Paths to the Free Trade Area of the Americas

Richard L. Bernal
January 15, 1997

Policy Papers on the Americas

Paths to the Free Trade Area of the Americas

Richard L. Bernal

Policy Papers on the Americas
Volume VIII Study 2

January 15, 1997

CSIS Americas Program

The Center for Strategic and International Studies (CSIS), founded in 1962, is an independent, tax-exempt, public policy research institution based in Washington, DC.

The mission of CSIS is to advance the understanding of emerging world issues in the areas of international economics, politics, security, and business. It does so by providing a strategic perspective to decision makers that is integrative in nature, international in scope, anticipatory in timing, and bipartisan in approach. The Center's commitment is to serve the common interests and values of the United States and other countries around the world that support representative government and the rule of law.

* * *

CSIS, as a public policy research institution, does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this report should be understood to be solely those of the authors.

This study was prepared under the aegis of the CSIS Policy Papers on the Americas series.
Comments are welcome and should be directed to:

Joyce Hoebing
CSIS Americas Program
1800 K Street, NW
Washington, DC 20006
Phone: (202) 775-3299
Fax: (202) 477-4739

Table of Contents

The views expressed in this article are those of the author and not those of the Government of Jamaica.

This paper benefitted from comments by Georges Fauriol, Sidney Weintraub, Stephen Lande, Peter Hakim, Carol Wise, Peter Morici, Robert Devlin, Alister McIntyre, Don Mackay, and Gerald Helleiner.

Introduction

The countries of the Western Hemisphere announced their intention to form a hemisphere-wide free trade area to be known as the Free Trade Area of the Americas (FTAA). At the December, 1994, Summit of the Americas in Miami, Florida, the democratic countries of the Western Hemisphere committed to (1) begin immediately to construct "The Free Trade Area of the Americas" in which barriers to trade and investment will be progressively eliminated,(2) conclude the negotiations no later than 2005, and (3) make concrete progress toward the attainment of this objective by the end of this century.[i] They did not, however, design or agree upon a path to achieve the FTAA or describe the contents of the FTAA, although the implicit assumption is that the free trade commitments would go beyond those of the Uruguay Round of the World Trade Organization (WTO).

In the absence of a single path to the FTAA, different strategies are evolving simultaneously. Meanwhile, a process of consultation and preparatory work has been set in motion. This is taking place in a context of increasing regional and bilateral trade arrangements and rapid expansion of trade and investment flows. Existing trade arrangements and the proliferation of new initiatives might either hinder or contribute to the eventual creation of an FTAA.

It is important to evaluate the alternative paths to the FTAA and, ideally, to select a single strategy that all countries in the hemisphere can follow. At the very least, it is necessary to ensure that if various paths exist, they are complementary rather than inconsistent.

Background

Existing Trade Agreements

There has been a resurgence of regional and bilateral trade agreements in the Western Hemisphere. The economic liberalization policies and the proliferation of trade agreements is reflected in intraregional trade, which is growing faster than hemispheric and global trade. Intraregional exports as a share of total exports increased by 243 percent in the Andean Group, 215 percent in the Common Market of the South (MERCOSUR in Spanish, MERCOSUL in Portuguese), and 24 percent in the Central American Common Market (CACM) between 1990 and 1994.[ii] Intra-NAFTA exports doubled. These figures reflect expansion from a low base, but they also indicate momentum in intraregional trade.

There are five major regional trade agreements and economic integration schemes: NAFTA, MERCOSUR, CACM, the Caribbean Common Market (CARICOM), and the Andean Pact.[iii] Appendix I shows the dimensions of these five trade agreements.

In addition, there are five one-way preferential trade arrangements: the Caribbean Basin Initiative (CBI), the Caribbean-Canada Trade Agreement (CARIBCAN), the Andean Trade Preference Act (ATPA), the Venezuela/CARICOM Agreement, and the Colombia/CARICOM Agreement. There are also regional initiatives in various stages of implementation, such as the Group of Three, the Association of Caribbean States (ACS), and the Mexico/Central American Agreement. Appendix 2 defines these preferential trade agreements.

The regional trade agreements are made more complex by the trend of individual countries to develop bilateral links to member countries of NAFTA and MERCOSUR (see Appendix 3). This has led to the emergence of "hub and spoke" arrangements with the United States, Mexico, and Brazil the primary hubs. The hub typically has preferential market access to all countries linked to it, while the spoke has liberalized access to the hub but not to the other spokes.[iv] This can cause distortions in investment flows with a concentration of investment likely to occur in the hub country.

The United States, as the largest economy in the hemisphere, is a natural growth pole and the likely core of a hemispheric free trade area. Mexico is likely soon to have free trade agreements with most hemispheric countries with the exception of MERCOSUR and the CARICOM countries. Brazil is playing a leadership role in MERCOSUR, which is beginning to expand its membership: Bolivia and Chile have signed accords with it, discussions with the Andean Pact, Ecuador, Peru, Venezuela, and Colombia are proceeding, and there has been outreach to Europe and Japan.[v]

Bilateral trade agreements seek to liberalize and facilitate trade. The proliferation of such agreements, however, has created a confusing array of rules of origin and regulations. This overlapping of agreements may be hindering trade rather than promoting it. The simplification that should result from a single FTAA would be a significant benefit.

Differences Among the Countries of the Hemisphere

The democratic countries of the Western Hemisphere are vastly different in size and level of development.[vi] Canada is 9.9 million square kilometers, Brazil 8.5 million square kilometers, and Montserrat 102 square kilometers. Antigua, Dominica, Grenada, Montserrat, St. Kitts, St. Lucia, and St. Vincent each have a gross national product (GNP) of less than $500 million, while the United States has a GNP of $6,387 billion. Population varies from 258 million in the United States to 11,000 in Montserrat, and per capita GNP ranges from $24,750 in the United States to $450 in Haiti. Appendix 4 shows the huge differences among countries in the Western Hemisphere.

Substantial economic liberalization has been achieved in the majority of countries in Latin America and the Caribbean. The state of preparedness to participate in and benefit from the FTAA, however, varies widely.[vii] The average tariff rate for 1995 was 14 percent, ranging from 6.6 percent in the United States to 17.9 percent in Honduras, and there also has been a substantial reduction in the number of items subject to tariffs.[viii]

By the early 1990s, a "new Latin American consensus" had emerged, based on competitive markets, macroeconomic stability through reduction of public sector deficits, opening of the external sector to foreign competition, and reducing the role of the state by privatization and deregulation.[ix] The extent of trade liberalization reflects a variety of structural economic features, policy orientations, political perspectives, and psychological dispositions. Further complications arise from limited and tentative political support for economic reform and liberalization, partly due to the fact that these policies were prompted by the frustration with import-substitution and protectionism during the profound economic crisis of the 1980s.[x] The circumstances in which the more complex stages of liberalization must be implemented are made difficult by the more unequal distribution of income and increased incidence of poverty that have accompanied economic reform and liberalization. The recent experiences of Venezuela and Mexico reveal the fragility of the process.[xi]

Whether the Latin American and Caribbean economies are able to take advantage of access to the larger hemispheric market or to larger regional groupings to expand exports depends not only on government policies but also on the readiness and ability of the private sector to compete effectively. Even where an economy has a comparative advantage it could, as in the past, be offset by the lack of a competitive advantage.[xii] Economic reform, liberalization, and adjustment are prerequisites for participation in the FTAA; trade liberalization, therefore, is a necessary but not sufficient condition. Governments will have to address the economic, social, and political difficulties of adjustment if the goal of hemispheric free trade is to be realized.[xiii]

Paths to the FTAA

There are five alternative paths the FTAA: (1) NAFTA as the core, (2) MERCOSUR as a pole, (3) bipolar amalgamation, (4) convergence of regional trade groups, and (5) hemispheric negotiations. Each of these five is addressed below.

1. NAFTA as the Core

The objective of the Enterprise for the Americas Initiative (EAI), launched in June 1990 by President George Bush, was to create a hemispheric free trade area stretching from Anchorage, Alaska to Tierra del Fuego, Chile. Free trade would be achieved by expanding NAFTA to include other countries.[xiv] This view of a hemispheric free trade area growing out of NAFTA was reiterated by President Bill Clinton, and, more recently, the United States indicated that NAFTA accession is one of several ways to create the FTAA.[xv]
This view was at one time also shared by Canada.

NAFTA undoubtedly will have substantial pull because it includes the largest economy and most powerful country, the United States, and it represents about 75 percent of hemispheric trade.[xvi] The NAFTA accession clause, however, sets out neither eligibility criteria for new members nor application procedures for interested countries, but merely provides that any country or group of countries may accede to the NAFTA "subject to such terms and conditions" as may be agreed to between those countries and the NAFTA Free Trade Commission (comprised of cabinet-level officials from Mexico, Canada, and the United States).[xvii] The issue of sequential accession versus accession by blocs or groups has not been addressed. Bloc accession may be preferable to "piecemeal" expansion by a series of individual accessions because it would avoid adverse implications for both the FTAA process and existing regional trade groups.[xviii]

In mid-1994, the Clinton administration indicated that Chile was the only country it regarded as ready to assume the disciplines required by NAFTA. In December 1994, at the Summit of the Americas, the NAFTA partners announced that Chile would be the first country to be allowed to accede to NAFTA and that negotiations would start in early 1995. Chile's accession to NAFTA, according to then-U.S. Trade Representative Mickey Kantor, would be the first step toward building an FTAA.[xix] A number of meetings were held in 1995, but the Clinton administration's lack of fast-track negotiating authority effectively ended negotiations. The Clinton administration began efforts to secure fast-track authority in early 1997, with the president, in his State of the Union address, indicating it as a priority; the outcome remains uncertain, however, in part because the November congressional elections did not change the political configuration in Congress.[xx] Protectionists and NAFTA opponents will continue their opposition to NAFTA expansion, and, possibly, the FTAA. Strong opposition is expected from environmental organizations and unionized labor, who attribute job losses to NAFTA.[xxi] Perhaps the most difficult obstacle is that 57 percent of U.S. residents "don't want the U.S. government to approve new trade agreements with Latin America" because 51 percent believe these agreements will result in loss of U.S. jobs.[xxii]

Another major problem is the differences among the NAFTA partners on when and how fast to expand NAFTA. The United States has not yet made up its mind on these issues, Mexico wants to proceed slowly, and Canada is ready to move ahead as soon as possible. Canada questions the resolve of the United States to play a leadership role in trade liberalization in the Western Hemisphere.[xxiii] Meanwhile, Canada and Chile concluded a bilateral trade agreement which will come into effect in June, 1997.[xxiv] In addition, there have been several trade squabbles between the NAFTA partners (including differences over the Helms-Burton Act), which does not make for an atmosphere conducive to NAFTA expansion. Indeed, an editorial in the *Journal of Commerce* departed from its tradition of sobriety to state that "Mr. Kantor poisoned relations with Mexico by pandering to special interests."[xxv]

In response to the concerns of the small developing countries of Central America and the Caribbean, the Clinton administration and CBI supporters in the U.S. Congress sought unsuccessfully for congressional approval for a unilateral extension of most NAFTA benefits for products currently excluded from CBI duty-free treatment.[xxvi] The proposal, known as NAFTA parity, would have addressed the diversion of trade and investment[xxvii] that is resulting from NAFTA, particularly in apparel exports.[xxviii] NAFTA parity would have provided enhanced access to the U.S. market in the form of NAFTA-like tariff and quota treatment for particular categories of apparel. It was hoped that the parity program would be included in the NAFTA implementing legislation, the Uruguay Round implementing legislation, or the trade legislation introduced in the 104th Congress. None, however, included parity provisions.

2. MERCOSUR as a Pole

Brazil is proposing to extend MERCOSUR to create a South American Free Trade Area (SAFTA), which eventually could be in a position to amalgamate with NAFTA.[xxix] The idea of a free trade area encompassing all the countries of South America has been raised many times, including at the First International Conference of the American States in 1889.[xxx] Support for a SAFTA is growing: MERCOSUR membership has been expanded to include Bolivia and Chile,[xxxi] and negotiations are in progress with the Group of Three, Mexico, and the Andean Pact.[xxxii] The creation of SAFTA could lead to a bipolar hemisphere divided between NAFTA and SAFTA.

The possibilities of MERCOSUR becoming the core of SAFTA, or one of two poles for hemispheric free trade, derive not only from Brazil's emergence as a regional power but from MERCOSUR's size in relation to the rest of Latin America.[xxxiii] MERCOSUR represents almost 50 percent of Latin America's GDP, more than 40 percent of its population, and about 33 percent of its foreign trade.[xxxiv] In addition, intra-MERCOSUR trade is growing rapidly, from $10 billion in 1993 to $12 billion in 1994.[xxxv] While MERCOSUR's size is still much less than that of NAFTA and it will not displace U.S. dominance or leadership, it does have momentum in its favor. Its willingness to expand its associations and network of trade accords at a time when the U.S. administration is immobilized by the lack of fast-track authority makes the MERCOSUR appear as a more feasible or immediate option for some South American countries. Some countries that were hoping to join NAFTA are turning in frustration to links with MERCOSUR[xxxvi] and even to links with Asia and the European Union (EU).[xxxvii]

3. Bipolar Amalgamation

MERCOSUR, at the instigation of Brazil, has tried to initiate discussions with NAFTA that could lead to some type of MERCOSUR-NAFTA agreement.[xxxviii] In October 1995, Mickey Kantor and Brazil's foreign trade minister, Luiz Felipe Lampreia, agreed to "explore with the other parties to our respective subregional trade arrangements this possibility, which we strongly endorse."[xxxix] In November 1995, the United States, with the acquiescence of Canada, agreed with MERCOSUR to hold their first meeting prior to the meeting of Western Hemisphere Trade Ministers scheduled for March 1996 in Cartagena, Colombia.[xl] Strong Mexican opposition, however, prevented this group from convening.[xli] It has also been suggested that "Brazil seeks to avoid any specific hemispheric-wide negotiations until MERCOSUR is in a stronger bargaining position vis-à-vis NAFTA."[xlii] Hence, the consolidation and expansion of MERCOSUR will be Brazil's priority between now and the end of the century.[xliii]

While most governments in the hemisphere would not support a bipolar negotiation process, "many trade analysts see the talks generally coming down to a U.S.-led bloc negotiating with a Brazil-led bloc, with Caribbean countries fighting to avoid being forgotten in the process."[xliv]

It is not clear if NAFTA-MERCOSUR discussions will emerge as a parallel track to the FTAA process. Brazil and the United States have a long history of different perspectives on trade issues. During the Uruguay Round one observer noted that the United States and Brazil "haggled" over almost every issue of substance in the GATT negotiation.[xlv] Nevertheless, Lampreia and Kantor came to a common understanding on the Ministerial Declaration during a plane trip from Brazil to Cartagena. The other member states refused to rubber stamp their version of the declaration and the final Ministerial Declaration reflected a cross section of views.

4. Convergence of Regional Trade Groups

It is frequently suggested that regional trading groups and agreements can constitute building blocks for the FTAA by fostering increased trade liberalization among their member countries.[xlvi] The five principal regional trade groupings could engage in a negotiated convergence or cooperation on a common integration goal. This might prove easier and quicker than 34 countries negotiating individually. The disparities in economic size between the various regional groups, however, would be a concern because such disparity could translate into increased leverage for the NAFTA countries. The differences are enormous: NAFTA's population is 372 million and CARICOM's 6.2 million; NAFTA's GDP is 10 times larger than MERCOSUR's.[xlvii] There is also the question of the inclusion of countries not currently members of any regional group, such as Haiti, the Dominican Republic, and Panama.

There are also different perspectives on whether the convergence of regional trade groups should be preceded by a consolidation phase. Brazil has proposed that a period of consolidation of regional groupings be a prerequisite of hemispheric free trade, while the United States has stated firmly that the FTAA "cannot wait for regional groupings to consolidate."[xlviii]

5. Hemispheric Negotiations

The final way to proceed is to forge agreement on "WTO plus" standards toward which all countries in the hemisphere would move in accordance with a designated schedule. This approach would have to include a schedule to develop common standards for hemispheric trade in goods and services and the movement of capital flows in ways that foster compatibility among the various trade blocs. This approach is similar to that being followed by the Asia Pacific Economic Cooperation group (APEC).

The trade component of the Summit of the Americas process embodies this strategy, in that a system of working groups have been established and have engaged in an intensive process of examining relevant issues. By the time of the Belo Horizonte ministerial in May, 1997, 7 of 11 working groups will have been engaged for a period of 18 months (June 1995 to May 1997), while 4 of the working groups will have been engaged for a period of 14 months (March 1996 to May 1997). The negotiation agenda is being identified and confirmed. By the Belo Horizonte meeting, the ministers responsible for international trade will have met three times in the 29 months since the Miami Summit. During that same period, vice ministers will have met a total of eight times. The working groups will have had a total of 52 meetings. In addition, the FTAA and its prospects will have been discussed in numerous meetings, visits, or conversations between ministers and senior officials from national governments. This process indicates that the countries have sufficient political and bureaucratic will to launch the negotiations.

Advantages of a Single Path

The coexistence of different paths to an FTAA raises some fundamental issues. One of the most pressing is the proliferation of regional, subregional, and bilateral trade agreements, which could complicate the process of creating the FTAA. Ideally, the governments of the hemisphere should agree to a single path. Adhering to a single strategy would avoid the confusion, duplication of effort, and delays that might result from different countries using different strategies to achieve an FTAA. Further, an unfocussed FTAA process might reduce the commitment of governments to the FTAA and tempt countries to concentrate on regional agreements and initiatives, including those outside the hemisphere. Canada, the United States, Mexico, and Chile are members of APEC, for example, and could give APEC priority over Western Hemisphere trade. Likewise, the Caribbean countries could divert resources from the FTAA process to negotiate an agreement with the EU to succeed the present Lomé Convention.

Alternative Forms of Participation

Even if a single path is agreed to, it will coexist with existing regional arrangements. The FTAA will have the daunting task of encompassing in a single trade agreement countries that differ widely in size, levels of development, extent of industrialization, and degree of liberalization. It will not be possible for all countries to move at the same pace and arrive simultaneously at a single destination. Therefore, alternative forms of participation will have to coexist. Three alternatives may be applied to ensure that all countries can participate.

Full Participation

Full participation involves the assumption of the objectives, disciplines, and schedules of the FTAA. Ideally, all countries should commence their membership at the same time. If this is not possible, however, there should be an orderly, politically transparent accession process based on clearly defined eligibility criteria and procedures for applying for membership.

Phased Participation[xlix]

World Bank classifications indicate that 26 of the 34 countries that attended the Summit of the Americas are "small countries" (less than 12 million population) of which 7 are "very small" and 12 are "mini-states."[l] Many of the small, less developed countries have not yet attained the level of development or trade liberalization commensurate with the far-reaching obligations that are likely to be a part of an FTAA. A suitable transitional arrangement should be designed for these countries based on asymmetrically phased assumption of obligations and disciplines. An example would be providing small or developing countries with full market access to the NAFTA countries but phasing in reciprocity over a period tailored to the circumstances of individual countries. Having utilized a transitional period based on similar market access, small Latin American and Caribbean countries would be in a position to begin to phase in reciprocity over a suitable period. An adjustment period would take into account the level of development, extent of liberalization, and diversified economic structure and would also permit time to complete the structural adjustment process of the wider Latin American region. A premature attempt by these countries to provide full reciprocity could be detrimental to the adjustment processes and could inhibit export expansion. The form, specifics, and pace of reciprocity must be worked out carefully.

Partial Participation

The FTAA , through partial scope agreements, could design a form of associate membership for countries that are not ready for full membership or are precluded by commitments to subregional common markets or trade arrangements with trade groups outside the hemisphere.[li] Associate membership would cover selected issues, sectors, and products, while bilateral agreements and WTO rules could govern the excluded areas. This type of arrangement might require WTO waivers similar to the GATT waiver, which was utilized to cover the U.S.-Canadian Automotive Agreement.

Associate membership through partial scope agreements is not a new idea. The EU is connected to concentric rings of economic integration by such agreements. The European Economic Area Agreement extends disciplines on goods, services, capital, and people to the nations of the European Free Trade Area (except Switzerland) but excludes agricultural products. The countries of Central and Eastern Europe are linked to the EU by European Agreements that cover manufactured goods, services, and capital and EU standards on intellectual property rights and investment. They provide for eventual EU membership and asymmetrically phased liberalization.[lii] It has been suggested that the FTAA could be constructed by negotiating agreements between NAFTA and the principal regional trade agreements, modeled on the EU’s association agreement.[liii]

This could be a viable alternative for the CARICOM countries, which benefit from preferential trade arrangements in the form of the CBI and the Lomé Convention. A dilemma would arise if Caribbean countries that are members of the Lomé Convention joined NAFTA either through an accession clause or through a free trade agreement, because the Lomé Convention requires the Caribbean signatories to provide no-less favorable conditions to the EU than that provided to any developed country.[liv] Specifically, if Caribbean countries provided reciprocity to the United States and Canada by virtue of a free trade agreement or NAFTA membership, those countries would be obliged to provide reciprocity to the EU under the terms of Lomé.[lv] Associate membership would facilitate liberalization in a limited number of areas and obviate the enforcement of across-the-board reciprocity by the EU.

Toward a Hemispheric Round

The path to the FTAA will involve a preparatory phase and actual negotiations. The preparatory phase will involve a broad discussion among countries to define the content of the negotiations and the principles on which negotiations will proceed (for example, the right of withdrawal balanced by the remaining parties' rights to continue negotiations) and a determination that a sufficient level of political will exists to justify launching formal negotiations. The FTAA process, which began after the Miami Summit, appears capable of ensuring that both aspects of the preparatory process can be accomplished. The form and conduct of the negotiations, however, has yet to be determined. The first step in this process should be to arrive at a consensus on the best path to follow.

There are four criteria which any path to the FTAA should meet:

(1) facilitate full participation by all 34 countries designated as eligible at the Summit of the Americas,

(2) ensure equality of participating governments regardless of size and level of development, i.e., all governments have the same formal rights in the decision-making process,

(3) strive for simplicity in the form, logistics, and administration of the process, and

(4) ensure maximum transparency in the preparatory and negotiating phases in order to increase understanding, inform discussions, and maintain credibility.

The path of hemispheric negotiations would be preferable to the other four paths outlined in the body of this report, because it best meets these four criteria and poses less difficulties than the alternative paths. The benefits and shortfalls of the five paths are detailed below.

1. NAFTA as Core. The creation of an FTAA through NAFTA expansion can only be contemplated because the disciplines involved are the most far reaching and the coverage of issues is the most comprehensive among the regional arrangements in the hemisphere. Participation in decisions on fundamental issues would be confined exclusively to the NAFTA partners, however, and therefore lack equality and transparency. The obvious simplicity of the small number of governments decreases as countries accede to membership. Another serious drawback is that a decision by NAFTA to provide sequential admission, either for individual countries or blocs, could set off very damaging trade and investment diversions for those countries or blocs that come later in the accession schedule.

Hemispheric negotiations whether on a comprehensive or scaled-down agenda would be preferable to NAFTA expansion because the majority of countries in the hemisphere are small and are unlikely to be among the countries given early accession. This could result in a serious erosion of their exports to NAFTA markets. The U.S. administration's inability to negotiate Chile's accession in 1995 and 1996, combined with uncertainty about if and when NAFTA will be expanded, may reduce the prospects of this strategy being chosen as the single path to the FTAA.

2. MERCOSUR as Pole. Similar problems are likely to occur if MERCOSUR becomes

a pole from which the FTAA could evolve, namely narrow participation with the attendant lack of transparency and equality. In particular the establishment of the FTAA could be delayed beyond 2005 because MERCOSUR is focussed on the creation of a SAFTA before the creation of an FTAA. There has been little contact or in-depth discussion between the smaller economies and MERCOSUR, despite the fact that half the membership of MERCOSUR, namely, Paraguay and Uruguay, could be viewed as smaller economies. It should also be borne in mind that Bolivia's admission to associate status in MERCOSUR was held up because of an unwillingness to provide "special" consideration that would take into account Bolivia's size and level of development. All of this is confirmed by the marginal nature of small country participation in the Rio Group.

3. Bipolar Amalgamation. If the FTAA is to emerge from bipolar negotiations between NAFTA and MERCOSUR, the question arises of how the interests of non-member countries will be addressed in the negotiations. If the goals, design, and schedule of the FTAA were presented to the rest of the hemisphere as a *fait accompli*, or with perfunctory subsequent consultations, there would be no participation, equality, or transparency.

4. Convergence of Regional Trade Groups. The convergence of regional trade groups as a path to the FTAA has a conceptual simplicity that is very deceptive. In reality it would be a very difficult strategy because it would involve intraregional consensus-building as a prerequisite to agreement at the hemispheric level. The ability to forge consensus and adhere to it within regional groups varies considerably between trade groups. The process could become very complex because trade groups might not only negotiate simultaneously, but might also conduct bilateral discussions. If all groups were involved, this would be tantamount to hemispheric negotiations but with the additional constraint of regional trade arrangements. There is also the problem of how to ensure the participation of countries that are not members of regional groups. A range of regional configurations could emerge, for example, SAFTA, Central America and the Caribbean, or Small Economies. This path could provide participation and transparency, but in a cumbersome two-tier process that could leave most governments with the feeling that their particular concerns were not satisfactorily represented because national interest were subsumed in a regional consensus.

5. Hemispheric Negotiations. A hemispheric round of negotiations avoids the difficulties and complexities of the other paths. It would provide full and direct participation by all countries, hence providing equality and transparency. The process is also relatively simple and one with which governments have become familiar through participation in various hemispheric organizations such as the Organization of American States and more recently the fora of the Summit of the Americas. This path has the added advantage of being a single undertaking, thereby allowing trade-offs among countries which could facilitate the emergence of consensus. Furthermore, it is the path most likely to maintain the focus of attention on the FTAA. The benefits of this path extend beyond the negotiations because it generates greater legitimacy and commitment which make for enhanced stability of the final agreement.

The majority of the countries in the Western Hemisphere are small, developing economies and are not likely to be a major determinant of what constitutes the FTAA, the path to the FTAA, the schedule for negotiations, and the commencement of the FTAA. The interests and concerns of small, developing countries must effectively be taken into account by a hemispheric round. Ensuring the participation of these countries is essential for the formation of the FTAA; otherwise, the ultimate objective of the FTAA, a seamless hemispheric economy, will not become a reality.

Conclusion

In May 1997, the ministers of trade of the 34 countries participating in the process leading to the FTAA will meet in Belo Horizonte, Brazil. At this meeting, three fundamental issues must be resolved: (1) the scope of the FTAA, (2) the form of the negotiations, and (3) when to start the negotiations.

There are five alternative paths to the FTAA: (1) NAFTA as the core, (2) MERCOSUR as a pole, (3) bipolar amalgamation, (4) convergence of regional trade groups, and (5) hemispheric negotiations. This paper argues that any path to the FTAA must meet the criteria of participation of all countries in the Summit of the Americas, equality, simplicity, and transparency. Hemispheric negotiations best meets these criteria and therefore should be the path to the FTAA.

About the Author

Dr. Richard L. Bernal is ambassador of Jamaica to the United States, permanent representative to the Organization of American States, chairman of the Working Group on Smaller Economies and Member of the Special Trade Committee of the OAS and Committee on Hemispheric Financial Issues.

Endnotes

APPENDIX 1
REGIONAL TRADE GROUPS IN THE WESTERN HEMISPHERE (1995)

Trade blocs	Population (Millions)	GDP US$ (Billions)	GDP per Capita 1990 US$	Export US$ (Millions)	Imports US$ (Millions)
Andean Community	99	191	1,919	39,659	37,487
CARICOM	6	18	2,787	5,779	7,398
CACM	30	29	992	7,931	11,376
MERCOSUR	204	648	3,179	71,584	74,742
NAFTA	383	6,924	18,078	853,643	1,006,654

Note: CARICOM includes Bahamas, Bermuda, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

Source: Inter-American Development Bank, Division of Integration Trade and Hemispheric Issues, based on data from the Statistics and Quantitative Analysis Unit.

APPENDIX 2
PARTICIPATION IN REGIONAL TRADE ARRANGEMENTS

Name of Trade Agreement	Member Countries	Effective date
NAFTA - North American Free Trade Agreement	Canada, Mexico, United States of America	January 1, 1994
MERCOSUR - Mercado Commun Del Sur/Common Market of the South	Argentina, Brazil, Paraguay, Uruguay	March 26, 1994
Group of Three	Colombia, Mexico, Venezuela	January 1, 1995
Andean Group/Pact	Bolivia, Ecuador, Peru, Venezuela	December 1994
CACM - Central American Common Market	El Salvador, Guatemala, Honduras, Nicaragua	1961
CARICOM - Caribbean Common Market	Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & The Grenadines, Suriname, Trinidad & Tobago	1973
CBI - Caribbean Basin Initiative	Caricom Countries, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama	1984
ACS - Association of Caribbean States	Antigua & Barbuda, Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, St. Kitts & Nevis, St. Lucia, St. Vincent & The Grenadines, Suriname, Trinidad &	1992

	Tobago, United Mexican States, Venezuela, French Republic (Guadalupe, Guvame & Martinique)	
Mexico-Central America	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua	1992
ATPA - Andean Trade Preference Act	Bolivia, Colombia, Ecuador, Peru	December 1991
Venezuela/Caricom Agreement	Caricom Countries, Venezuela	July 1991
Colombia/Caricom Agreement	Caricom Countries, Colombia	January 1, 1995

Source: Trade Unit of the Organization of American States

APPENDIX 3
BILATERAL AGREEMENTS IN THE WESTERN HEMISPHERE

Agreements	Year Signed	Year Negotiations Started
Argentina-Uruguay	1982	
Brazil-Uruguay	1982	
Argentina -Uruguay	1984	
Chile-Uruguay	1985	
Mexico-Uruguay	1986	
Argentina-Mexico	1986	
Argentina-Brazil	1986	
Mexico-Peru	1987	
Argentina-Peru	1988	
Argentina-Venezuela	1988	
Argentina-Colombia	1988	
Argentina-Brazil	1988	
Argentina-Paraguay	1989	
Argentina-Bolivia	1989	
Argentina-Brazil	1990	
Bolivia-Uruguay	1991	
Argentina-Colombia	1991	
Chile-Mexico	1991	
Bolivia-Peru	1992	
Argentina-Venezuela	1992	
Argentina-Ecuador	1992	
Colombia-Venezuela	1992	
Bolivia-Chile	1993	
Chile-Venezuela	1993	
Chile-Colombia	1993	
Mexico-Costa Rica	1994	
Mexico-Bolivia	1994	
Chile-Ecuador		1995
Canada-Chile		1996
Mexico-Nicaragua		1996
Mexico-Peru		1996
Cuba-Trinidad & Tobago		1996

Source: Economic Commission for Latin America and the Caribbean for agreements 1982-1994 and *Inside NAFTA* for agreements 1995-1996.

APPENDIX 4
WESTERN HEMISPHERE COUNTRIES: INDICATORS OF SIZE

WESTERN HEMISPHERE COUNTRIES	POP. (thous.) (1993)	SHARE %	AREA (thou. Km 2)	GNP (US$mil) (1993)	SHARE %
NAFTA	**372590**	**53.97**	**21743**	**7287521**	**87.90**
Canada	27815	4.03	9976	574884	6.93
Mexico	86712	12.56	1958	324951	3.92
United States	258063	37.38	9809	6387686	77.03
CACM	**28330**	**4.10**	**423**	**30007**	**.36**
Costa Rica	3267	.47	51	7041	.08
El Salvador	5479	.79	21	7233	.09
Guatemala	10021	1.45	109	11092	.13
Honduras	5581	.81	112	3220	.04
Nicaragua	3982	.58	130	1421	.02
CARICOM	**6195**	**.91**	**434.103**	**15890**	**.19**
Bahamas	266	.04	14	3059	.04
Barbados	260	.04	.30	1620	.02
Belize	205	.03	23	499	.01
Guyana	812	.12	215	285	.00
Jamaica	2415	.35	11	3362	.04
Suriname	405	.06	163	488	.01
Trinidad & Tobago	1282	.19	5	4776	.06
Antigua & Barbuda	67	.01	.40	425	.01
Dominica	72	.01	.70	193	.00
Grenada	91	.01	.30	219	.00
Montserrat	11	.00	.10	65	.00
St. Kitts & Nevis	41	.01	.30	185	.00
St. Lucia	158	.02	.60	480	.01
St. Vincent & Grens.	110	.02	.40	234	.00
MERCOSUR	**197687**	**28.64**	**11863**	**735300**	**8.87**
Argentina	33483	4.85	2767	244013	2.94
Brazil	156406	22.66	8512	471978	5.69
Paraguay	4651	.67	407	6995	.08
Uruguay	3147	.46	177	12314	.15
ANDEAN GROUP	**97585**	**14.13**	**4719**	**161754**	**1.95**
Bolivia	7064	1.02	1099	5472	.07
Colombia	35682	5.17	1139	50119	.60
Ecuador	11258	1.63	284	13217	.16
Peru	22801	3.30	1285	34030	.41

Venezuela	20780	3.01	912	58916	.71
OTHER	**30662**	**4.44**	**910**	**60192**	**.73**
Chile	13813	2.00	757	42454	.51
Dominican Republic	7447	1.08	49	8039	.10
Haiti	6839	.99	28	3078	.04
Panama	2563	.37	76	6621	.08

NOTES: NAFTA: North American Free Trade Agreement; AG: Andean Group; MERCOSUR: Common Market of the South; CACM: Central American Common Market; CARICOM: Caribbean Community.

Source: World Bank and Trade Unit of the Organization of American States

---

1. Summit of the Americas Declaration of Principles, 3.

ii. *Toward Free Trade in the Americas* (Washington D.C.: Trade Unit, Organization of American States, 1995), 2.

iii. Details of these agreements can be found in "Trade and Integration Arrangements in the Americas: An Analytical Compendium," (Washington D.C.: Trade Unit, Organization of American States, September 1996).

iv. See Yung Chul Park and Jung Ho Yoo, "More Free Trade Areas: A Korean Perspective," in *Free Trade Areas and U.S. Policy*, ed. Jeffery Schott (Washington D.C.: Institute of International Economics, 1989), 141-158, and Ronald J. Wonnacott, *The Economics of Overlapping Free Trade Areas and the Mexican Challenge* (Toronto and Washington D.C.: C.D. Howe Institute and the National Planning Association, 1991).

v. See Kevin G. Hill, "Chile, MERCOSUR Extended Trade Talks 90 Days," *Journal of Commerce*, December 8, 1995. See also Paula Green, "Tired of waiting for U.S., Chile seals deal to join MERCOSUR bloc," *Journal of Commerce*, June 24, 1996 and "Mercosur bloc reaches out to Japan, Chile," *Journal of Commerce*, October 3, 1996.

vi. *Observations on Small Countries and Western Hemisphere Economic Integration*, Organization of American States Trade Unit, Background Document to the FTAA Working Group on Smaller Economies. Paper No. SG/TU/WG.SME/Doc.2/95.

vii. *Readiness of Small Countries to Participate in the Free Trade Area of the Americas*, United Nations Economic Commission for Latin America and the Caribbean, March 13, 1996.

viii. *Integration and Trade in the Americas*, Periodic Note, August 1996 (Washington D.C.: Inter-American Development Bank, August, 1996), 11-12.

ix. Sebastian Edwards, *Crisis and Reform in Latin America: From Despair to Hope* (New York: Oxford University Press, 1995), 41-43.

x. Moises Naim, "Toward Free Trade in the Americas: Building Blocks, Stumbling Blocks and Entry Fees" in *Integrating the Americas: Shaping Future Trade Policy*, ed. Sidney Weintraub (Miami: North South Center, 1994), 57. See also Dani Rodrik, "The Rush to Free Trade in the Developing World: Why So Late? Why Now? Will It Last?" in *Voting For Reform: Democracy, Political Liberalization and Economic Adjustment*, ed. Stephan Haggard and Steve B. Webb (Oxford: Oxford University Press, 1994), 61-88.

xi. See Oscar Altimar, "Income Distribution and Poverty Through Crisis and Adjustment" in *Latin America's Economic Future*, ed. Graham Bird and Ann Helwege (San Diego, CA: Academic Press, 1994), 265-302; "The Backlash in Latin America," *The Economist*, November

30, 1996, pp. 19-21; and Jorge G. Casteñeda, *The Mexican Shock: Its Meaning for the U.S.* (New York: The New Press, 1995), particularly Chapters 3 and 10.

xii. Michael Porter, *The Competitive Advantage of Nations* (New York: The Free Press, 1990).

xiii. Manuel Pastor, Jr. and Carol Wise "Western Hemispheric Integration: Free Trade is Not Enough," *SAIS Review*, Vol. XV, No. 2 (Summer-Fall, 1995), 1-16.

xiv. NAFTA as the core of hemispheric free trade is a widely-held view in the United States, see, for example, Paula Stern and Raymond Paretyky, "Engineering Regional Trade Pacts to Keep Trade and U.S. Prosperity on a Fast Track," *Washington Quarterly*, Vol. 19, No. 1 (Winter, 1996), p. 213 and John Sweeney, "Fulfilling the Promise of NAFTA: A New Strategy for U.S. Mexican Relations," *Heritage Foundation Backgrounder* (Washington, D.C.: Heritage Foundation, March 6, 1996), 6.

xv. "U.S. sees Multi-Pronged Path to Achieve FTAA, Algeier Says," *Inside NAFTA* (January 13, 1996).

xvi. Richard Lawrence, "Ministers to Meet June 30 to Discuss Hemisphere Trade," *Journal of Commerce*, February 10, 1995.

xvii. NAFTA Text, including supplemental agreements, Final Version (Chicago: CCH Incorporated, 1994), 387.

xviii. The arguments in favor of bloc accession instead of sequential or piecemeal accession are set out in Frank J. Garcia, "NAFTA and the Creation of the FTAA: A Critique of Piecemeal Accession," *Virginia Journal of International Law*, Vol. 35 No. 3. (Spring, 1995), 539-586.

xix. "U.S. Moving Apace With Chile NAFTA Accession," *Washington Trade Daily*, Vol . 5, No. 30 (February 10, 1995), 1.

xx. Paula L. Green, "President renews push for fast-track to widen trade ties with Latin America," *Journal of Commerce*, November 11, 1996.

xxi. See *The Case Against Free Trade* (San Francisco: Earth Island Press, North Atlantic Books, 1993), and David Kemeras, "Trade and Credibility Gaps Widening," *AFL-CIO News*, April 22, 1996, p. 38.

xxii. Paula L. Green, "Study: Fifty-Seven percent of U.S. public against free-trade pacts with Latin America," *Journal of Commerce*, November 8, 1996.

xxiii. Richard Lawrence, "Canada questions leadership of U.S. in Western Hemisphere," *Journal of Commerce*, May 7, 1996, p. 2A.

xxiv. Paula L Green, "Chile and Canada sign trade treaty," *Journal of Commerce*, November 19, 1996.

xxv. "Two amigos," *Journal of Commerce*, December 11, 1996.

xxvi. Richard L. Bernal, "Why Caribbean Nations Need Parity with NAFTA," *Miami Herald*, February 4, 1993; "Caribbean Nations Need NAFTA, too," *Washington Times*, October 1, 1993; and "A Jamaican's Case for Trade Parity with NAFTA," *Wall Street Journal*, March 22, 1996.

xxvii. Richard L. Bernal, "The Caribbean Basin Free Trade Agreement Act" (H.R. 1403) in Hearing before the Subcommittee on Trade and the Subcommittee on Oversight of the Committee on Ways and Means House of Representatives, One Hundred Third Congress, First Session, June 24, 1993. (Washington D.C.: U.S. Government Printing Office, 1993), 68-75.

xxviii. In the four years before NAFTA became effective on January 1, 1994, U.S. apparel imports from CBERA countries and Mexico rose at similar rates of 23 to 24 percent a year. In 1994, however, apparel imports from CBERA countries grew by just 13 percent, while imports from Mexico accelerated to 33 percent. In 1995, CBERA-country apparel shipments expanded by 21 percent, but shipments from Mexico rose much faster, by 52 percent. See "Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers," (Washington D.C., International Trade Commission, September 1996), 10.

xxix. Angus Foster, "Support for South American Free Trade Area," *Financial Times*, March 14, 1994.

xxx. James Brown Scott, ed., *The International Conferences of American States, 1889-1928* (New York: Oxford University Press, 1931), 33-34.

xxxi. "Mercosur-Chile Pact is Inked: Will Not Block Chilean Talks with NAFTA," *Inside NAFTA*, Vol.3, No. 13 (June 26, 1996).

xxxii. David Pilling and Daniel Dombey, "Mexico enters talks with Mercosur Group," *Financial Times*, October 25, 1996 and Kevin Hall, "Mexico Mercosur set to exchange product lists," *Journal of Commerce*, October 28, 1996.

xxxiii. Bertha K. Becker and Claudio A.G. Egler, *Brazil: A New Regional Power in the World-Economy* (Cambridge: Cambridge University Press, 1992).

xxxiv. Peter H. Smith, *The Challenge of Integration: Europe and the Americas* (New Brunswick and London: Transaction Publishers, 1993), 8-9.

xxxv. Maria Carlino, "South America May Bypass NAFTA-Type Pact," *Journal of Commerce*, December 4, 1995.

xxxvi. Ibid.

xxxvii. "Latin America May Shift Trade to EU, Asia, Chile, Amcham Warns," *Inside NAFTA*, Vol 3 No. 16 (August 7, 1996), 5-6.

xxxviii. For comparative analysis of the feasibility of merging NAFTA and MERCOSUR, see Thomas Andrew O'Keefe, "The Prospects for MERCOSUR's inclusion into the North American Free Trade Agreement (NAFTA)," International Law Practicum, Vol. 8, No. 1, (Spring, 1995) pp. 5-13. See also Felix Peña, "New Approaches to Economic Integration in the Southern Cone," *Washington Quarterly*, Vol.18, No.3 (Summer, 1995), 118.

xxxix. "U.S.- Brazil review calls for NAFTA-MERCOSUR Summit, Bilateral Steps," *Inside NAFTA*, Vol. 2 No. 22 (November 1, 1995), pp. 1, 16.

xl. "U.S. Backs MERCOSUR Offer for Bloc-to-Bloc Talks Before Cartagena," *Inside NAFTA*, Vol. 2 No. 24 (November, 29, 1995) pp. 1, 12.

xli. "Mexico Resists Call for NAFTA-MERCOSUR Talks Prior to Cartagena," *Inside NAFTA*, (January 24, 1996).

xlii. Steve Lande, *The FTAA Process: Maintaining the Miami Summit Momentum* (Coral Gables: North-South Centre, University of Miami, March 1996), 6.

xliii. Pedro da Motta Veiga, *Brazil's Strategy for Trade Liberalization and Economic Integration in the Western Hemisphere* (Washington D.C.: Inter-American Dialogue, June, 1996), 7.

xliv. "Clinton official says Brazil summit critical in forging hemisphere pact," *Journal of Commerce*, December 12, 1996.

xlv. Ernest H. Preeg, *Traders in a Brave New World: The Uruguay Round and the Future of the International Trading System* (Chicago: Chicago University Press, 1995), 2.

xlvi. Robert Devlin and Luis Jorge Garay, *From Miami to Cartagena: Nine Lessons and Nine Challenges of the FTAA* (Washington D.C.: Inter-American Development Bank, Working Paper No. 211, July, 1996), 13.

xlvii. *Observations on Small Countries and Western Hemisphere Integration*, Organization of American States, Trade Unit, February 1996.

xlviii. "Clinton envoy seeks to speed progress on hemisphere pact," *Journal of Commerce*, December 13, 1996.

xlix. Richard L. Bernal, "From NAFTA to Hemispheric Free Trade," *Columbia Journal of World Business*, Vol. 29 No. 3 (Fall, 1994), pp. 22-31.

l. *Observations on Small Countries and Western Hemisphere Integration*, Organization of American States, Trade Unit, February 1996.

li. The concept of associate membership outlined here is that proposed by Peter Morici, *Free Trade in the Americas* (New York: Twentieth Century Fund Press, 1994), 27-28.

lii. Richard E. Balwin, *Towards an Integrated Europe* (London: Centre for Economic Policy Research, 1994), 124-127.

liii. Frank J. Garcia, *Americas Agreement - An Interim Stage in Building the Free Trade Area in the Americas*, Florida State University College of Law, 1995.

liv. Fourth ACP-EEC Convention, December 14, 1989, page 166.

lv. Richard L. Bernal, "The Compatibility of Caribbean Membership in LOME, NAFTA and GATT," *Social and Economic Studies*, Vol. 43 No. 2. (June, 1994), pp. 139-147.