Prospects for integration in the Western Hemisphere:
A View from Latin America and the Caribbean

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Washington, DC
April 19, 2004
Outline

• Lessons from liberalization strategies
• Where does the FTAA stand?
• Prospects for a FTAA
Multilateralism fostered growth and development to the active participants: industrial countries.
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
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

Number of Regional Trade Agreements Notified to the WTO

Source: WTO.
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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Initial Vision of the FTAA

- One comprehensive agreement is better than a web of regional/bilateral accords that already characterize the hemisphere

- Ambitious liberalization of trade in goods and services

- Ambitious domestic reforms in several behind-the-border areas (later on differences emerged in different areas)

- A comprehensive FTAA is supportive of multilateral negotiations
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*
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
- Erosion of political “solidarity” within the region
- 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?

- FDI
- Institutions and Macroeconomic improvement

Be careful: FTAs (and FTAA) are not a “panacea” just as was the case with the structural reforms of the 90’s
Foreign Direct Investment

• The international experience with FTAs:
  – Europe
  – Mexico

• The “new comers” have endowments similar to Mexico. Will the response of FDI be similar to Mexico? (Geography matters)
Foreign Direct Investment
- European Union -

Foreign Direct Investment as % of World Foreign Direct Investment
(1981-1985 = 100)

Percentages

GREECE
SPAIN
PORTUGAL

Years

Foreign Direct Investment
- Mexico -

Foreign Direct Investment as % of Total in LAC
Total and excluding privatizations
(1989-1993=100)
Building Institutions

• What are the spillover effects of FTAs (and FTAA) in terms of institutions?
  – Trade institutions: Positive impact
  – Macroeconomic institutions: ambiguous, but probably a positive impact due to increased competition
  – Less policy autonomy: bad or good news

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

- Given current trends the Western Hemisphere would see an intensification of hub and spoke regionalism
- 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
Is There Any Chance to Recapture a FTAA Leading to Hemispheric Integration?

- YES, but it requires generous and visionary leadership with additional concessions from both 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 the Western Hemisphere, 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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