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REFLECTIONS ON WAYS TO APPROACH THE TOPIC OF THE
FREE TRADE AREA OF THE AMERICAS

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SUMMARY

The Heads of State and Government of the Hemisphere, meeting in Miami in December 1994, resolved to begin immediately to construct the Free Trade Area of the Americas. This task is to be carried out in the current context of widespread implementation of trade liberalization policies, growing similarity in terms of macroeconomic management and an increasing number of integration agreements, including agreements between developed and developing countries.

This situation gives rise to many conceptual difficulties, such as compatibility between integration agreements and trade globalization, the potential division of the world economy—or even the hemispheric economy—into blocs, the prerequisites for achieving convergence of the great number of existing agreements, the dilemma of whether to deepen integration within Latin America and within the Hemisphere simultaneously or consecutively, and the possible effects of a hemispheric free trade area on the current subregional integration processes. Lastly, the difficulties experienced recently by some economies in the region prompt the question as to how viable the Free Trade Area of the Americas will be without prior consolidation of the adjustment and stabilization processes that a number of Latin American countries are engaged in.

Some actual or potential obstacles to be overcome that are mentioned are the multiplicity of integration agreements, their bilateral bias, their generally limited scope and their differences as regards rules, modalities and pace of tariff reduction; in addition, there are disparities as regards economic performance and the uneven impact of macroeconomic policies on the various segments of production systems.

In view of these considerations, the basic task of the ministers responsible for trade would be to draw up a "navigational chart" setting out minimum requirements and concrete measures for establishing the Free Trade Area of the Americas. Some requirements mentioned are broad liberalization of markets, both from the viewpoint of goods and services traded and from the viewpoint of the countries participating; the development of precise, harmonized and transparent rules on origin, safeguards, countervailing duties and dispute resolution; the extension of national treatment to intraregional and intra-hemispheric investment; acceleration of the learning process and the restructuring of industry in all countries through the dissemination of technology by various means; and consolidation of the trends towards growing stabilization observed so far in the 1990s.

In the first place, the scope and duration of the transition processes must be defined; then there should be a stage in which more or less standardized trade rules are adopted, on the basis of the agreements reached in the context of the Uruguay Round and NAFTA. The second stage would concern the liberalization process as such. Lastly, a programme of work is outlined involving activities relating to clarification and research, awareness-raising and negotiation and consultation, with a view to fulfilling the commitments made at the Summit of the Americas.

1. Introduction

1. On 11 December 1994, the Heads of State and Government of the Hemisphere meeting in Miami issued a Declaration of Principles and a Plan of Action in which they resolved "to begin immediately to construct the *Free Trade Area of the Americas*" and furthermore "to conclude the negotiation ... no later than 2005". They also agreed that concrete progress towards the attainment of that objective would be made by the end of this century.
2. At the same time, they adopted a set of proposals to facilitate the gradual convergence of existing economic integration agreements. To that end, they directed the OAS Special Committee on Trade, with the support of IDB, ECLAC, and other specialized regional and subregional organizations, to continue studying economic integration arrangements in the Hemisphere and to prepare a report on its work. They also agreed to hold two meetings of ministers responsible for trade in order to monitor the fulfillment of that mandate, the first in June 1995 and the second in March 1996, with a view to initiating a process that will culminate in 2005 in the attainment of the desired goal.
3. At the present time, the OAS Special Committee on Trade is engaged in carrying out the tasks entrusted to it by the Plan of Action and is working with the Government of the United States of America in making preparations for the first of the above-mentioned meetings. It can be assumed that at this meeting the ministers responsible for trade will need to prepare a "navigational chart" to direct the course of events from the prevailing situation in mid-1995 to the conditions that will have to be met in order to permit laying the foundations for a hemispheric free trade zone by the year 2005. It can therefore also be assumed that the preparation of a proposal for such a blueprint should be the main task of the Special Committee, as well as of the organizations that support its work.
4. Fulfilling this undertaking certainly poses enormous challenges, both of a conceptual and of a practical nature. The Heads of State and Government themselves recognized that "economic integration and the creation of a free trade area will be complex endeavours, particularly in view of the wide differences in the levels of development and size of economies". In order to create the above-mentioned "navigational chart" it is necessary, **first**, to endeavour to elucidate the nature and scope of the conceptual difficulties involved in creating a hemispheric free trade zone; **second**, to identify the actual or potential obstacles that would hinder or prevent fulfillment of the undertaking in question; **third**, to determine the minimum requirements for making progress towards the goal set; **fourth**, to list the concrete measures that need to be taken at the national, subregional, regional and hemispheric levels to meet these requirements; and **fifth**, to prepare a proposal on support activities that can be begun now in areas such as upgrading of the information base, creation of consultative authorities, and the establishment of programmes of cooperation for countries that require them.

2. Conceptual difficulties

5. Although the Latin American and Caribbean countries have a long experience in connection with integration efforts, four new phenomena have recently emerged on the regional scene. In the first place, when countries now grant each other reciprocal trade preferences, they do so in a context of widespread implementation of trade liberalization policies designed to improve their linkages with the global economy. This situation departs from the experience of prior decades, when such preferences were granted within a framework of high tariff barriers designed to foster the development of import substitution industries.

6. Secondly, there has been an increasing number of integration agreements, both bilateral and multilateral, some of limited scope and others covering a broad spectrum. This means that there are countries that have entered into multiple agreements whose rules, requirements and obligations are not always the same. In the third place, when the North American Free Trade Agreement (NAFTA) takes effect, it will break the past taboo for economically weak or relatively less developed countries in seeking integration agreements with economically stronger or more developed countries, since such agreements would presumably result in an uneven distribution of the benefits to be gained from the process. Lastly, the integration agreements have been entered into in an increasingly similar context in terms of macroeconomic management, which has significantly facilitated their implementation.

7. The debate as to whether there might be a conflict or a complementarity between integration agreements and globalization of trade—or whether free trade zones, common markets and customs unions obstruct or promote an open and transparent system of world trade—is not new. There was a similar debate, for example, in the 1970s and 1980s over opposing images of the European Community as a "fortress Europe" or as an "engine of the world economy". What was involved was another way of posing the question of whether the Community would lead to an increase or a decrease in trade, not only with respect to its member countries, but also with respect to the global economy.

8. Today, all the countries of the Hemisphere declare that they are committed to achieving the primary objectives of the Uruguay Round, and in the Plan of Action adopted in Miami they also reaffirm their "strong commitment to multilateral rules and disciplines ... and to the full and rapid implementation of the Uruguay Round ... and other trade arrangements that are consistent with the provisions of the GATT/WTO and that do not raise barriers to other nations". Nevertheless, in some circles the idea persists that a hemispheric free trade zone is a less than ideal solution compared with an open and transparent system of trade—the perhaps Utopian equivalent of a worldwide free trade zone—but preferable to having to face unilaterally an international economic system divided into large groupings of countries.

9. Put bluntly, the best option for all parties would be a world with few or no trade barriers; paradoxically, if a group of countries grant one another reciprocal trade preferences, they may be contributing to make such a desirable state of affairs a more remote possibility. The project of setting up the *Free Trade Area of the Americas* should be therefore compatible, or at least as compatible as possible, with full multilateralism.¹

¹ The reconciliation of integration agreements with international trade rules is of course not a new subject. It has already been dealt with in article XXIV of the General Agreement on Tariffs and Trade.

10. The problem of achieving compatibility between globalization and regionalism in order to avoid a division of the world economy into blocs also occurs within the Hemisphere, since several groupings of countries already exist there —NAFTA, MERCOSUR, the Caribbean Community, the Andean Group, the Central American Common Market— which could potentially either obstruct or promote the achievement of a hemispheric agreement; this means that they could promote either fragmentation or integration within the Hemisphere or within Latin America and the Caribbean, as the case may be. Linked with this dilemma is the phenomenon of the multiplicity of agreements entered into by many countries.

11. In fact, the large number of agreements in force —some of which simply cover preferential tariffs for a limited number of goods and services, while others envisage the establishment of a common market within a fixed time frame— not only raises administrative difficulties for the countries concerned, but also has the effect of raising the cost their economies must bear owing to polarization of investments and conflicting agreements. Just as it would be conceptually plausible to promote the eventual convergence of all these agreements if they were based on common rules and regulations, if similar tariff reduction periods were provided for, and if there were a broad trade liberalization, it is entirely plausible that the opposite would occur in the absence of these conditions. The persistence of unequal tariffs on imported goods originating in third countries represents an additional complication in those agreements —the majority— which call for trade liberalization without tariff harmonization.

12. The possibility of making progress in the simultaneous implementation of multiple integration agreements raises still another conceptual problem: whether to deepen integration within Latin America before extending its scope to include other partners in the Hemisphere, or whether to seek progress on both fronts in a parallel manner. The same alternatives will of course also exist within the region, as is demonstrated by the member countries of the Southern Common Market, which are seeking ways to deepen their own process of integration among the signatories of the Treaty of Asunción and, at the same time, explore avenues to allow other South American countries to become involved in that process without necessarily becoming full members.

13. In the same vein, it will be necessary to anticipate the difficulties that will arise if some of the countries that make up part of a formal subregional integration process choose to seek unilateral linkages with the Hemispheric Free Trade Zone instead of entering into joint negotiations with the rest of the countries in their subregional grouping. In extreme cases, the lure of joining NAFTA might work to the detriment of existing regional consolidation processes, especially in the case of the Central American Common Market, the Caribbean Community and MERCOSUR.

14. As regards the adoption of integration agreements among countries with different levels of development, even though there has been some experience both among developed countries (European Union) and developing countries, the creation of broadly based markets between the one group and the other is practically unknown. The negotiations between Mexico and its two northern neighbours bring new dimensions to the subject. Thus, the traditional fears expressed by producers in economically less developed countries, who claim that they are unable to compete with their counterparts in economically more advanced countries —supposedly with superior access to organizational and management techniques, technology and greater economies of scale— can be seen in a different light when the latter express their fear of not being able to compete with the former, who supposedly benefit from lower manpower costs and less stringent regulations with respect to issues such as labour and the environment.

15. In any case, although trade liberalization has forced Latin American and Caribbean producers to begin confronting international competition, it cannot be denied that there is a problem connected with the inequality of opportunity to realize the potential benefits of integration, whether it be to attract new investments in the broader market or to ensure that integration leads to an increase —not a decrease— in trade.

16. In this connection it may be recalled that, in the context of NAFTA, Canada and the United States allowed Mexico time to undertake a more gradual —although clearly defined— process of tariff reduction in the case of many "sensitive" products. This concession gives further justification to the concerns of small economies based on agricultural exports about entering into integration agreements on equal terms with the region's more advanced economies, especially with the United States and Canada.

17. Lastly, as has already been stated, advances made in recent years regarding integration agreements have been achieved within a context of increasing similarity in both the content and the scope of the economic policies applied as well as in economic performance. Very recent events that have interrupted this trend —the devaluation of the Mexican peso and the Brazilian real, the financial difficulties in Argentina and the growth of the fiscal deficit in Costa Rica— have created a certain amount of tension between those countries and their main trading partners, which has resulted in modifications of previously agreed common tariffs and has threatened to lead to restrictions on intraregional trade.

18. The conceptual problem that arises involves determining whether it is feasible to move towards the creation of a hemispheric free trade zone if there is not simultaneous progress in consolidating the adjustment and stabilization processes that continue to affect the economies of many countries in the region. To all appearances, a stable, predictable and coherent macroeconomic environment is a prerequisite for attracting new investment to the enlarged area. In any case, the possibility of the free trade zone being restricted to those countries that have come closest to attaining a sustainable macroeconomic equilibrium runs counter to the intention expressed at the Hemispheric Summit that the Free Trade Area should encompass all parties. The content and scope of macroeconomic management in each country are therefore not unrelated to the integration agreements under discussion.

3. Actual and potential obstacles

19. In the region today there is a situation that would in fact be a hindrance to the future establishment of the *Free Trade Area of the Americas*, rather than facilitate it. Some major features of the new context are the multiplicity of integration agreements, their pronounced bilateral bias, and the fact that many of the arrangements in question are limited in scope and that their rules and modalities differ, as do their pace of tariff reduction, which vary from one situation to another. Recent disparities as regards economic performance and the implementation of relevant policies, particularly in the exchange and tax areas, could also be an obstacle to the development of a free trade area. In some instances, subregional integration agreements could conflict with new agreements that are regional or hemispheric in scope.

20. Although there have been productivity improvements recently in Latin America and the Caribbean, the impact that the implementation of macroeconomic policies has had on the various segments of production systems has differed greatly. Except in the case of sectors that process natural resources, there are relatively few firms in the region that are on the technological cutting edge internationally. Moreover, although many large firms, and even medium-sized ones, have attained international competitiveness, they are by far outnumbered by firms that would be unable to face stiffer competition in an enlarged market.

4. The minimum requirements

21. An analysis of the conceptual challenges briefly described above and of ways of meeting these challenges should be the starting-point for the ministers responsible for trade in drawing up a "navigational chart". Such an analysis will reveal that the content and scope of the integration agreements entered into in the region will have a decisive impact both on the degree of compatibility between globalization and regionalism and on the extent to which parallel progress can be made in implementing multiple integration agreements.

22. Existing integration agreements (including bilateral, trilateral and subregional agreements) will have to be adjusted so as to ensure that they meet a set of minimum requirements. These minimum requirements could cover four topics: i) the thematic coverage of the integration process, ii) the degree of intra-hemispheric liberalization, iii) the degree of standardization of the rules governing the free trade area, and iv) the criteria for identifying the transition processes for progressing from the current situation to the stage of hemispheric integration. The proposal put forward recently by ECLAC on what has been referred to as "open regionalism" contains an initial attempt to lay down such requirements.²

5. Concrete measures

23. Some of the chief desirable conditions and characteristics for setting up a hemispheric free trade area are as follows: broad liberalization of markets in goods and services that are now based on the drawing-up of negative lists of excluded categories, instead of positive lists of categories permitted in the context of free intraregional trade; broad liberalization of markets from the perspective of countries, with a view to gradually expanding the geographical coverage of the integration agreements and harmonizing them; and the development of established, precise and transparent rules on origin, safeguards, countervailing duties and dispute resolution, preferably compatible with the rules adopted within the context of the Uruguay Round.

24. Furthermore, it would be desirable to promote the extension of national treatment to intraregional and intra-hemispheric investment, by means of the inclusion of clauses or the conclusion of agreements to protect such investment and avoid double taxation; ensure that decisions on action are taken on the basis of negotiations or prior consultation, in order to forestall the possibility of escalations of reprisals; convert the harmonization of rules into a basic component of the integration process, and set up flexible sectoral machinery for the benefit of firms wishing to avail themselves of the potential advantages of integration, with a view to facilitating regulation of the transfer of technology.

25. In general, it will be necessary to focus on finding ways of speeding up the learning process and the restructuring of industry in all countries, particularly countries where circumstances would prevent them from making full use of the potential of a future *Free Trade Area of the Americas*. The dissemination of technology must therefore be promoted at the regional level by various means, such as greater mobility of skilled manpower among firms, reciprocal investment, joint use of infrastructure,

² ECLAC, Open regionalism in Latin America and the Caribbean: economic integration as a contribution to changing production patterns with social equity (LC/G.1801/Rev.1-P), Santiago, Chile, September 1994.

production of inputs with the potential to be used in a number of industries, the adoption of new technological systems, and the exchange of technical information, experience and opportunities.

26. With regard to the coordination of macroeconomic policies, it has been demonstrated in practice that progress can be made in trade integration without there necessarily being any such coordination. At the same time, where conditions that lead to instability have arisen, the resulting situation has disrupted the climate of the integration processes and has in some cases given rise to restrictions on the implementation of preferential agreements. In order to make progress in the development of a hemispheric free trade area, it is therefore essential to continue consolidating the trends towards growing stabilization observed in the early 1990s, which were temporarily interrupted in some countries in the first half of 1995.

27. In short, the trade rules to be adopted must have a lowest common denominator, represented by the outcome of the Uruguay Round. Progress must therefore be made on the basis of those rules in respect of which more detailed agreements exist in the Hemisphere, with emphasis being placed on what was agreed upon in the context of NAFTA on such matters as rules of origin and dispute resolution. With regard to such other matters as countervailing and antidumping duties, even though the difficulties involved are enormous, an endeavour could be made to achieve greater progress than that resulting from the Uruguay Round and NAFTA negotiations.

28. Lastly, the scope and duration of the transition processes should be clearly defined. It is therefore necessary to establish clear criteria to determine their characteristics. In particular, guidelines should be set to determine the form that the geographical broadening of the liberalization of trade in goods and services should take. In turn, different stages should be set for the adoption of agreements. Since the liberalization process normally requires a certain amount of regulation in order to be channelled properly, consideration could be given to adopting rules (either common or with some degree of standardization) as a first step.

29. The second and more complex stage could involve the liberalization process as such. At this stage, two types of scheduling might be considered. The first would involve the programme of geographical broadening of trade liberalization that would apply to every country (or to certain subregions), for which coordination would be necessary to reduce the costs and difficulties resulting from the adoption of overlapping agreements. The second type of scheduling would involve the transition process—gradual liberalization—that would be implemented in respect of each instance of geographical broadening agreed to by each country (or subregion), whose time frame, in accordance with the GATT rules on trade in goods, should normally not exceed 10 years.

6. Programme of work

30. On the basis of the above reflections, it is possible to outline a full programme of activities on the national, subregional and hemispheric levels. In specifying the minimum requirements for achieving the gradual creation of a hemispheric free trade zone, it would be appropriate to adopt a programme of work to lay the foundation for the eventual fulfillment of this goal. In the existing integration agreements, convergence should be sought with respect to such matters as the extent of coverage, the pace of tariff reduction, rules—especially rules of origin and rules on safeguards and dispute resolution—and other controversial matters relating to intellectual property, labour conditions and environmental requirements.

31. It would also be advisable to analyze the formal procedure for the gradual establishment of the *Free Trade Area of the Americas*, a task that would include examination of a wide range of alternatives, from the option of designating one country as an "axis" of the free trade zone to the option of choosing NAFTA as the preferred mechanism for the other countries to join. Although many public statements have been made concerning the possible advantages and disadvantages of each option, no consensus has been reached on the matter, either among the countries of the region or in the United States.³

32. The programme of work involves activities relating to clarification and research, awareness-raising, and negotiation and consultation. At the current stage, it is necessary to improve the existing information networks and to set up new forums for consultation at the government, business and academic levels. It will also be necessary to improve the means of disseminating public information on the potential contribution of hemispheric integration, the steps that are being taken to fulfil the commitments made at the Summit of the Americas, and the obstacles that stand in the way of the achievement of the goals set. This last point is justified even more in the light of the political resistance that NAFTA —and its potential expansion— have aroused in some influential circles in the United States itself and, of course, also in the countries of the region.

³ On the other hand, Canada has a well-known position on the matter: it has stated that it is strongly in favour of using NAFTA as the mechanism for the other countries to join.