Bilateralism and Regionalism in the Aftermath of Cancun: A View from Latin America and the Caribbean

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Outline

• Lessons from liberalization strategies

• Where does the Hemispheric Integration stand?

• Prospects for trade integration in LAC
Tariff Evolution According GATT and WTO Process (United States Case)

Hawley Smoot Trade Act

Tariff Evolution According GATT and WTO Process (United States Case)

First four GATT Rounds
Tariff Evolution According GATT and WTO Process (United States Case)

Dillon Round
Tariff Evolution According GATT and WTO Process (United States Case)

Kennedy Round
Tariff Evolution According GATT and WTO Process (United States Case)
Tariff Evolution According GATT and WTO Process (United States Case)
Tariff Escalation in Industrialized Countries

European Union

United States

Japan

Tariff Escalation in Industrialized Countries

5.8%

1.2%

6.9%
Tariff Escalation in Industrialized Countries

- **European Union**: Value Added > Tariffs
  - 19%
- **United States**: Value Added > Tariffs
  - 12%
- **Japan**: Value Added > Tariffs
  - 17%

Bar charts showing the tariffs for soy, copper, fruits, sugar, cocoa, and coffee for each country, with raw material and processed product indicated.
Multilateral Trade Negotiations

- Latin America has lost important trading opportunities from:
  - lack of active participation in the early GATT rounds
  - the unfavorable outcome in terms of agricultural products of the Uruguay Round
- In order to enhance the prospects of Doha Round the region should stand closely united
- Power is crucial and such groups as the G-20 and Cairns should be preserved
- Comprehensive multilateral liberalization agenda (goods and services) could help to the development process; but the effect of behind-the-border policies is still not clear
Latin America: Unilateral (and Some Multilateral) Liberalization

Average tariff

> 100%

29%

10%

1980s

1990

around 2003

ECLAC, International Trade and Integration Division
Unilateral Liberalization and Developing Countries

• Too few successful experiences

• But during the last 20 years, there are also few success stories involving countries that did not open their economies as part of a comprehensive policy package

• Unilateral liberalization remains an option, but not the best one, particularly for agricultural exporters that face a protectionist world
Growth of Regionalism (Including Bilateralism)

Number of Regional Trade Agreements (RTAs) notified and in force (World)

Include Art. XXIV GATT (trade goods), Art V GATS (trade services), and Enabling Clause (regional integration between developing countries)
Growth of Regionalism (Including Bilateralism)

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Regionalism

- No agreement comes close to emulating the long-run impact of the EU
- Latin America & the Caribbean went through a new wave of regionalism during the nineties
- These sub-regional agreements sparked intra-regional trade for some time with some positive impact on GDP, but they are not enough
- The FTAA stops well short of the objectives of deep integration pursued by Europe
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Current FTAA Framework

• Differences on dismantling of agricultural subsidies, services, investment, intellectual property rights, among others led to:

A two tier approach (flexible geometry):
– Core agreement
– More ambitious plurilateral agreements

These differences have contributed to the recent paralysis of FTAA negotiations
The way out has been the proliferation of bilateral agreements
Export Flows by Preferential Trade Agreements, 1991

Argentina
Bolivia
Brazil
Chile
Colombia
Costa Rica
Ecuador
El Salvador
Guatemala
Honduras
Mexico
Nicaragua
Panama
Paraguay
Peru
Dominican Rep.
Uruguay
Venezuela
S. America (ecl. Chile)
Latin America (18)
Export Flows by Preferential Trade Agreements, 2004

Argentina
Bolivia
Brazil
Chile
Colombia
Costa Rica
Ecuador
El Salvador
Guatemala
Honduras
Mexico
Nicaragua
Panama
Paraguay
Peru
Dom. Republic
Uruguay
Venezuela
S. America (ecl. Chile)
Latin America (18)

- bilateral IPTAs
- bilateral EPTAs
- plurilateral IPTAs
- plurilateral EPTAs
- without PTAs
Advantages of Bilateral Agreements

• Market access to a large economy
• Consolidate and expand preferential agreements
• Mutual rights and obligations (dispute settlement mechanisms)
• Lock-in liberalization efforts
• Institutional modernization (?)
Costs of Multiple Bilateral Agreements

• Intra-regional trade diversion (LAC)
• Administrative costs: “spaghetti bowl”
• Reduced bargaining power for smaller countries
• Some countries agree to certain demands in areas that go beyond commonly accepted trade issues (precedent for hemispheric and multilateral trade negotiations)
Costs of Multiple Bilateral Agreements

- Incentives to push the regional envelope begins to weaken
  - Some countries that have signed bilateral agreements prefer to maintain their preferences
  - North-America has made important progress in its own agenda
  - Bureaucratic and political attention is diverted to the bilateral agenda

- Developed world willingness to push multilateral negotiations could weaken (remember the EU enlargement)
Are Developing Countries Overestimating the Benefits of Bilateral Trade Agreements?

- **Trade** increases. ( Preferential Access?)
- Will the response of **FDI** be similar to Mexico? (Geography matters)
- What are the spillover effects of FTAs (and FTAA) in terms of **institutions**?
  - Trade institutions: Positive impact
  - Macroeconomics institutions and macro performance: ambiguous results (fiscal issues), but probably with the positive impact of increasing competition
  - Less policy autonomy: bad or good news?
Are Developing Countries Overestimating the Benefits of Bilateral Trade Agreements?

• Countries should be aware that macroeconomic performance and better institutions are areas that cannot be solved through FTAs. The onus remains on domestic policy.

Be careful: FTAs (and FTAA) are not a “panacea” just as was the case with the structural reforms of the 90’s.
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América Latina: Alternativas de integración al mundo

- Bilateral Sur-Sur
  - En camino
- Bilateral Norte-Sur
  - En aumento
- Dentro de la Región Sur-Sur
  - Estancado
- Fuera de la Región Sur-Sur Norte-Sur
  - En camino
- ¿ALCA?
- Regional Norte-Sur

- Unilateral
  - Agotado

- Multilateral

Fracaso de Cancún, escepticismo acerca de Doha
A Likely Scenario for Hemispheric Integration

- Given current trends the Western Hemisphere would see an intensification of hub and spoke regionalism.
- Chile and Mexico have become true “semi-hubs” of FTAs.
- A FTAA is clearly a superior form of regionalism.

But FTAA will produce greater net benefits to ALL participants if it concentrates more on trade barriers and less in non-trade issues. For instance, provisions that impede regulatory measures on capital flows.
Is There Any Chance to Recapture a FTAA Leading to Hemispheric Integration?

- YES, but it requires generous and visionary leadership with additional concessions from all sides
- An extreme view on behind-the-border issues reduces developing countries’ policy space to a degree not seen in the development process of rich countries and newly industrialized countries
- The FTAA should address the original promise to consider countries of smaller size and lesser levels of development: time span and restructuring costs
FTAA and Doha

For Latin America and Caribbean countries, a successful and comprehensive FTAA will enhance regional alliances for multilateral negotiations.

A Doha round that includes an ambitious agricultural liberalization component promises to deliver the most significant gains among alternative scenarios.
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