateral track for the world trading system. It is not in the interest of any countries of the hemisphere to preclude relations with countries outside the hemisphere.

Another perspective felt that preference should be given to the hemisphere; such an arrangement need not create a defensive bloc, as barriers to countries outside the hemisphere can simultaneously be lowered. An FTA by definition is a preferential agreement as long as at least one country is excluded. At issue is what criteria are to be used to extend the preferences of NAFTA.

The second, arguably better way towards hemispheric trade liberalization is to allow subregions to deepen first among themselves, and then connect via association agreements. The model here may be the European experience between the European Community (EC) and the European Free Trade Agreement (EFTA). Such an approach would allow different groups of countries to integrate in preferred and feasible means. For example, the possibility of deepening is greater in NAFTA than among the countries in the Andean Pact or in Central America.

If this latter path is the route taken, or, perhaps more realistically, some combination of the two occurs, then clearly it is not likely that the end-result will in fact be one FTA. It may, nevertheless, be helpful to think of a WHFTA as the "limit" and attempt to proceed by approaching the limit, preferably without prejudicing the subregional schemes.

Institutions

Institutional needs were much debated and without consensus. The lack of consensus may have hinged in part on different views of what institutionalization entails.

One side of the debate recommended restraint in the types and the number of institutions at least for now. Let's not create

institutions until their functions are clearly defined and needs are clearly demonstrated. Form before function. The Latin America and Caribbean (LAC) countries have suffered in the past from the "syndrome of the rooster"; from "singing too early." We tried to imitate the EC structure in part by creating permanent secretariats. Now times have changed. Permanent secretariats are no longer found in the hemisphere. And this may be a promising trend. Perhaps we have learned from our mistakes.

Further, it was contended that to a large extent, institutional needs follow from the integration path chosen. If expanding NAFTA is to be the primary route, then a large secretariat may be needed. If the second option is pursued, the institutional needs are quite different. We wouldn't need this large mass in the center. Each subregion could go with its existing institutional mechanisms. This implies that it may be premature to talk about institutions at this time.

Another perspective held that institutionalization may be needed to sustain an idea; the Enterprise for the Americas Initiative (EAI) in particular.

There is a huge dead whale in our midst, this argument goes. Its death is so recent that it doesn't yet smell, and, hence, is not particularly detectable. The EAI died on November 3. It was nothing more than a speech; an idea that was never institutionalized. While Clinton seems to endorse extending NAFTA to the hemisphere, institutionalization of this idea would give it some permanency as well as momentum.

Form following function is good advice. Yet, this does not imply institutional considerations are premature. There is no mystery to what some of the functions are to be. We have enough of a strategy to move on this. The Multilateral Investment Fund (MIF) was floated before the idea clearly crystallized. Why do we need to know exactly what we are going to do before we do it? Institutionalization can be incremental.

Some specific issues which may require institutionalization include the following. First, the labor and environment commissions of NAFTA may be important enough to be given separate secretariats, and hence serve as building blocs. Second, there may be a need for an analytical clearinghouse to sort out possible inconsistencies between subregional schemes. The OAS, and in particular its newly-formed trade committee, the Special Committee on Trade [SCT], could capably serve in this capacity, it was argued.

Third, institutional means to facilitate hemispheric FTA decision making processes may be advisable. Why should the three countries of NAFTA make all the decisions? Fourth, harmonization needs to be studied (capital market harmonization, exchange rate

issues, etc.). Fifth, analysis regarding how to relate hemispheric trade agreements to the G7 countries is also needed.

Finally, a recently released Inter-American Dialogue plenary report was cited as providing support for some of these institutional needs. The report, endorsed by many, argues that either a new institution or greater use and perhaps coordination of existing institutions (the IDB, ECLAC, and/or OAS) should be tapped to address the hemispheric trade issues.

The U.S. perspective differed with respect to the "dead whale." Support in the current Bush administration for the EAI, it was argued, is widespread. Some institutionalization has occurred in the three-pillared initiative. There is a political commitment as well as momentum. The MIF is up and running. From the trade pillar, framework agreements have resulted with all countries in the hemisphere that are interested (that is, all but Cuba, Haiti, and Suriname). These have resulted in regular bilateral meetings between the U.S. and LAC countries which are scheduled to continue throughout the next year. The purpose of these meetings is to routinize the relationship so that disputes can be resolved in a normal way. We have never had this before in the hemisphere, and this in itself is a notable accomplishment. Furthermore, on the basis of Clinton's remarks, and of how trade policy works in the U.S., we can expect some continuity in the priorities of the U.S. government with respect to its commitment to the Uruguay Round, NAFTA, and to the basic principles of the EAI.

One observer nevertheless argued that the EAI never took root in the USTR and in Commerce (in contrast to the U.S. Treasury). Another argued that what may have started in the U.S. has now a momentum of its own in the hemisphere, irrespective of U.S. commitment. It is no longer a Bush or even a U.S. initiative. Let's be clear that we're talking about an enterprise of the Americas and not for the Americas.

U.S. Trade Policy

The U.S. commitment to a WHFTA was placed in a wider context in discussions regarding the evolution of U.S. trading relations. Will the largely liberal-leaning U.S. trade policy be maintained? What lessons can be drawn from the past?

The consensus seemed to be that the U.S.' relatively free trade policy will continue. This policy falls somewhere between the historically-rooted protectionist stance of the distant past (pre-WWII), and the more ideologically pure free trade position of the U.S. at the outset of WWII.

Opposing dynamics make any forecasting tenuous. On the one

hand, certain political and economic forces are tending to fuel protectionist pressures. Institutional aspects may effectively counteract these influences. Ideology enters into the picture as well, though with no clear effect in light of the contradictory roots of the "American Creed."

The cold war, it was argued, played an important role in stimulating the free trade perspective in the United States. With the cold war over, some protectionist pressures are resurfacing. Some of these pressures are coming from labor, though labor's stance has not always been protectionist.

The changing U.S. economic position is also contributing to the more aggressive and sometimes more protectionist pressures from the U.S. that we are seeing today: aggressive unilateralism; efforts to extend trade policy beyond the borders (the structural impediments initiative perhaps epitomizing this trend); demands for a "level playing field." Not all of these developments are felt to be protectionist by some. One analyst argued, for example, that the U.S. 301 laws have on balance been liberalizing.

At any rate, it was asserted that we are living at the end of an era. The GATT up until the Uruguay Round attempted a relatively shallow form of integration. That era is passing, partly driven by the increasingly vulnerable economic position of the United States. Specifically: (1) The standard of living in the U.S. is converging with (and in some cases being surpassed by) other industrial market economies. (2) The globalization of the U.S. economy continues; the U.S. is now the largest recipient of foreign investment. (3) The U.S. faces a fundamental growth problem. A turning point in this respect occurred in the early 1970s. From the outset of WWII and until 1973, productivity increased by 2 percent. Since then, it has increased by 1 percent. Added to this slow down has been a general living beyond one's means in the 1980s. The result is an economy that is laboring under great constraints, and with a growth potential of only 1 3/4 percent.

These economic developments have affected the way U.S. policy makers view regionalism. While the U.S. supported regionalism in the past--encouraging the beginnings of the EC, for example--until recently, the U.S. has felt little need to join in. With the decline in U.S. competitiveness, this perspective has changed.

By the 1980s, it was clear that multilateralism was not going to redress the global trade imbalances. In part because of the difficulties encountered in the Uruguay Round, the U.S. began to pursue a multi-track strategy by turning increasingly towards unilateralism, bilateralism, and regionalism. The 1980s were characterized by an explosion of anti-dumping and countervailing

duty cases and the initiation of a chain of FTAs beginning with Israel. The advantages of bilateralism and regionalism to the U.S. are clear. Here the rules are more to the U.S.' liking, as greater political leverage on the part of the U.S. can be exercised. A deeper form of integration than is possible in the multilateral forum can also be pursued.

What is so significant about NAFTA is that the deeper form of integration is taking place between countries of such different levels of development. Here the invitation of complete and mutual access is a much greater challenge and requires a much greater compromise of national sovereignty.

Institutional considerations are also important variables in the equation. In particular, certain institutional aspects are critical towards understanding why the U.S. has maintained its liberal leaning trade policy.

United States trade policy has always been based on a certain tension between the legislative and the executive branches. Trade policy has largely been congress' prerogative yet the executive branch's domain.

A critical turning point in this relationship resulted from the 1934 Reciprocal Trade Act when the locus of trade policy decision making was shifted from the legislature to the executive branch. This delegation of authority, eleven times renewed, has always been undertaken with the recognition that the executive branch has the greater capability to address trade policy, and to take the hard decisions that congress does not want to take. The executive (and the USTR in particular) has also had the greater ideological commitment towards free trade.

This procedural consensus between the two branches, with the USTR serving as the focal point of pressure, remains largely intact today, though somewhat battered. The "fast track" authority is the latest variant of this arrangement.

Another consideration is how the congress as an institution has evolved. In particular, there has been a decentralization of power among its members. No longer are the decisions made largely by a handful of highly influential individuals. With a less cohesive congress, its effectiveness vis-a-vis the executive may have waned.

It is also important to understand that there exists a broader mix of influences on U.S. trade policy than ever before. Important roles are played by the media, the private sector and sectoral interests, and by think tanks.

What lies ahead? We elaborate on two aspects raised during the colloquium.

First, partisanship is a "muted sub-theme" in U.S. trade policy which could play a role as the White House changes hands. With the support from labor, democrats are more inclined to be protectionist than republicans. Nevertheless, it was argued that Clinton will likely continue the existing policy patterns with respect to NAFTA, the Uruguay Round, and aggressive unilateralism (section 301 in particular). That is, the liberal-leaning multi-track route will likely continue. Clinton may not give as much attention to hemispheric trade as did Bush in light of his more ambitious (domestic) agenda, but we should not expect any radical departure from the largely favorable status quo of U.S. trade policy.

Second, what are the chances that NAFTA will be extended? While an economic rationale may exist among members to limit further membership (so as not to dilute the benefits), the reality is that regionalism tends to have a dynamic which brings in nonmembers. This may be because the outside pressures to get in are so great; the cost of exclusion so high.

Domestic and International Complementary Policy Considerations

Domestic and international economic policy are two blades of a pair of scissors. If both are not adequately pursued, the scissors will not cut. The focus of attention during the colloquium, though not exclusively so, was on accompanying domestic policy. The policy considerations were roughly grouped into three types differentiated by time frame: (1) preparation policies; (2) policies to help sustain and maintain an FTA; and (3) longer term actions. Within these groups, there are both macro and micro considerations.

(1) Preparation Policies

Unless certain macro and micro conditions are in place, there will be no transition to anything like free trade. The macroeconomic conditions have been widely debated and have received fairly widespread consensus. Many of these in fact make up what has come to sometimes be referred to as the "Washington consensus" and refer essentially to stabilization policies, including fiscal discipline, tax reform, competitive exchange rates, and unilateral trade liberalization.

Exchange rate policy in particular received much attention during the colloquium. One observer argued that no small open country can keep stable exchange rates unless it participates in capital controls or in an international exchange rate regime.

Yet, it was also contended that while fixed exchange rates

can benefit and help promote integration (in part by facilitating trade, removing uncertainty, and helping to promote macroeconomic stabilization), the outcome ultimately depends on the credibility of the exchange rate regime itself which must be a part of a broader strategy. And if maintaining fixed exchange rates is not feasible--a likely scenario for most LAC countries largely due to relatively high inflation rates--then attempting to do so may be counterproductive. A crawling peg to the U.S. dollar may be a good intermediate stage.

There was little agreement in the discussions which focused on the importance of the stability of exchange rates versus the level of exchange rates. It was observed, at any rate, that the empirical investigations have not revealed strong links between the effects of exchange rate volatility on trade.

The good news regarding the macroeconomic preconditions is that many countries in the region are making important strides towards meeting the objectives. With Brazil typically being the salient exception, real exchange rates have increased uniformly and dramatically, fiscal deficits have decreased substantially, foreign reserves are high and rising, interest rates are positive and attractive to foreign capital, tariffs have decreased dramatically, and inflation is decreasing, with rates converging among countries.

While progress has been made on these fronts, much more is needed. In fact, some of the perceived gains from these policies may stem from temporary or special circumstances. This is particularly germane to the fiscal variable. Some of the increases in government revenue, for example, have come about from one-shot privatizations and/or creative accounting. More importantly, while government spending has been successfully curtailed, this can only be temporary, as medium term needs such as physical and human infrastructure and social safety nets will eventually need to be addressed.

While macroeconomic preconditions are important, they are not enough. More attention needs to be given to microeconomic policies. A fundamental objective should be the promotion of a balanced rural development in sync with open economy oriented growth.

Similarly, greater attention to the local private sector, the small and medium-size companies in particular, is merited. The local private sector will have to survive and benefit if trade liberalization is to take root. Local companies need to start to analyze anticipated effects from trade liberalization and assess the options and opportunities that exist. These options may include seeking a partnership from abroad or importing some inputs previously produced domestically. In a closed market, there tends to be an incentive to diversify. In an

open market, the optimum strategy may be to specialize.

On the criteria for entering into an FTA with the U.S.

If the means to move towards a system of hemispheric free trade is through NAFTA, then the standards to be used must be negotiated and approved by all NAFTA parties. The following is a list of elements that the United States considers most important:

- (1) a phase out of all tariffs as required by GATT;
- (2) eventual elimination of NTBs;
- (3) broad-scale market access for services;
- (4) standards for treatment of investment: providing "national treatment", access to international arbitration, eliminating trade-related investment measures (TRIMS);
- (5) provisions for intellectual property rights;
- (6) special provisions may be necessary to deal with trade and investment in natural resources and resource-based products in light of the extensive state regulation;
- (7) operational, security and technical rules such as rules of origin, public health and safety exceptions, safeguards, dispute settlement provisions, and mechanisms for adding or "docking" future FTAs will be necessary; and
- (8) provisions will be needed to restrain government action that could undermine the agreement, such as subsidies, state trading, restraints justified on balance of payment grounds, and the use of foreign exchange restriction and controls.

Are these tough standards? That's for the LAC countries to decide. An FTA is an extraordinary relationship, not ordinary. Don't expect what is extraordinary to become ordinary.

The United States views the process of expanding NAFTA as a self-selection process. The U.S. is not giving out numbers; it's up to the LAC countries. Nor does the U.S. have a preference over whether the negotiations are with individual countries or groups of countries. Currently, however, only Chile is able to meet these standards.

(2) Medium Term Policies

Medium term policies refer in large part to those ongoing actions presumably after the signing of an FTA which are

necessary to sustain and maintain beneficial effects from such an agreement. Of primary importance in this regard, are efforts to minimize the transition costs and adverse distributional consequences of freer trade. This makes sense on moral grounds, and is critical if free trade is to become a political winner, as well as a sensible economic choice.

Adjustment assistance programs need renewed attention. They are politically and (in the immediate term at any rate) economically difficult. But we haven't put our best efforts towards them yet.

Radical changes in foreign aid need to be considered. More nontraditional channels--and in particular aid in the form of trade assistance--should be pursued. This would be more politically acceptable in the developed countries, provide a more active role for the LAC countries, and prove less confrontational than much of the existing forms of aid transfers.

The concerned "voice of the small country"

It was observed that the impact from opening up an economy will differ according to circumstances and country. Further opening is not always viable. The smaller the economy relative to its future FTA partners, it was argued, the more difficult the opening process will be. It may be the case that the relatively smaller the country, the more there is to gain in the long run, though also the more disruptive is the process of getting there. This may indicate the need for adjustment assistance, and perhaps a longer transition period for the smaller country.

On a more concrete level are the policy implications from the "Mexico threat" and NAFTA for the CBI countries. These countries, it was argued, are not yet ready to open up or to engage in full reciprocity. Similarly, they are unable to fully comply with the recent conditions set forth by the USTR. In fact, it is incumbent on the NAFTA countries to give consideration to the detrimental effects caused by investment diversion in the region. Assessments regarding the extent to which investment diversion has already occurred, however, vary widely.

At any rate, a specific consideration put forth was the creation of an association agreement between CBI and NAFTA, whereby preferential treatment among the CBI countries would be maintained. In light of the potentially dire consequences for the CBI countries of being excluded from NAFTA, there will be strong pressures to provide some recompense. The marginal costs to the U.S. will be so small that political opposition may be relatively light.

(3) Considerations for Long Term Stability and Growth

It was observed that the LAC countries are susceptible to policy asymmetry: greater focus on short term and medium term needs to the neglect of the longer term. Much attention during the colloquium was devoted to the role of the LAC state and its relationship with the private sector in the context of an open economy. How much should and can the state intervene to assist in achieving long term development goals? How can trade liberalization, particularly in the context of an FTA, be made compatible with industrial policy as well as competition policy? What role can and should state enterprises play in the integration process?

A fundamental dilemma surfaced from discussions. On the one hand, it was acknowledged that the markets must continue to play a greater decision making role in the LAC economy; that the private sector not be burdened with government. Privatization can be a productive process. This would seem to imply a lesser role for government than in the past.

Yet, it was also asserted that the LAC state is confronted with a much broader agenda now, and that an active government role is critical towards maintaining an open economy. The private sector cannot reflect the national interest. It is the government which must be the leading agent and the negotiator.

Some argued that the size of the government must increase to fulfill this agenda. In fact, those LAC economies which have been most successful in opening up (Chile and Mexico in particular) have strong and expanding governments. It is nonsense, it was argued, to say the LAC state needs to shrink. Where this has occurred, a crisis has been the result.

A somewhat different position held that a strong government need not imply a large and growing government. A change in priorities and focus is the answer. One argued, for example, that decentralization of the public sector should be an important objective. Another participant envisioned a lean catalytic role for the state rather than the directly productive role of the past. This would include a greater concern for the long run: encouraging investment in human capital, physical infrastructure, and science and technology, as well as better addressing environmental and social aspects. Self-financing public policies need to be stressed.

Another theme emphasized was the importance of moving hemispheric trade liberalization into sync with the GATT. The importance of simultaneously strengthening the GATT, concluding the Uruguay Round, and looking at a "GATT-Plus WHFTA" strategy was also discussed. The possibility of simultaneously pursuing both regionalism and multilateralism was called into question.

One proposal for "GATT-Plus" was the adoption of a good safeguards policy, and in particular, one that is sanctioned by GATT, where the costs from the safeguard provisions are borne by the country implementing the policy.

Other Microeconomic Issues

The role of the transnational corporation (TNC) and implications from its prevalence in the hemisphere were addressed. A thesis was put forth that the nature of the industrial structure in the hemisphere may not be compatible with a hemispheric FTA. The industrial structure logic of NAFTA may not work for WHFTA. What we have are two major markets in the hemisphere: one in North America; one in South America. Both are characterized by "integrated regional production" (IRP), which creates a political necessity for "protection against protection" but only in a regional setting. Rather than being complementary, the production processes in the two regions compete. Hence, unless there is an overriding political incentive to push for a WHFTA, such a progression may be hindered by IRP.

The IRP thesis provoked much debate and little consensus. Clearly other variables enter into the equation. Integration is not just integrated production. One argued, for example, that the harmonization of standards is where the devil lies. Another observer questioned the applicability of the thesis, which derives from a case study of the automobile industry, to other industries and production processes. IRP was also questioned in light of the strong political support throughout the hemisphere to participate in some sort of WHFTA.

Implications from the prevalence of TNCs on trade liberalization were addressed in another session and in another light. Several working hypotheses were advanced. One, short run adjustments from trade liberalization are likely to be far stronger by virtue of the existence of TNCs. Second, there is likely to be growing concentration of economic activity across countries in the hemisphere in the short run from TNC activity in response to FTAs. The largest countries--U.S., Mexico, Brazil--probably stand to benefit the most from TNC investments in the short run. Over the longer term, however, TNC activity may result in a counter-acting diffusion of benefits across countries. Nevertheless, TNCs will try to play off state policies as trade liberalization proceeds, hence increasing the likelihood of beggar-thy-neighbor policies among states in their bids to attract foreign capital.

In addition, it is important to directly address the policy implications stemming from the prevalence of TNCs in the hemisphere. This has scarcely been done in the context of the FTA debates. In particular, the policy repercussions from the

existence of transnational *networks* are many, and include the effects of transfer pricing on the state's ability to tax, the ability to measure domestic content, and to apply anti-subsidy and anti-dumping duties inside the FTA.

Other Macroeconomic Issues

Some discussions centered on various macroeconomic considerations stemming from trade liberalization, many based on country experiences.

One perspective provided some skepticism in this regard. On the basis of trade liberalization experiences, it was argued, one can conclude that the potential gains from a WHFTA as depicted by orthodox theory may likely be overstated for at least two reasons. Trade liberalization may not only be of secondary importance (to the macroeconomic effects which have typically dwarfed trade policy), it may also be destabilizing. Further, the East Asian experience has not been a fully liberalizing experience by any measure. In fact, historically, the nations that have entered into long-term economic growth under fully liberalized trade (and other) policy regimes constitute an empty set--a fact that perpetually eludes the mainstream mind.

Finally, a note of skepticism regarding the standard trade theory models. If one assumes full employment and balanced trade and easy allocation of resources, as these CGE models do, one can't help but come up with beneficial results. The favorable results in essence have been built into the models. "Assumptions in: assumptions out."

While acknowledging that these CGE model warnings are well-taken, one observer argued that we nevertheless not abandon the modeling. The CGE studies do shape and influence the debate in a positive way, and certainly are more constructive than, for example, the "Bhagwati-Dornbusch shoot-out at the OK Corral."

Another skeptical perspective focused on the experience of Canada, arguing that Canada's trade agreement with the United States has devastated the Canadian economy. The dislocation caused by the FTA has been very high. There has been a large increase in job losses due to permanent closing of firms that have gone south. Bankruptcies have risen dramatically. Canada's manufacturing base is being eroded, as is its social safety net. The majority of Canadians opposed the FTA with the U.S. and now oppose NAFTA. NAFTA poses a tremendous threat to the average Canadian worker.

Lessons for other countries? Without adequate planning and preparation, going into an FTA with the U.S. is ill-advised at best. Unless constrained, the economic and political power of the

U.S. will dominate.

Further, not all comparative advantages are equally advantageous, nor are they immutable. Orthodox economic theory offers little insight on this matter. A peoples standard of living depends significantly on the types of industries and the types of specializations. Those economies which specialize in lower value-added production processes (which may result from trade liberalization) will not likely be better off. An active state managing trade as part of an industrial strategy will produce better results than free trade based on outdated orthodox theories.

The observations on the impact of the FTA on Canada provoked much discussion. One noted that it was easy to identify the short term costs, and much harder to sort out the benefits from the FTA, particularly in the context of the current recession in Canada.

Much of the debate was framed by a comparison between Chile and Canada. It was observed, for example, that after 10 to 15 years of unilateral liberalization, free trade now receives widespread support in Chile, even from the socialist party. Perhaps in 15 to 20 years, we will be hearing from the Canadian left in the same fashion. The costs of trade liberalization tend to be more immediate; the benefits more long term.

One observer acknowledged that looking backward, Chileans are relatively supportive of the trade liberalization route that they took. Yet, at issue, are the reasons for Chile's success. Import liberalization had little to do with her export success, and more to do with a longer term domestic policy program. Further, Chile had very generous support from the international community and considerable resource rent from copper which facilitated the adjustment process.

Another critical voice noted that Chile has paid a high price in terms of the environmental degradation that has occurred. Yet this has occurred, it was contended by another, because of inappropriate liberalization reforms (subsidization of gas, for example, is a wonderful recipe for degradation) that can be avoided.

Finally, a reaction to the concern in Canada and elsewhere about the loss of sovereignty from greater integration with the United States. Sovereignty may also be sacrificed from alternative strategies and scenarios. Sovereignty losses due to indebtedness and the inability to pay off the debts (perhaps stemming in part from low export earnings) are not welcomed either. In fact, Mexico and Chile, the two economies in LAC which have liberalized the most, seem now to be the least vulnerable to the world recession.

IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION

SIXTH COLLOQUIUM

The Transition

Inter-American Development Bank
1300 New York Avenue, N.W.
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**IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION**

SEVENTH COLLOQUIUM

Trade Liberalization in the Western Hemisphere

Federation of Industries of the State of Sao Paulo
Avenida Paulista, 1313
Sao Paulo, Brazil

APRIL 19

08:00 Registration

09:00 Opening Remarks, Ambassador Rubens Barbosa, ITAMARATY
Rosa Olivia Lawson, IDB
Isaac Cohen, Director, ECLAC Washington

10:00 Round Table No. 1:
"Hemispheric Trade and Multilateralism"

- (1) Joseph Grunwald, UC San Diego, USA
- (2) Sarath Rajapatirana, The World Bank
- (3) Jorge Grandi, European Institute of Public Administration, Maastricht
- (4) Steven Husted, University of Pittsburgh*
- (5) Gilberto Dupas, Banco Safra, Brazil

Chair: Rosa Olivia Lawson, IDB

12:00 Lunch Break

14:00 Round Table No. 2:
"Regional Arrangements"

- (1) Winston Dookeran, Consultant, Trinidad & Tobago*
- (2) Jorge Gallardo, Project Adviser, Ecuador
- (3) Patricio Meller, CIEPLAN, Chile*
- (4) Jose Tavares de Araujo, Jr., IDB*

Chair: Laerte Setubal Filho, FIESP

16:00 Coffee Break

16:15 Round Table No. 3:
"Costs and Benefits For Brazil"

- (1) William R. Cline, Project Adviser, USA
- (2) Raul Hinojosa-Ojeda, UCLA, USA*
- (3) Pedro Motta Veiga, FUNCEX, Brazil
- (4) Vera Thorstensen, Centro de Econ. Politica, Brazil
- (5) Luis Fernando Furlan, FIESP, Brazil

Chair: Ambassador Rubens Barbosa, ITAMARATY

APRIL 20

09:00 Round Table No. 4:
"Negotiating Agenda"

- (1) Blair Hankey, External Affairs Canada* (Dispute Settlement)
- (2) Robert Sherwood, Consultant, USA (Intellectual Property)
- (3) Paul Fekete, The Brock Group, USA (US Trade Policy)
- (4) David Palmeter, Attorney, USA* (Rules of Origin)
- (5) James Cassing, University of Pittsburgh* (Safeguards)
- (6) William Spriggs, Economic Policy Institute, USA* (Labor)
- (7) Lia Vals Pereira, FGV/RJ, Brazil
- (8) José Walter Bautista Vidal, ABIFIWA, Brazil

Chair: A. Guadagni, Ambassador of Argentina to Brazil

11:00 Coffee Break

11:15 Round Table No. 5:
"The Transition and Complementary Policies"

- (1) Yoshiaki Nakano, FGV, Brazil
- (2) Gilberto Mossman, FIERGS, Brazil
- (3) Isaac Cohen, ECLAC - Washington
- (4) Felix Peña, Consultant, IDB, Argentina*
- (5) Franciso Marcelo Roch Ferreira, BNDS, Brazil

Chair: Luciano Coutinho, CERI/SP

13:00 Closing Remarks, Minister Fernando Henrique Cardoso
Carlos Eduardo Moreira Ferreira, President FIESP
Rosa Olivia Lawson, IDB
Isaac Cohen, ECLAC - Washington

* project consultant



IDB/ECLAC Project

Support to the Process of Hemispheric Trade Liberalization

**Summary of the Seventh Colloquium
"Trade Liberalization in the Western Hemisphere"
Federation of Industries of the State of Sao Paulo
Sao Paulo, Brazil
April 19-20, 1993**

Introduction

Each of the five round tables of this colloquium was designed to address one of the themes of each of the five prior colloquia. In this respect, some common subjects resurfaced. Of particular significance, however, was the nature of the dialogue among the Brazilians as well as their interaction with others, and the unique perspectives which necessarily derive from the extraordinary Brazilian experience.

Without Brazil, there is no Western Hemisphere Free Trade Area (WHFTA). In the context of Brazil's perceived reluctance to endorse some sort of integration with the United States, and given its troublesome macroeconomic state of affairs, a debate with a focus on the desirability and feasibility of a WHFTA on Brazilian soil proved to be quite enlightening. The significance was further underscored by the colloquium's location in Brazil: Sao Paulo represents the core of some of the most competitive industries in all of Latin America and the Caribbean (LAC).

The colloquium in fact was co-hosted by the Federation of Industries of the State of Sao Paulo (FIESP) and the Brazilian Ministry of Foreign Relations (ITAMARATY) in conjunction with the IDB and ECLAC. Hence, much of the purpose of the debate was to address the Brazilian situation--attitudes, progress, obstacles, incentives--and to hear from the Brazilian private sector in particular.

Themes

What follows describes some of the salient themes that emerged, concentrating more heavily on the new and how they relate to the existing stock of ideas that have so far emanated from the project. In short, the overall tone of the dialogue was decidedly--and for some, somewhat surprisingly--upbeat, transparent and constructive.

1. The Brazilian Situation

The Brazilian situation is complex if not anomalous. On the one hand, there is a consensus that Brazil has only one broad option: it must become more competitive through greater integration in the world economy. This consensus is a major shift in attitude from relatively recent times.

It was contended, in fact, that the depiction of Brazil as interested in international economic integration only during times of domestic economic troubles is no longer correct. There is a sense of no going back. We live in a new reality characterized by certain irreversible trends towards internationalization, most notably the formation of economic blocks. The Brazilian approach to these trends seems quite constructive and candid. Obstacles are to be viewed as challenges. Similarly, there is no shortage of confidence that Brazil is capable of competing globally.

Yet, there are also no illusions that the Brazilian house must first be put in order, and that over the past two decades, Brazil has in fact been losing ground vis-a-vis its competitors. Fiscal reform is imperative. Inflation is a burden. The unequal distribution of wealth is unacceptable. The silver lining in the current crisis atmosphere is a strong incentive for change and acceptance that short term pain will need to precede the gain. Still, and somewhat ironically, there is little optimism that the crisis can be resolved in the short term.

Part of this skepticism from the Brazilian private sector stems from its perception that the Brazilian state and its policies have put Brazil at a competitive disadvantage: higher taxes, higher interest rates, higher inflation. External problems also factor prominently into the equation, however. Here the issue boils down to fair access to foreign markets. While Brazil continues to liberalize, along with the rest of LAC, the U.S. and Europe continue to apply increasingly sophisticated forms of protection. Most of these NTBs are directed to Third World products. There is also a frustration that Brazil tends to be unfairly singled out in U.S. trade policy vis-a-vis the rest of LAC.

In addition, frustrations percolate from a perceived lack of due credit for Brazil's progress towards trade liberalization (as well as its political achievements, most recently, its political soul-searching). Still, it is recognized that Brazil has done poorly in marketing its progress.

The numbers for Brazil do in fact compare quite favorably with the trade liberalization process in the rest of LAC. Tariff peaks, ranges, and averages have decreased quite substantially. Average tariffs in Brazil are now at 17%, to be lowered further

to 14% by July 1993. This is impressive not only on comparative terms across countries, but perhaps more so across time; just several years ago, the average tariff in Brazil was over 100%. In fact, it was contended that the speed of opening in Brazil has been quicker and more drastic than that in Mexico and Chile.

2. Costs and Benefits

Despite the frustrations, it is clear that the new reality also means that the United States is no longer the adversary. And this opens the possibility of further integration with the United States in the context of a WHFTA. Is it in Brazil's interest to do so?

First, as regards possible benefits, all the standard arguments would seem to apply: greater realization of economies of scale, stimulation of foreign direct investment, increased competitiveness. A WHFTA could also provide the means for Brazil to "lock-in" to some of its trading partners' markets (the U.S. market, most importantly), as well as a means to "lock-in" to domestic macroeconomic reforms (a means to "facilitate political consistency"); the latter is particularly compelling for Brazil. Similarly, an FTA would help define a horizon for Brazilian industry, and help provide a clear agenda or road map to follow.

One perspective held that conditions exist for a "developmental leap" for Brazil through participation in a WHFTA. The Brazilian economy has been stagnating in a sort of vicious circle; on one level of development and unable to make the qualitative leap to another.

In fact, the concern that Brazil's industrial sector will be wiped out should it participate in a WHFTA, it was argued, is unfounded. Partly because the old model of nationalistic developmentalism--which was very effective in its time--was taken to the extreme, Brazil now has an industrial structure that is highly diversified and vertically integrated. Add to the picture that the first steps towards integration have already been taken in the form of unilateral liberalization as well as in the context of Mercosur without substantial loss to Brazil's industrial capacity, and one is provided with additional evidence that Brazil is capable of reaping sizable gains from a WHFTA.

What might be some possible costs for Brazil in a WHFTA? Clearly, the prospects for trade diversion merit consideration in a country such as Brazil whose economic ties outside the hemisphere are relatively strong. Yet, there was a sense among some that the concern for trade diversion may be exaggerated. This may be attributed partly to the significant and ongoing gains in unilateral trade liberalization in Brazil. Hence, an FTA with the U.S. and healthy economic relations with the EC and

other regions of the world, it was argued, are not necessarily mutually exclusive.

The key variable is whether barriers to the rest of the world are raised as a result of a WHFTA, and there may be indications (as further elaborated in the following section) that this will be unlikely. Perhaps a more compelling concern is that the EC may be more inclined to implicitly retaliate should Brazil link up with the United States.

At any rate, the argument that Brazil should not commit to a free trade arrangement in the hemisphere because of comparatively low levels of trade within the region can be turned on its head. Where trade volumes are low, potential for trade growth may be high. Intra-regional trade in the EC was certainly much lower prior to its formation.

The concern over U.S. aggressive unilateralism certainly seems well-founded. On the other hand, a trade agreement with the United States may be a way to minimize this proclivity, particularly through a credible dispute settlement mechanism. A similar concern is that the U.S. will not include strategic sectors in the negotiations. Perhaps, though this has not been the case in NAFTA, it was argued.

Some broader insights for Brazil and the hemisphere were derived from preliminary assessments of NAFTA. It was argued that the needs to make NAFTA a win-win situation can be anticipated. The notion, popularized by R. Perot's "sucking sounds" metaphor, that NAFTA represents a zero sum gain and a substantial burden to the U.S. economy was discounted as absurd. Nevertheless, while all three countries stand to gain on balance, an increase in inequalities within and between countries is possible. And the brunt of the displacements will fall on the poorer members of society, the agricultural sector in particular. In addition, a certain loss of domestic policy sovereignty is also likely.

Moreover, it was argued that, in contrast to the EC, there will not be adequate supranational institutional support which could otherwise serve to mitigate these inequalities. The asymmetric nature of the arrangement goes to the heart of why this is so, and how NAFTA and a WHFTA fundamentally differ from the EC.

Similarly, adjustment costs stemming from this asymmetry could be substantial. The reunification of Germany may be illustrative in this regard.

Nevertheless, it is important to consider the counterfactual. In the case of NAFTA, and particularly for Mexico it was argued, the consequences from a failed NAFTA would be disastrous.

In some respects, Brazil might fare better than Mexico in an FTA with the United States. This may be due in part to higher trade barriers in Brazil as well as a greater proportion of manufactured exports to the U.S. market. At any rate, the potential gain for Brazil will likely be greater with an FTA with the U.S. than one with the rest of LAC.

Most of the costs from trade diversion from an FTA between the U.S. and Brazil, it was contended, would likely accrue to countries outside the hemisphere, rather than other LAC countries. Finally, the adjustments on the U.S. labor markets would likely be quite small from a Brazil-U.S. FTA, particularly relative to the impact in Brazil. Nevertheless, the rhetoric of "jobs going south" is part of a distorted debate in the United States and must be factored into the political equation. Efforts are needed to instill greater accuracy into the debate.

3. The Compatibility of a WHFTA with Other Levels of Integration

Assessing the desirability of a regional trade arrangement for any country necessarily depends on the compatibility of the regional agreement with other forms of trade liberalization. In this vein, discussions focused on possible inter-relations between a WHFTA and sub-regional integration efforts, and between regionalism in this hemisphere with multilateralism.

Central towards an understanding of these dynamics is the realization that the hemispheric integration efforts today are radically different from those of the past which in fact viewed trade diversion as a primary objective. The implications from this distinction may be quite profound. For starters, it would be a mistake to historically extrapolate from the failed efforts of yesterday.

Similarly, the competitive integration in the hemisphere that we see today is much more capable of being compatible with other levels of integration. In particular, this version of regionalism can coincide with and perhaps even encourage multilateralism. At the least, the hemispheric trade agreements are broadly consistent with GATT principles. With the United States in the game thus raising the stakes, it may be more likely that regionalism will even catalyze multilateralism.

The importance of finishing the Uruguay Round cannot be sufficiently underscored. It is arguably a top priority, particularly for "global traders" such as Brazil and the United States. Yet even assuming that the Uruguay Round is successfully completed soon, what lies ahead for the GATT? Will there be another Round after several years pass? What will be its agenda and how long will it last? To the extent that one can extrapolate on this score, the answers may indicate that Rounds as we have

known them may have outlived their usefulness. At a minimum, open regionalism can facilitate the increasingly complex process of global economic integration.

Much debate centered on the process of sub-regional integration in the hemisphere and how it may inter-relate with a more encompassing WHFTA. While not unanimous, most felt that establishing some sort of coherence to the web of 22 or so sub-regional agreements should be a central objective. Some expressed concern that there lacks a structure or a clear direction on how these agreements may coalesce. Along these lines, it seems credible that the prospects of an FTA with the U.S. or docking to NAFTA could encourage a breakdown of some sub-regional arrangements. Some countries are ready to go faster than others. What will happen to Mercosur, for example, should Argentina pursue--and be invited to join--NAFTA?

A more optimistic perspective held that, in light of the competitive arrangements, the web can be linked in a consistent fashion without a master plan. A process of accretion is conceivable. Little by little coherence will likely be attained.

4. The Negotiating Issues

Part of the colloquium was devoted to an examination of the nuts and bolts of the trade negotiating issues. It is here where one gets a feel for how much freer trade might be under the banner of an FTA. Assuming that freer trade is the objective, the story is not always so encouraging.

Rules of origin (RO) is perhaps the premier example of how the rules of the game can be used to obstruct free trade. By definition a necessity in any FTA, RO nevertheless open the door to abuse. No method of calculating origin is without problems. And the number of ROs in recent FTAs is mind boggling. By one count, the Canada-U.S. FTA (CUSFTA) contains 1,498 separate RO. Extrapolating by page numbers, one arrives at an excess of 11,000 separate RO in NAFTA. These problems and this complexity provide opportunities for companies to impede liberalization and risks to governments trying to achieve greater trade. Examples--from ketchup paste to electronics--can be found in NAFTA of rules being tailored to special protectionist interests.

Once again, the importance of safeguards was underscored. The argument in support of such measures is largely political rather than economic. Without safety valves, the political feasibility of any trade agreement is seriously undermined. Further, while genuine safeguards which facilitate adjustment remain elusive in practice, continued pursuit of their implementation is merited in light of the alternatives.

One such alternative is the contentious U.S. "301" laws. Judging from NAFTA and the U.S. trade policy process in general, it was argued that we can expect that the "301" laws will not go away as a result of any trade negotiations. What an FTA with the U.S. can do, however, is help tighten up the rules and help reduce the need for 301 in the future. The primary vehicle here is dispute settlement (DS).

As was true in all prior colloquia, devising an effective DS mechanism emerged in the talks as a top priority. And there seems to be reason for optimism in this regard. First, it was observed that mutual interests exist for such a mechanism. For both sides, DS is helpful in resisting domestic political pressures for protection. There is also a mutual interest in transparency and setting out clear rules. For the LAC countries, there is a further interest in having a mechanism that might lessen the tendency for the stronger party to dominate.

Second, there might be at least a basis for a sort of prototype to follow as set out in Chapter 19 of CUSFTA and now extended to NAFTA as well. Initial assessments of this binding multinational review of domestic law of anti-dumping and countervailing duty action is very positive. It is also not without problems, which seem to evolve around the limited scope and authority of the panels, or conversely, the sometimes effective intrusiveness of the U.S. Congress with the help of the USTR and the U.S. Commerce Department. Political and arbitrary elements, in short, still remain.

Intellectual property rights (IPR) emerged as a controversial issue once again. One perspective saw strict IPR as obstacles to national industrial development in LAC. A second perspective viewed the absence of IPR in Brazil and elsewhere in LAC as a considerable disability for domestic firms to compete: technology lost to international competitors, rampant predatory hiring, and absence of incentives for research within firms and universities.

As regards the role of U.S. labor, a certain contradiction in conventional thought was highlighted. On the one hand, the American worker and his/her union is often chastised for being an obstacle to greater trade liberalization. Part of labor's concerns stem from predictions that NAFTA will result in lower wages for the American worker. Yet, it was argued, lower wages in the U.S. should be a concern for LAC as well, since these workers are also the consumers of the market that LAC countries hope to gain access to. Export promotion via suppression of wages is in no one's long term interest and at any level of development.

If there is a culprit in the story, look at the role of the multinational corporations and how they continue to shape the international policy and undermine the sovereignty of nation

states. In this context, the need for supranational mechanisms is readily apparent.

5. The Role of Trade Liberalization, Complementary Policies, and the State

Trade liberalization in any form needs to be viewed as a necessary though not sufficient condition for development. The welfare effects from trade liberalization by itself are small and can even be negative in certain circumstances. However, if combined with other appropriate measures, the gains can be substantial. Synergism is possible.

Trade liberalization is also a means to an end. For Brazil, as perhaps for any country, internal development is the central theme. Integration with liberalization must not jeopardize the growth of internal markets and the welfare of the people.

What are some of the appropriate measures needed to maximize chances that the desired end accrues? Two types of policies were emphasized during the colloquium. First, infrastructure development is a key: physical and human. Inadequate physical infrastructures in LAC are a drag on competition, and cause inefficient distortions. Ground transportation in LAC, as an example, tends to be more expensive than air transportation. Human capital must be upgraded in LAC as well. If anything is to be learned from the East Asian success stories, it is that a high priority on education and training works.

The second type of complementary policies is more immediate. Trade liberalization cannot be sustained if the macroeconomic situation is not brought and kept under control. Macro stability is necessary for an individual country to reap the gains from trade liberalization. It is also needed between member countries in the context of an integration arrangement.

Much debate evolved around the type of desired LAC state. The dilemma seems to be that there are pressures and needs in Brazil and elsewhere for the state to shrink on the one hand. Yet there are also needs for a more proactive government role in the trade and development process; a market-friendly state that gets out of the business of directly producing, though one that is also more active in shaping dynamic comparative advantages and enacting social policies.

To some observers, this translates into a small yet agile state. Is such an entity possible? Perhaps, though according to one perspective, possibly not so desirable. According to this view, the contemporary state in an open and stable economy by necessity has to be not only strong but also large. The Chilean state seems to fit this description on both accounts. In fact,

measured by fiscal burden, the only LAC state that is as large as the OECD states is the Chilean. And the notion that Chilean policies are largely neutral or passive with respect to trade is wrong, argued another observer.

A similar perspective noted that the conventional wisdom now prevalent in LAC regarding the state is yet another example of LAC "arriving late." While the fashion in LAC is to attack the state, we find growing use and acceptance of the state in the developed countries. True, there are some inefficiencies, and true, we need to reduce the state's activities in some realms. But, let's be realistic, and not so doctrinaire.

6. What's Next?

For Brazil, following through on Mercosur is the top priority. Mercosur conditions other developments. This is where Brazil is to establish some credibility.

Two proposals were presented to help stabilize the wide swings in macroeconomic conditions between Argentina and Brazil. First, move up the time table for Brazil's unilateral trade liberalization. This, it was argued, would temper Brazilian inflation and would help address the trade imbalance with Argentina. Second, devise a mechanism within Mercosur of cyclical compensatory duties.

What about integrating with NAFTA? Here it is more than a question of will on the part of Mercosur. An invitation has not yet been forthcoming. The relationship is a bit like two poker players who are unsure what the other has and what the other wants.

Even in the case of NAFTA, the outlines have not been completely filled in. One observer likened it to a scotch and water of unknown proportions. The scotch we know is good. What we don't know is how much water will be used to dilute it. This may merit a go-slow, wait-and-see approach for Brazil.

What is the likelihood of an invitation by NAFTA? As in previous colloquia, there were some doubts about U.S. motives to extend NAFTA. Yet, and again assuming that an invitation is desired, some basis for optimism was also provided at this juncture.

First, the doubts and specifically, three reasons why the U.S. may not be inclined to pursue expansion of NAFTA. One, the gains for the U.S. from integrating with Mexico may not be readily extrapolated to other FTAs in the hemisphere; the concern over Mexican migration is a case in point. Second, Clinton will want to differentiate his policies from that of his predecessor.

He might even be inclined to look toward Asia for further FTAs. Third, pressures from U.S. labor to abandon or at least to radically alter the format of FTAs may continue to grow.

The good news (perhaps) is that mention has been made by the Clinton administration of bilateral FTAs with three LAC countries: Chile, Argentina, and Venezuela and in that order. While perhaps not an ideal way to proceed towards a WHFTA, such talk may at least be indicative that growing U.S.-LAC economic ties will not stop at NAFTA.

Finally, it is important to remind ourselves that no matter how encouraging the policy makers and the policies may be, hemispheric integration is not a top to bottom process. It cannot be dictated from above. Rather, the first step constitutes the nurturing of trust among the private sector players. This takes time.

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LIBERALIZATION**

SEVENTH COLLOQUIUM

Trade Liberalization in the Western Hemisphere

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**IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION**

FIRST CONFERENCE

Trade Liberalization in the Western Hemisphere

United Nations Economic Commission for Latin America and the Caribbean
Avenida Dag Hammarskjöld
Santiago, Chile
May 24 - 25, 1993

MONDAY, MAY 24

08:45 Registration

09:15 Opening Remarks, Chilean Official
Nohra Rey de Marulanda, IDB
Gert Rosenthal, Executive Secretary, ECLAC

10:00 Round Table 1: "Global Issues and Hemispheric Integration"

- (1) Eliana Cardoso, Tufts University*
- (2) Stanley Fischer, Massachusetts Institute of Technology
- (3) Julio Nogués, Argentina
- (4) Robert Blecker, American University*
- (5) Paul Wonnacott, University of Maryland
- (6) Vesile Kulaçoğlu, GATT
- (7) Héctor Assael, ECLAC - Santiago

Chair: Nohra Rey de Marulanda, IDB

11:45 Coffee Break

12:00 Round Table 2: "The Role of Sub-Regional Arrangements"

- (1) Karen Mathiasen, U.S. Treasury (NAFTA)
- (2) Juan José Real, MERCOSUR
- (3) Antonio Antunes, ALADI
- (4) Fay Housty, CARICOM
- (5) Rafael Rodríguez Loucel, CACM
- (6) José Serrano, Andean Pact
- (7) Félix Peña, BID, Argentina*

Chair: Carlos Massad, ECLAC - Santiago

- 13:30 Lunch Break
- 14:30 Round Table 3: "The Role of Individual Countries"
- (1) Peter Morici, University of Maine, USA
 - (2) Edgar Dosman, FOCAL, Canada
 - (3) David Ibarra, Mexico
 - (4) Luis Carlos Bresser Pereira, Getulio Vargas Foundation, Brazil*
 - (5) Marcelo de Paiva Abreu, PUC/Rio de Janeiro, Brazil*
 - (6) Manuel Agosín, Universidad de Chile*
 - (7) Andrea Butelmann, CIEPLAN, Chile*
 - (8) Desiree Field Ridley, Ministry of Finance and Trade, Guyana
- Chair: Rosa O. Villa-Lawson, IDB
- 16:30 Coffee Break
- 16:45 Round Table 4: "Modelling the Economic Impact of Trade Liberalization"
- (1) Drusilla Brown, Tufts University*
 - (2) Clinton R. Shiells, U.S. International Trade Commission
 - (3) Raúl Hinojosa-Ojeda, University of California, Los Angeles*
 - (4) Daniel Schydrowsky, American University
- Chair: Andrés Bianchi, Banco Continental, Chile
- 18:30 Cocktail offered by Mr. Gert Rosenthal, Executive Secretary of ECLAC

TUESDAY, MAY 25

- 09:00 Round Table 5: "The Negotiating Agenda"
- (1) Carlos A. Primo Braga, World Bank (Old and New Issues)
 - (2) Heather Grant, McGovern Roine, Canada* (Dumping)
 - (3) N. David Palmeter, Mudge Rose, USA* (Rules of Origin)
 - (4) Jorge Pérez-López, U.S. Department of Labor (Safeguards)
 - (5) Charles Pearson, Johns Hopkins University* (Environment)
- Chair: Jesús Sabra, MREyC, Argentina
- 10:30 Coffee Break

10:45 Round Table 6: "The Transition and Complementary Policies for a WHFTA"

- (1) Steve Lande, Manchester Trade Ltd., USA*
- (2) David Lewis, Puerto Rico
- (3) Carlos H. Waisman, University of California, San Diego
- (4) Jorge Salazar Carrillo, Florida International University
- (5) Ken Jameson, University of Utah

Chair: Isaac Cohen, ECLAC - Washington

12:30 Coffee Break

12:45 Closing Remarks, Nohra Rey de Marulanda, IDB
Isaac Cohen, ECLAC - Washington

* Project Consultant



IDB/ECLAC Project

Support to the Process of Hemispheric Trade Liberalization

**"Trade Liberalization in the Western Hemisphere" Conference
UN ECLAC, Santiago, Chile
May 24-25, 1993**

1. Introduction

The conference was structured to address the major issues contained in the project's agenda, starting with considerations of Western Hemisphere regionalism in the context of the global economy, followed by intra-hemispheric economic relations between the U.S. and Latin America and the Caribbean (LAC). What are the roles of sub-regional arrangements and certain key individual countries in the hemispheric integration process? What might be some repercussions on these two levels from greater integration?

Modeling the effects of hemispheric integration was discussed at length, followed by critical negotiating issue concerns. Finally, important aspects on the transition towards a Western Hemisphere Free Trade Area (WHFTA) and policies designed to accompany trade liberalization were analyzed.

Two general observations regarding the overall tone of the debate merit mention. First, the diversity of perspectives was perhaps as great in this conference as in any of the prior colloquia. This is to say that skepticism and caution were more readily apparent in this forum, tending to balance out the optimism and enthusiasm. The location of the conference may have played a role in this. The net gains from linking up with the United States or the North American Free Trade Area (NAFTA) are generally perceived to be less for those South American countries which have relatively fewer trade and investment links with North America than do other LAC countries.

Among those who participated, there was a striking consistency regarding predictions on both the Uruguay Round and NAFTA. In short, the assessment has been that despite the difficulties experienced by the current GATT round and predictions of a NAFTA failure if voted on in the U.S. Congress today, both will likely be successfully completed within a year, possibly by December 1993, according to the latest predictions.

Some of this cautious optimism seems to stem from the widespread belief that a successful Uruguay Round is imperative, and a ratified NAFTA an important step forward. This common view, however, is perhaps also fueled by the widespread recognition

that failure on both trade fronts would be disastrous. Rationality presumably will prevail.

2. Regionalism and Multilateralism

Four central messages emerged. One, regionalism in principle can be compatible with multilateralism. Two, emerging integration trends in this hemisphere on balance seem to complement multilateralism. Three, open integration in this hemisphere may not be enough to avert a conflict between the two global dynamics. Four, such conflict nevertheless is not a foregone conclusion.

Regional integration, at least in theory, can serve as a catalyst towards a more liberalized and integrated world economy. By acting as a laboratory to resolve the problems that remain in the GATT, and by serving as a mechanism through which further integration can take place among certain countries while leaving the door open for others to join later, progress could be made. While it is true that NAFTA has emerged in large part as an insurance against the breakdown of the multilateral trading system and not as a vehicle to catalyze world trade liberalization, it could end up serving this latter function. The GATT accommodates regionalism in its Article XXIV, and it has often been implied that the open integration trends in the Western Hemisphere seem to be broadly consistent with the Article's intent (the rules of origin in NAFTA notwithstanding). Of course, in the short term, there is little doubt that tradeoffs are involved. The opportunity cost of focusing on one option leads to the neglect of the other. The reality is that the bureaucratic attention span is limited, and negotiating resources are finite.

Of greater and more sobering significance, however, may be the role of countries outside the hemisphere. In fact, developments outside of the hemisphere may more readily dictate the course of events. In particular, the Europe Community (EC), it was argued, shows every sign of conducting a closed bloc. Not even the Eastern European countries have been able to export readily to the EC. The great danger is that Europe will end up playing a closed market game.

This is not a foregone conclusion, however. The countries of this hemisphere can apply pressure to prevent a closed Europe. Germany may be the most accommodating in light of its global interests. Furthermore, the gains from the Uruguay Round negotiations, however modest, may contribute to avoiding a closed Europe. This means that the U.S. will likely need to make some concessions on intellectual property rights, financial services, and agriculture. Japan also needs to play a leadership role and to be reminded that a breakdown of the Uruguay Round will likely

result in an increasingly strained bilateral relationship with the United States.

The new world is not the ideal (multilateral) world, and on trade matters, the LAC countries are well behind Asia. This will be compounded, it was argued, by the strong emergence of China. Hopefully there will be room for everybody. Whether there is room depends in part on the robustness of the global economy. Here there was some disagreement on the forecasts and their interpretation. One position held that the 1990s will be a decade of chronic slow growth in the U.S. Further, the pessimistic predictions of aggregate world growth underestimate the problems for LAC countries, because those countries which are pulling up the global average, the East Asian countries, have a relatively low propensity to import LAC products.

The more optimistic perspective held that the U.S. will grow steadily, and that the growth of the world economy will be higher than it has been in large part because Eastern Europe will be entering into the picture. Furthermore, East Asian countries have been able to export in a slow world growth environment. Small countries, including LAC countries, can do so again.

Assuming the Uruguay Round is completed should there be another global forum? A Clinton Round, it was argued, would be a mistake. If anything, there should be a "GATT Effectiveness Round" which would focus on improving what has already been agreed upon in prior rounds rather than embarking on new territory.

If Europe becomes closed, what are the options? One possibility would be to extend the NAFTA (or WHFTA) into a Pacific Free Trade Area (PAFTA).

3. Hemispheric Relations

Discussions focused on individual countries and groups of countries, considering their roles in the hemispheric integration process and how they might be affected by the changes.

Moving from general observations to the more specific, two broad observations on U.S.-LAC relations emerged. One is in regards to the favorable evolution of U.S. attitudes vis-a-vis LAC. Specifically, the United States, it was observed, is no longer looking at the region to see what it can do to LAC or even for LAC, but rather what it can do with LAC.

This new attitude stems in part from the recognition of growing mutual interests between the U.S. and LAC. Among other things, this mutual interest means that LAC can play a supporting role towards alleviating sluggish U.S. growth. In fact this

belief is demonstrated by the fact that U.S export growth increased faster to LAC than to the rest of the world.

Second, two LAC perspectives vis-a-vis its trade relations with the U.S. resurfaced. The common denominator in both positions is a concern over the re-emergence of past U.S. habits vis-a-vis the region, and, perhaps more importantly, concern over the U.S. trend of creeping "back door" protectionism. Will an FTA with the U.S. actually translate into relatively free U.S. market access? There is also concern over the asymmetric negotiating strength, the conditions for membership that the U.S. will likely insist upon, and the possible loss of sovereignty that would result.

The two LAC perspectives fundamentally differ on how one should address these concerns. One favors staying at arms length from the United States in order to gain a better picture of U.S. intent by watching the development of NAFTA before committing. The other perspective is inclined to increase interaction with the United States. The best way to monitor U.S. intent and to minimize potential problems is through ongoing dialogue and initiative.

3a. Sub-regions

Hemispheric relations hinge on NAFTA. In this regard, NAFTA's impact has so far been quite favorable. It has legitimized the sub-regional arrangements and, more generally, has revitalized hemispheric GATT-consistent integration.

How might NAFTA affect the future hemispheric equation? Three broad scenarios were highlighted. The best case scenario, and perhaps the most likely, is a ratified NAFTA that is eventually extended to other LAC countries. A non-ratified NAFTA would have unthinkable consequences for Mexico in particular. The credibility of U.S. trade policy would be seriously impaired, and U.S.-LAC relations would likely suffer as well.

However, a third scenario could be the worst from the point of view of LAC (with the exception of Mexico). This would be the case of a ratified NAFTA that is not extended. This observation coincides with an often-heard assertion that an important reason for joining a Western Hemisphere free trade area stems from the high costs of not joining.

The conference dialogue focused on the most optimistic scenario. Even in this case, however, many concerns were raised regarding how best to extend NAFTA. Clearly, while NAFTA provides the template for integration in the hemisphere, it does not provide the answers as to how the hemisphere can best coalesce into something akin to a WHFTA.

Many participants expressed concern about the possible divisiveness that NAFTA expansion could have on existing sub-regional arrangements. One-by-one country additions to NAFTA may be the most feasible, though the most likely to inflict harm on the sub-regions. Some countries will be ready to accede sooner, and those which are ready should not be held back by those who are not. How can extending NAFTA occur with minimum harm to sub-regional arrangements?

Perhaps a "concentric circles" arrangement could be fashioned which would explicitly recognize the diversity among LAC countries in levels of development, economic stability, and ability to meet commitments. This could entail different rules and different degrees of commitment for the various participants: full membership into NAFTA with complete reciprocity for some, such as Chile, and association with preferential schemes for others, such as the CBI countries. Still, it is hard to envision how some sub-regional arrangements would not become casualties in the process of moving towards a WHFTA.

3b. Individual Countries

Heterogeneity characterizes the countries of the hemisphere. The most important distinctions from the standpoint of hemispheric integration include differences in economic size, level of development, and the nature of economic ties with the United States in particular. This diversity implies a large variance in country roles towards a possible WHFTA, as well as significant differences in how a WHFTA could affect individual countries.

The United States of course holds the key. A constant concern continues to be that the U.S. will not be sufficiently motivated to extend NAFTA to the rest of the hemisphere, though the official word is that the extension will be pursued once NAFTA and the Uruguay Round are completed. Nevertheless, U.S. trade relations with LAC are less important than domestic considerations and trade relations with Asia and Europe. This seems to suggest that LAC initiative will be critical.

At any rate, what is needed from the U.S., it was argued, is the articulation of a framework for hemispheric integration. An explicit recognition of the diversity in the hemisphere, ideally would evolve into the development of a menu of options to accommodate this diversity.

As the only country of the hemisphere to have successfully completed an FTA with the U.S., Canada offers some critical lessons. First, an FTA with the U.S. can represent a bargaining forum through which problems can be resolved and tensions

minimized. This is not to say that U.S. protectionism towards FTA members will disappear, but the U.S. is not a monolith. With Mexico on board working towards decreasing trade barriers, Canada's situation will be made easier. The more countries that follow, the easier it becomes.

NAFTA in fact represents an improvement over CUSFTA from the Canadian standpoint, it was argued. There has been an advance in rule making which is fundamental for Canada. In addition, it was felt that NAFTA has contributed more to Mexican-Canadian relations than anything in the prior 50 years.

Second, social sustainability aspects must be explicitly addressed. This entails both adjustment costs as well as longer term considerations, such as migration, education, and quality of life. There is a need for an open dialogue, an acknowledgement that there will be inevitable costs, and a need for policies to minimize those costs.

There is a third lesson which follows from the second. Don't oversell free trade, and don't get too ideological in the process. In Canada, there was not a proper dialogue on social sustainability. The CUSFTA agreement was oversold, and now Canada is dealing with severe adjustment costs in the context of exaggerated expectations.

Fourth, keep your options open. The new conditionalities are very much a threat--political, human rights, and environmental NTBs on the horizon. This is a game for the long term, and one that requires a multi-track strategy.

Mexico is in the unique and ambiguous position of being the only LAC country member of NAFTA. How Mexico relates to its LAC neighbors will be an important ingredient in the feasibility and desirability of a wider FTA.

Concerns were raised that Mexico's interest might not readily coincide with those of the rest of LAC. There may, for example, be an inclination on Mexico's part to try to limit further membership in NAFTA, since such expansion would tend to dilute Mexico's preferential arrangement with the U.S. and Canada. It may in fact be in Mexico's interest to establish bilateral FTAs with other LAC countries independent of NAFTA as NAFTA deepens. This could establish Mexico as a hub in the hemispheric integration process.

Two distinct positions were voiced with regards to the interests of Brazil in a WHFTA. One stance, perhaps closer to the official Brazilian position, was skeptical and cautious. First, it is very difficult to quantify a priori the gains and losses from an FTA with the U.S. for any LAC country. It was asked how beneficial such a strategy would be for Brazil given its position

as a global trader. Second, Brazil is very different from Mexico and that these differences would likely imply fewer gains and higher costs for Brazil. Fewer gains in part because market access for Brazil's more industrialized products will likely be less than for Mexico's exports; higher costs in part because trade and investment diversion would likely be greater and adjustment costs more severe.

It is also hard to conceive of how Brazil could proceed in the near term towards a trade pact with the U.S. without jeopardizing Mercosur. In addition, Mexico's macroeconomic stabilization has been a success; in Brazil this has not been the case. It is true that much has happened in terms of trade liberalization in Brazil, and with regards to Brazil's improved relations with the U.S., particularly on the multilateral level. There is always a danger, however, that tensions with the U.S. will return, and it is likely that the economic instability in Brazil will remain for some time. Perhaps Brazil would be better served if it focused on getting its domestic house in order while keeping its foreign trade options open by continuing to pursue a multilateral strategy.

Another Brazilian viewpoint argued that even though multilateralism may be more important to Brazil than it is to Mexico, Brazil cannot bring about multilateralism any more than the U.S. can. Nor can Brazil afford to be marginalized. Further, the argument that Brazil is not ready to pursue a WHFTA because of its macroeconomic instability does not hold. A commitment to a WHFTA would likely expedite stabilization. Brazil can compete. It is in the national interest, even if it's not the national position, that Brazil take some initiative on this matter.

Assuming Brazil is interested, when would it be best for Brazil to join NAFTA? A non-Brazilian perspective felt quite adamantly that Brazil should be the last LAC country in line, in part because of the political problems that could arise as a result of high adjustment costs in the U.S. after Brazil's accession to the NAFTA. Many U.S. jobs would be lost during the adjustment period, it was argued.

In direct contrast, a proposal put forth during the project's second colloquium claimed that Brazil should be next in line. Such a strategy, it was argued, would actually bring political support and perhaps a greater commitment on the part of the U.S., due to the relatively sizable gains for U.S. producers from tapping into the Brazilian market. It would also make it much more difficult for other LAC countries to remain outside.

Even so, it is widely recognized that Chile will be the first LAC country to accede to NAFTA. In contrast to Brazil, the official position in Chile is one that is very enthusiastic about such a prospect. Nevertheless, the Chilean positions presented

at the conference were much more reserved. The two major hemispheric integration options for Chile are an FTA with the U.S. and an arrangement with Mercosur.

An FTA with the U.S. could mean significant trade diversion for a country like Chile which is relatively diversified in its trading partners. For Mexico, in contrast, an FTA with the U.S. is almost equivalent to unilateral opening.

It is probably true that Chile may be assured better access to the U.S. market than would Brazil because Chilean exports are mainly primary products. On the other hand, an FTA with the U.S., it was argued, may do little to help Chile diversify its exports into more processed goods. There is also concern that the side agreements of NAFTA may dilute the benefits to Chile should it join NAFTA.

Mercosur may be more of a natural outlet for Chile's industrial products, although in principle Chile has preferred to sign agreements with Venezuela and Mexico. In addition, Mercosur's trade barriers are relatively higher than those in NAFTA, and the macroeconomic instability of some of Mercosur's members remains a concern. Perhaps the best option for Chile would be to join NAFTA while also entering into an FTA with Mercosur, thus maintaining its trade independence and obtaining some assurances of stable and diversified market access.

Finally, there seems to be a growing consensus that the smallest countries of the hemisphere, and those which have strong economic ties to North America--that is, the **Caribbean and Central American countries**--will need to be included into the hemispheric integration formula in some fashion. The costs of exclusion from "NAFTA plus" would be devastating for these countries. Nor would such costs stop at the borders. It is also in the interest of the U.S. that its poorer neighbors be brought into the development program. Finally, the political costs of the inclusion of these relatively small economies would likely be quite small for the NAFTA members.

Some of the differences in country perspectives, it was argued, can be attributed to the many uncertainties regarding NAFTA that confront LAC countries. If one could be assured that NAFTA and its extension would truly represent free trade, stable market access, and lower barriers to nonmembers, then many of the differences in perspectives would be minimized. The hemisphere needs a clearer view of the rules of the game.

4. Models

Most of the discussion focused on computable general equilibrium models (CGEs) of Western Hemisphere integration. What

purpose do they serve? What are some criticisms of the models? What are some of the findings?

Results of the CGE models for NAFTA have shown that, in the aggregate, all three countries stand to gain, though the effects will be much more substantial for Mexico. When one disaggregates some and begins to look at the distributional effects, one finds some results that may appear to be counter-intuitive, and contrary to conventional wisdom. In particular, the models' results dispute the assertion that the unskilled blue collar worker in the U.S. will be a primary loser from NAFTA. Where the greatest detrimental impact may occur, in fact, is in the agricultural sector in both the U.S. and Mexico.

These distributional findings highlight one of the merits of CGE modeling, it was argued. The models enable us to discover the links or the channels through which results are obtained, and can help us make sense of seemingly counter-intuitive results.

Take the case of the effects of trade liberalization on the unskilled laborer in the United States. The Stolper-Samuelson theorem tells us that trade liberalization will adversely affect the scarce factor. This means that in the U.S., unskilled labor should lose, and wages in these jobs should fall. Yet the models show influences which tend to offset any downward pressures on wages for unskilled labor in the United States. One salient influence is that of economies of scale which are realized not just in the export sector but also in the import-competing firms, where the scarce factor is used intensively.

CGE modeling hence lets us perceive complex interdependencies. With such models, we have the capacity to go beyond trade liberalization to assess deeper integration, important areas of labor, investment, and the environment. In terms of their application to NAFTA and beyond, the models thus let us get at the asymmetric nature of the integration process, and to identify policy options. In light of the trends towards deeper regional integration, CGE models, it was argued, will only increase in importance as an analytical tool.

What are some of the criticisms? Fundamentally, results can be quite arbitrary and are susceptible to unrealistic assumptions, such as the equilibrium of exchange rates. Favorable results tend to be built into the models through unrealistic initial conditions. Furthermore, while the models may capture some complex interdependencies, there is much that eludes quantification. How does one model "animal spirits?" Hence there is a need for independent empirical verification.

Marginal changes in an initial condition, it was argued, can make major changes in results, and only the builders of the model knows what drives it. In other words, CGE models are not user

friendly.

Finally, there is no temporal dimension to these models. There is no transition period from one "equilibrium" to another, and hence no adequate estimation of adjustment costs. There is no allowance for the possibility that a costly adjustment period could set in motion a less favorable development path.

In general, and the criticisms notwithstanding, there was a sense that the models have an important supportive role to play. However, it was observed that we must not underestimate the importance of our general knowledge on the subject which can serve as a basis for broad action. We know, for example, that those economies which have integrated into the world economy have done better than those which have not.

Two alternative (non CGE) models of North-South integration focusing on capital flows were presented. The "traditional" model is one that depicts a positive sum gain for both sides. The Northern economies are Keynesian (that is, demand driven); the Southern economies are characterized by supply-side constraints. The North benefits from a trade surplus with the South. The South sustains trade deficits with Northern capital. Wages rise in the North. Job creation occurs in the South.

Such a model, it was argued, may not be as applicable today as in the past, in part due to the changing nature of capital flows. This is exemplified by the increasingly relevant scenario of capital flowing to the South in the form of relocated foreign direct investment. Ultimately, this capital flow could undermine the Northern economies' ability to compete, and trade surpluses in the North could turn into trade deficits in the longer term. In addition, these investment flows could exacerbate regressive income distribution trends in the North which in turn would adversely affect aggregate demand. The reduction in demand in the North (and with it perhaps market access) in turn could undermine one of the main potential attractions of a North-South FTA from the South's perspective.

5. Negotiation Issues

Deepening integration is the name of the game, and rule making is the most important aspect of trade negotiations.

The liberalization of services is, like liberalization in goods, welfare enhancing. The strengthening of intellectual property rights, in contrast, is not necessarily welfare improving.

Emergency safeguards must play a critical role in supporting tariff phase-outs and, in general, in facilitating the transition

during trade liberalization. The liberalization process in the context of an FTA is a bit like a trip down the Niagara Falls. The waters before and after the falls are calm. It is the transition that we need to worry about.

Antidumping (AD) and countervailing duty (CVD) actions will continue in any FTA with the United States. The qualified good news is that something akin to Chapter 19 on dispute settlement of the CUSFTA has been adopted in NAFTA. With such a mechanism, all parties will have equal and consistent review of each trading partner's AD and CVD actions. As with Mexico, however, this mechanism will likely imply some changes in domestic laws and standards in LAC countries which join an FTA with the United States.

Rules of origin (RO) are necessary in any regional FTA, though they are not necessarily liberalizing. The devil is in the details and there is no shortage of details in the NAFTA text on ROs. There may be up to 11,000 ROs in the NAFTA text, many of which seem to accommodate more parochial interests, often serving to encourage trade diversion over trade creation.

The interface between environmental issues and trade is multi-faceted, short on adequate study, and subject to a great deal of misunderstandings and controversy. The consensus of existing studies tells us that differences in environmental standards have a modest impact on trade patterns. This would seem to suggest that the case for harmonization may not be very compelling.

This is not to imply, however, that upgrading environmental standards in a LAC country would not be welfare enhancing for that country. Environmental degradation is a welfare distorting externality at any level of development. Keeping the environment on the negotiating table can be in the interests of all. On the other hand, attempting to harmonize too much, too soon, may not be in any member country's interest. At any rate, the intensity of the debate in NAFTA has been a function in part of a certain uniqueness of the situation--a country bordering the U.S.--and is not likely to be replicated in an extension of NAFTA.

6. Sequencing and Hemispheric Integration

To what extent can issues of trade liberalization and FTAs be separated from domestic macroeconomic conditions and cross-country macroeconomic coordination? Can trade liberalization come first, and macro coordination or even macro stability come later?

One perspective argued yes. In essence, it was an argument expressing preference for hemispheric FTAs over deeper forms of integration, in part because the former presumably is more

feasible. An FTA, it was argued, has clear advantages in implementation over a common market because a trade agreement does not need macro coordination to accrue benefits. In particular, trade and monetary integration can be pursued separately, and trade should come first. This is particularly important in the context of hemispheric asymmetry.

There are lessons to be learned from Europe, it was contended. Free trade within the EC began despite a lack of fiscal and exchange rate coordination. The simple objectives of shallow integration, at least at first, are much more constructive than trying to be overly ambitious.

Other participants felt differently. Trade and macroeconomics can be separated in principle, though not in practice. Today, the "beef" is beyond the border, shallow integration. We need to have progress on the deep integration issues, and to do so, one cannot separate trade from macroeconomic issues such as exchange rates.

Perhaps the distinction between macroeconomic coordination and macroeconomic stability helps clear the debate. Broad macro stability is sufficient. Macro coordination invites trouble.

Another sequencing question is how does political liberalization interact with trade liberalization, and is there an optimal sequence in this interaction? Three scenarios exist in the hemisphere. The optimal scenario, it was argued, is the case of Chile. Here trade liberalization occurred first, and political liberalization ensued. Second, a "not too unfavorable" scenario is the case of Venezuela where the sequence has been reversed.

The third scenario is simultaneous political and trade liberalization. This is what most of LAC is currently doing. In theory at any rate, it is also potentially the worst case scenario. Simultaneous liberalization enables the mobilization of the adversely hit sectors and hence with it, possible blockage or even overturn of one liberalization or the other. What is comforting is that this blockage is not happening. Simultaneous liberalization has so far been rather stable for LAC.

Nevertheless, institutional reforms of the political system in LAC may be needed to minimize possible problems along these lines. Recommended reforms include a greater emphasis on the parliamentary system, more effort towards eradicating gridlock between executive and legislative branches of government, and a greater and more independent voice for the judiciary.

**IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION**

FIRST CONFERENCE

Trade Liberalization in the Western Hemisphere

United Nations Economic Commission for Latin America and
the Caribbean
Avenida Dag Hammarskjöld
Santiago, Chile
May 24 - 25, 1993

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**IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION**

SECOND CONFERENCE

Trade Liberalization in the Western Hemisphere

Inter-American Development Bank
Andrés Bello Auditorium
1300 New York Avenue, Northwest
Washington, D.C.

Monday, November 1

08:00 Registration

09:00 Opening Remarks, Enrique Iglesias, President, IDB
Gert Rosenthal, Executive Secretary, ECLAC

10:00 "From Subregional Arrangements to a Western Hemisphere Free Trade Area"

by Sidney Weintraub, University of Texas, Austin/CSIS*

Discussants:

José Antonio Ocampo, Minister of Agriculture, Colombia
Andrés Dauhajre, Fundación Economía y Desarrollo, Dominican Republic
Clark Reynolds, Stanford University
Ronald J. Wonnacott, University of Western Ontario, Canada

Chair: Nohra Rey de Marulanda, Manager, IDB/DES

11:30 Coffee Break

* IDB/ECLAC Project Consultant

- 11:45 Round Table on NAFTA
- (1) Guillermo Aguilar, SECOFI, Mexico
 - (2) Michael Hart, External Affairs, Canada
 - (3) Carmen Suro-Bredie, USTR
- Chair: Arturo Fajardo, Minister of Foreign Affairs, Guatemala
- 13:00 Lunch Break
- 15:00 "Modelling the Economic Costs and Benefits of Trade Liberalization"
- by Robert Stern, University of Michigan*
Drusilla Brown, Tufts University*
- and Sherman Robinson, Council of Economic Advisors*
Raúl Hinojosa-Ojeda, Visiting Scholar, IDB*
- Discussants:
- Alejandro Hernández, CAIE, ITAM, Mexico
Inés Bustillo, ECLAC-Washington
- Chair: William Cline, Institute for International Economics
- 16:30 Coffee Break
- 16:45 Round Table: "The Negotiating Agenda"
- (1) Rules of Origin: N. David Palmeter, Mudge Rose Alexander & Ferdon*
 - (2) Dispute Settlement: Kathleen Patterson, Whitman & Ransom*
 - (3) AD/CVD: Ronald Cass, University of Boston School of Law
 - (4) Environment: Rodrigo Prudencio, National Wildlife Federation
 - (5) Labor: João Paulo Candia Veiga, Central Unica dos Trabalhadores, Brazil
- Chair: Jorge H. Gouvea Vieira, CAEMI, Brazil
- 18:00 Reception Offered by the President of the IDB

Tuesday, November 2

09:00 "Economic Integration in the Western Hemisphere"

by Jeffrey J. Schott, Institute for International Economics

Discussants:

Robert Pastor, Emory University*
Shujiro Urata, Waseda University, Japan
Ronald Sprout, ECLAC-Washington

Chair: Ambassador Richard Bernal, Jamaica

10:30 Coffee Break

10:45 Round Table: "Trade Strategies for Individual Countries"

- (1) Chile: Juan Salazar, Advisor, Ministry of Finance
- (2) Brazil: Alvaro Zini, Visiting Scholar, IDB
- (3) Trinidad & Tobago: Winston Dookeran, CIA, Harvard University*
- (4) Canada: Alan Rugman, University of Toronto

Chair: Jorge Gallardo Zavala, Project Advisor

12:15 Lunch Break

14:00 "Conditions for Maximizing the Gains from a Free Trade Area"

by Anne O. Krueger, Duke University*

Discussants:

Claudio González Vega, Ohio State University
Hellen Shapiro, Harvard Graduate School of Business

Chair: Nancy Birdsall, Executive Vice-President, IDB

15:30 Coffee Break

15:45 "North-South Trade Relations in the Americas: The Case for Free Trade"

by Rudiger Dornbusch, Massachusetts Institute of Technology*

Discussants:

Michael Mussa, International Monetary Fund

Dominick Salvatore, Fordham University

Moisés Naim, Carnegie Endowment for International Peace

José Tavares de Araujo, Jr., IDB

Chair: Peter Hakim, Inter-American Dialogue

17:15 Closing Remarks, Nohra Rey de Marulanda, IDB
Isaac Cohen, ECLAC-Washington

IDB/ECLAC Project

Support to the Process of Hemispheric Trade Liberalization

**"Trade Liberalization in the Western Hemisphere" Conference
IDB, Washington, D.C.
November 1-2, 1993**

This was the second and final conference for the project. As with the first conference, this forum served as a means to address the salient issues covered over the duration of the project. We briefly review these issues below.

NAFTA

The November 17 vote in the U.S. Congress looms and uncertainties were expressed as to the outcome. Consensus obtained on the importance of passing NAFTA and on the distortions of the debate in the United States. NAFTA's merits draw from the anticipated benefits in the aggregate to the three member countries, but are not limited to these benefits. NAFTA has very important repercussions for the whole hemisphere and even beyond. The public debate within the U.S. all too often has been much too narrowly focused on jobs and economics. Furthermore, many of the contentions of its critics can be turned on their head: NAFTA is more likely to be part of the solution to their concerns than part of the problem.

In addition, there is more to the story than the gains from passage of NAFTA. In particular, failure of NAFTA could set in motion some highly deleterious consequences. Perhaps the most pessimistic scenario voiced at the conference was the following: failure of NAFTA would trigger a failure at the Uruguay Round. The markets will view the situation as such on November 17 in the event that NAFTA is voted down, and hence both the Mexican and U.S. stock markets will crash. Mexico will also immediately devalue its currency under the cover that it is the U.S. to blame.

Transition to a WHFTA and the Role of Subregions

Hemispheric-wide integration remains either a dream (in the form of the Enterprise for the Americas Initiative) or at best is very weak (ALADI). Hence it is important that one priority over the coming decade be that the integrity of the subregional arrangements remain intact. This will be highly challenging as hemispheric integration forces are also likely to pull on the subregional fabric. This will particularly be so if countries begin to access to NAFTA one at a time, and if countries continue to sign trade agreements with more than one group of countries. In this vein, one position advocated that countries not be allowed to join more than one sub-regional integration arrangement.

Some discussion emerged over the issues of deepening the integration process and its relation to widening the process. It was argued that both could occur, though consideration of sequencing may be merited. One perspective held that deepening among the subregions might very well be the priority; in essence, if regionalism and subregionalism is to be made worthwhile, then the process must be more than merely reducing trade barriers at the borders.

Domestic Preparation and National Strategies

While diversity prevails among the countries of Latin America and the Caribbean (LAC) on many fronts, one important aspect of this diversity is the degree to which countries are ready to engage in an FTA with the countries of NAFTA. Chile may be one extreme; Brazil the other. Still, with the exception of Chile and possibly one or two others, there is much that can be done and needs to be done on a domestic level throughout LAC.

This includes a fairly familiar package of policy prescriptions to ensure stabilization and to maximize economic growth and includes: reducing inflation in large part through the reduction of fiscal deficits; maintaining realistic real exchange rates; unilateral trade liberalization; and privatization. Longer term considerations need to include a focus on investments in

physical and human capital; the latter important for increasing competitiveness and growth as well as for addressing the gross disparities in the region's distribution of income and wealth.

Modeling the Effects of a WHFTA

Preliminary results from two CGE modeling efforts on the effects of hemisphere-wide FTAs were provided. Some of the findings included the following: (1) the gains from an FTA with NAFTA countries for other LAC countries tend to be positive in the aggregate albeit relatively small; (2) returns to both capital and labor tend to increase with an FTA, contrary to the Samuelson-Stolper theorem, and the case of Chile notwithstanding; (3) disaggregating the effects of freer trade by sector reveals a widespread diversity of the effects by sector; (4) NAFTA seems to be by and large trade creating, and will likely benefit all three member countries (and the sucking sounds metaphor of employment and firms moving south is off base); (5) there is not likely to be any significant migration from Mexico to the U.S. in the short run due to NAFTA; over the longer term, NAFTA is likely to contribute to the alleviation of such flows.

Negotiating Issues

The problems inherent in rules of origin in any FTA point to the importance of simultaneously focusing on multilateral trade

liberalization at the GATT. Rules of origin tend to be a "happy hunting ground" for special interests and hence provide a vehicle for trade protectionism through the back door.

There is a need for finding the strongest dispute settlement possible while at the same time protecting sovereignty. One perspective argued that the evolution of the U.S. trade agreements--from the Israel-U.S. FTA, to CUSFTA, to NAFTA--is characterized by growing complexity and inflexibility, and that these traits are reflected in the evolution of the dispute settlement measures.

Problems in anti-dumping and countervailing duties are likely to continue in the presence of a NAFTA and a wider WHFTA. Consensus in both areas continues to elude trade negotiators in all trade forums; in essence, progress has amounted to an agreement to agree on the need for improvements. The lack of progress is due in part to the inability to even agree on the purpose of these regimes as well as difficulties inherent in the implementation of such regimes.

As regards environmental issues, it was argued that NAFTA is a blueprint, but more than that, a "living document." In this respect, and from the perspective of at least some of the environmental community, NAFTA is just the beginning of a fruitful dialogue on the interface between trade and the environment.

Western Hemisphere Regionalism in the World Economy

Open regionalism need not be an oxymoron. The impact of regional trade agreements on the world economy is dependent on how these trade pacts are done. And there are indications that the sub-regional agreements in the Western Hemisphere--NAFTA the most significant in terms of economic size and impact--are emerging as relatively compatible with a liberalized world trading system. It is important that trade liberalization proceed simultaneously on three fronts: unilaterally, regionally, and multilaterally.

**IDB/ECLAC PROJECT
SUPPORT TO THE PROCESS OF HEMISPHERIC TRADE
LIBERALIZATION**

SECOND CONFERENCE PARTICIPANTS

Trade Liberalization in the Western Hemisphere

Inter-American Development Bank
Andrés Bello Auditorium
1300 New York Avenue, Northwest
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November 1 - 2, 1993

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