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TRADE OPPORTUNITIES IN THE WESTERN HEMISPHERE

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Preface

When it comes to hemispheric trade opportunities for the countries of Latin America today, no one wants to be left behind. The movement last fall toward the establishment of free trade zones in the Western Hemisphere has, this spring, become a torrent of activity.

Following Congress's approval of fast-track authority for the Bush Administration, the U.S., Mexico, and Canada now are negotiating the North American Free Trade Agreement. The Central Americans have agreed to begin establishing a free trade area with Mexico, and perhaps Colombia and Venezuela will participate. Further south, the Andean countries have signed an accord to remove eventually all barriers to trade among them. Mercosur, the "South American Common Market," is closer to becoming reality with the signing of the Treaty of Asunción on March 26 by Argentina, Brazil, Uruguay, and Paraguay. Free trade framework agreements have been signed between the U.S. and eight other countries, and between the U.S. and Mercosur. Finally, conventional wisdom predicts that U.S.-Chile free trade accord will be the first to follow a NAFTA.

The significance of the debate over free trade opportunities -- and the possibility of a hemisphere-wide free trade area -- cannot be underestimated. For this reason, when Sidney Weintraub prepared his colloquium at the Woodrow Wilson Center, we expanded the length of the session and added three commentators, each of whom addressed trade opportunities from a different perspective.

The seminar occurred on Friday, November 16, 1990 and, as expected, was provocative. Dr. Weintraub, who was a Guest Scholar at the Center during the summers of 1989 and 1990, presented his paper. Peter Field of the Department of Commerce presented the Bush Administration's perspective on the Enterprise for the Americas Initiative. Don Abelson of the Office of the U.S. Trade Representative spoke about the prospects for a U.S.-Mexico free trade agreement and Isaac Cohen of the U.N. Economic Commission on Latin America and the Caribbean provided a Latin American viewpoint. The following is the publication of Dr. Weintraub's paper coupled with an edited transcript of the presentations and of the subsequent discussion.

TRADE OPPORTUNITIES IN THE WESTERN HEMISPHERE

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Introduction

Trade policy in the Western Hemisphere is undergoing major transformation. Developments during the past few years include the entry into force of the Canada-U.S. free trade agreement; the prospect of negotiations among Canada, Mexico, and the United States toward a North American free trade area; efforts to deepen economic integration between Argentina and Brazil; and the initiative of President George Bush for free trade in the Western Hemisphere. Had the Bush proposal been put forward a decade or so ago, it would have been greeted with suspicion, perhaps even derision, as just another neocolonial U.S. maneuver to keep Latin American and Caribbean (LAC) countries from developing their industrial capacity. Its reception, however, was generally favorable, even enthusiastic. It is premature to expect the conclusion of free trade agreements between LAC countries, other than Mexico, and the United States, but there is a strong trend in this direction.

We are witnessing a decided movement toward regionalism; this is most advanced in North America and is now conceivable for the Western

Hemisphere. Canada, which until recently had been a reluctant player in LAC affairs outside its special area in the Caribbean, is caught up in this movement as a consequence of its free trade agreement with the United States. Canada was unable to stand aside as Mexico and the United States contemplated free trade negotiations; it will not be able to ignore wider hemispheric negotiations should they come to pass.

Whatever happens to the more global trading structure as carried out under the aegis of the General Agreement on Tariffs and Trade (GATT), there is no gainsaying the growth of regionalism in trading arrangements. The two systems, global and regional, now coexist, as indeed they have for some time; but the spread of regionalism to North America and potentially the Western Hemisphere more generally does complicate their harmonious coexistence.

Western Hemisphere Developments

The sharp shift in trade and development policy in the Western Hemisphere during the 1980s took two forms, each dependent on the other. The first change was from inward-looking development by LAC countries to greater participation in the global economy. The drive to increase exports took over as the dominant development policy, relegating import substitution, which had prevailed since the 1930s, to a secondary role. Import restrictions were drastically reduced, first in Chile, later in Mexico, and now generally in the region.

The second change was toward a renewed regionalism, not just among LAC countries this time, but more significantly with the United States. This would not have been possible without the policy of import opening. Here, following the Canada-U.S. free trade agreement (FTA), Mexico formally proposed opening negotiations for a Mexico-U.S. FTA. President George Bush responded positively and requested permission from the Congress to carry out such negotiations.[1] He also notified the Congress that "Canada has recently expressed a desire to participate in the negotiations, with a view to negotiating an agreement or agreements among all three countries."[2]

Prior to this notification to Congress, but when it was already common knowledge that a U.S.-Mexico FTA negotiation was supported by the executive branches of the two countries, President Bush expanded trade regionalism to include the entire Western Hemisphere. His so-called Enterprise for the Americas Initiative had three parts: trade, support for investment, and debt reduction. Of the three, the trade aspect is the most important, looking forward to the day when there is a "free trade zone stretching from the port of Anchorage to Tierra del Fuego."[3] The president said that the "United States stands ready to enter into free trade agreements with other markets in Latin America and the Caribbean, particularly with groups of countries that have associated for purposes of trade liberalization."[4] The speech set in motion a flurry of activity by individual nations and groupings of countries looking toward possible free trade with the United States--or at least to define what the United States had in mind. The same pattern that was followed with Mexico is being used: a framework agreement to facilitate bilateral negotiations, and possible free trade to come later.

In order to understand what is happening in the Western Hemisphere, it is necessary to examine policy changes on both sides of the equation--the United States and the LAC countries--as well as in Canada. Until the mid-1980s, the United States was perhaps the most solid supporter of the GATT multilateral system among the major trading countries. The United States eschewed bilateral trade agreements, preferential or otherwise, except with centrally planned, state-trading countries. This was not true for the European countries or Japan. Each of the trade negotiating rounds in the GATT was initiated by the United States; one motive was to reduce the margin of regional preference that had grown in Europe from the expansion of the European Community (EC) and its preferential arrangement with the European Free Trade Association (EFTA).

The change in U.S. policy first began in the late 1980s as a tactic to widen the range of trade in the GATT. The Israel free trade agreement had primarily a political motive, but there was an economic content of entering new areas, particularly services. It was also not lost on U.S. traders that Israel and the EC had a free trade agreement that discriminated against U.S. products. Vague suggestions were also made about bilateral free trade agreements with countries in the Pacific, but they had the aura of pressure tactics rather than serious proposals.

Regionalism became a serious strategy, as opposed to a threat, with the conclusion of the Canada-U.S. free trade area, which involved the two countries in the world that traded most with each other. Canada takes more than 20 percent of all U.S. exports--almost as much as the EC-12 together and almost double U.S. merchandise shipments to Japan.[5] Once the United States entered into bilateralism in such an important way, there could no longer be any pretense about the almost exclusive dominance of globalism. The two most important trading powers, the EC-12 and the United States, were now practicing regionalism alongside globalism. Indeed, taking together all preferential trading arrangements in the world, one could question the significance of the unconditional most-favored-nation principle of article I of the GATT.[6]

With the addition of Mexico to a North American preferential trade grouping--assuming this comes to pass--there is no longer any basis for denying that the world is divided into regional trading arrangements. The word "blocs" may be too strong in that this implies closed systems. To a certain extent the systems are closed--this is largely true of the EC's common agricultural policy, and may be in many other areas if EC-'92 brings on a spate of restrictions in the name of reciprocity--but transparent import barriers in the main trading areas are generally low. However, the word bloc has a rationale in Europe and North America in that the trading arrangements are preferential. Japan does not have overt preferences with its trading partners in Asia, but de facto it does because of the links between Japanese investors in these countries and intra-firm or intra-keiretsu trade with Japan.

The manner in which this regionalism coexists with the global ideal of the GATT is yet to be sorted out. But it is clear that this, rather than how one avoids regionalism, is the issue for the future.

The breakdown of extreme import substitution, of export pessimism, in the LAC region also came in the 1980s. It came earlier in Chile, but this country could not be a model because of its political dictatorship. The precipitating event was the Mexican debt crisis in 1982, and then the generalized debt problem in the entire region. During the 1970s, LAC growth in real gross domestic product (GDP) had averaged about 5 percent a year, not much lower than among Asian developing countries. In the 1980s this all changed and GDP grew by 1 to 2 percent a year in real terms, and actually declined in per capita terms. By contrast, real growth in GDP in Asian developing countries accelerated during the 1980s.[7]

This tragic or lost decade, as it has been called, cleared many minds in LAC countries. It became evident to the nonideological observer that Asian growth policy was delivering higher incomes, with less inequality, than the LAC model. This casual observation was reinforced by World Bank studies showing the better economic performance of countries that stressed export growth, or at least neutrality between export growth and import protection. This was as true of Chile during the 1980s as it was of newly industrializing countries in Asia.

The shift to export promotion, and its corollary of more open import markets so as not to burden exporters with high input costs, now dominates the philosophical discussions in LAC countries, even if not always the practice in all of them. Years of vested interests in protected markets are not easily wiped away by intellectual argumentation. But the process of trade liberalization is now clearly under way and the export pessimism that dominated so much of LAC thinking after World War II has now been largely jettisoned.

It is this shift in thinking, plus its implementation in the practice of many countries, that made possible the warm reception of President Bush's Enterprise for the Americas Initiative. Since import markets are being opened in any event, and now that export promotion is being accepted as the best path to economic growth for most LAC countries, the economic case for rejecting the U.S. initiative is gone. What remains is the underlying political mistrust of the United States, but this is hard to sustain in the face of continued economic stagnation.[8]

When it became apparent that the United States and Mexico were contemplating free trade between them, Canada's first reaction was resentment that its own free trade agreement with the United States would be compromised. Eventually, as President Bush's letter to the Congress made explicit, Canada concluded that it wished to participate in the U.S.-Mexico consultations. The decision was made primarily on defensive grounds, that Canada must protect itself, but many voices are being heard that there may also be a positive advantage for Canada to expand its market in Mexico.[9] Canada could not ignore the U.S. extension southward to Mexico and will not be able to stand aside if the U.S. policy of moving all the way south to Tierra del Fuego succeeds. Canada will be drawn in both to protect its interests in the U.S. market and then to take advantage of the potential market in the entire LAC region.

Reasons for the Shift to Regionalism

There is no single reason for the growing U.S. tendency toward regionalism. The European example undoubtedly played a large role. So, too, has U.S. frustration over a persistent trade deficit and the tendency toward scapegoating by asserting that failure to correct the deficit is the result of unfair trade practices by others. A host of code words amounting to protectionism has developed in recent years: reciprocity, not in a liberalizing sense but as a slogan for increasing restrictions to match the perceived restrictions of others; the need for a level playing field; fair trade, not free trade. It was not a far step from blaming others to putting the onus on the GATT system for its inadequacy. If multilateralism does not work, then bilateralism and regionalism might.

However, regionalism need not be merely a negative reaction. It was seen in the United States as a way of making progress in a more limited geographic sphere and then seeking to widen this in multilateral negotiations. The inclusion of trade in services, trade-related aspects of investment, some better technique for dealing with subsidies, and more accelerated dispute-settlement mechanisms were all included in the Canada-U.S. FTA in their own right and also in the hope that some aspects could then be included in GATT negotiations.

The disadvantages of regionalism are well known, primarily that it involves discrimination against countries not party to the agreement. Regionalism, however, has one important advantage over multilateral negotiations under the most-favored-nation (MFN) principle: countries are willing to make more sweeping concessions in this limited framework than they are in global negotiations. This is evident in the acceptance by all member countries of each other's regulations in the EC framework. The arbitration provisions for dispute settlement of the Canada-U.S. FTA could not have been negotiated in the GATT, at least not in the first instance.

Regionalism was also a natural outgrowth of the Canada-U.S. trading relationship. The two countries have reasonably similar cultural backgrounds (if Quebec is excluded), traditions of democracy, comparable per capita incomes, and an industrial structure that is largely integrated. More than half of Canada's manufactured exports to the United States are intra-firm in nature. The FTA was a way of formalizing a de facto integration that was already substantial.

The Mexico-U.S. case is somewhat more complex in that there are great cultural differences between the two countries and about a ten-to-one ratio in per capita income. However, there are similarities with the Canadian case. Industrial integration was already quite deep and intra-firm trade in the manufacturing sector is comparable to that between the United States and Canada. Once Mexico removed most of its import licensing requirements and reduced its average tariff to less than 10 percent, the next logical step was to assure access to the U.S. market. The further reduction of import barriers over an extended transition period was no longer a traumatic issue; the essential liberalization had already occurred.

Both Mexico and Canada send between 60 and 70 percent of their exports to the United States and a higher proportion of their manufactured exports. Each, therefore, felt it important to secure access to what it feared was a market becoming more protectionist, particularly through non-tariff measures. In addition, each country's manufactured exports to the United States are in the same broad sectors, dominated by automobile trade. Thus, the very existence of the Canada-U.S. FTA prompted Mexico to act. While the U.S. Congress has yet to acquiesce in the Mexican proposal for an FTA, there was a logic to the acceptance of the idea by the Executive Branch. If U.S. bargaining leverage is enhanced by an FTA with Canada, its first trading partner, there is further leverage from another FTA with its third trading partner.

While the United States is the major player in international trade with LAC countries, U.S. exports to the region are not substantial, other than to Mexico. Indeed, U.S. exports to the entire region other than Mexico were only $24 billion in 1989, about the same level as to Mexico alone.[10] During the 1980s, the proportion of U.S. exports going to the LAC region declined; they were more than 17 percent in 1981 and only slightly above 13 percent in 1989.[11] This decline in the LAC share of total U.S. exports can be explained by the poor economic performance of the region during the 1980s. Import volumes in the LAC countries grew by an average of 6.5 percent a year during the 1970s, but were largely stagnant during the 1980s. As with real GDP growth, the contrast with Asian developing countries is stark; during the 1980s, the growth in import volume of Asian countries held steady or grew beyond the almost 9 percent of the 1970s.[12]

The United States was in a poor economic neighborhood during the 1980s, but it is the region in which it dominates trade. The Bush initiative recognizes that the Western Hemisphere is an area of substantial U.S. interest. This interest was made operative at various times in history by keeping out non-hemispheric powers (the Monroe Doctrine), or alien political philosophies (Central America and Cuba), or by the sheer exercise of hegemonic power (the Caribbean, Central America, and Mexico). Some of these motivations remain, but the Bush initiative shows that there is an economic interest as well. It must be evident to U.S. policy makers that political hegemony can be costly whereas fostering more affluent neighbors can be profitable. Japan learned this lesson well once forced to do so after its defeat in World War II. Another explanation for the Enterprise for the Americas Initiative is that once it became evident that the United States was going to discriminate in favor of Mexico and against all other LAC countries, some damage limitation was necessary. This took the form of a promise of hemispheric free trade, and in the context of the 1990s, this was not threatening.

The decision to seek free trade with the United States is a move of historic proportions for Mexico. It signifies the dominance of economic considerations over political resentments, at least on the part of the government in power. It makes clear that while Mexico may continue to seek cultural nourishment from its Latin American connection, it must look north for its economic sustenance. The reason for this is not hard to find.

Mexican trade with its Latin American partners represents slightly more than 3 percent of its total trade, a percentage that if anything has declined over the past decade.[13]

Intra-regional trade was only 12 percent of the total for the eleven countries of the Latin American Integration Association (ALADI) in 1987.[14] The countries of the Central American Common Market (CACM) traded more with other Latin American countries, about 20 percent of total in 1988, but this proportion had declined sharply during the 1980s.[15] However, the most important fact is that for the LAC region as a whole, the dominant trading partner is the United States. More than 40 percent of LAC trade is with the United States, more than double the percentage for any other country or group of countries (the EC); and, in addition, the proportion of LAC trade with the United States increased 10 percentage points during the 1980s. For the moment, for most LAC countries, there is no substitute for the U.S. market.[16]

One other trade feature that prompted the favorable response to the U.S. initiative is that the fastest growing export sector for the LAC countries is manufacturing. The share of manufactures in LAC exports grew from 40 percent in 1970 to 52 percent in 1985; the primary product share declined over the same period from 60 to 48 percent.[17] Manufactured goods made up 23 percent of U.S. imports from LAC countries in 1980, and 56 percent in 1989.[18] Reduction of U.S. import barriers under free trade could therefore be significant for the growing LAC manufactured exports.

The U.S. proposal came at a propitious time. The countries of the hemisphere had just gone through a devastating decade. They were abandoning the orthodox thinking of some fifty years and taking real steps to open their economies. Because of their external debt problems and repetitive debt renegotiations, the supply of commercial bank credit, which had been substantial during earlier decades, was being cut off. Foreign capital was clearly needed to promote development and the U.S. initiative might serve to attract this. The initiative not only had a modest investment component, but more importantly it had the promise of free trade and access to the U.S. market for production in LAC countries. It is the latter that has the potential to attract investment.

There were thus good reasons for both sides--the United States and the LAC countries--to look with favor on a regional initiative. The proposal itself was made in an offhand way, in a speech that was not publicized in advance as one would expect for a major initiative, and was barely noticed at first in the U.S. press. It has, however, gained considerable attention in LAC countries and it is leading to hemispheric meetings, counterproposals, and a spate of negotiations between the United States and individual countries for framework agreements of the type that preceded the Mexico-U.S. free trade initiative.

Outlook for the U.S. Initiative

It is worth stressing that the U.S. proposal is a vision of hemispheric free trade, but the action program to accomplish this is intended to come after Mexico-U.S. free trade is in place. The proposed legislation to implement the president's hemispheric initiative is modest in scope, focusing for now on the debt and investment components rather than on the more significant trade aspect. The United States will first have to digest Mexican free trade; congressional approval for this will come, assuming that it does, only by the spring of 1991 and will then take some time--one to two years, probably--to come to fruition.

LAC countries are themselves not quite sure about their precise response--whether a framework agreement with the United States to test the waters, an immediate request for free trade with the United States, an effort at greater subregional integration as a prelude to a U.S. negotiation, or some other variant. Now that the United States has made the proposal, the LAC countries have the option to respond more broadly than the terms posed by President Bush. Indeed, the lack of precision in the U.S. initiative invites this kind of counter-initiative. Hemispheric leaders have been meeting, and LAC international organizations have been activated, precisely to consider the response.

Habits of living in an economy with a market open to imports and where extra-regional exports are promoted are relatively new to most LAC countries. Rear guard actions against precipitate economic opening are quite fierce in many LAC countries. Free trade with the United States raises these issues in particularly potent form. Old issues of loss of sovereignty take on special meaning when the free trade embrace comes from the United States.[19] The LAC countries are more likely to find durable acceptance of free trade among their populations if this does not take the form of individual agreements with the United States, but rather takes place by means of groupings of countries entering jointly into such agreements with the United States.

I wish to focus here, however, on U.S. policy and the U.S. interest. A series of individual country free trade agreements--yesterday Canada, today Mexico, tomorrow Chile, and after that who knows which country--can set up a nightmare of special arrangements and a host of varying rules of origin for commodities that can benefit from free trade. Canadians are concerned that this type of hub-and-spoke, or octopus, arrangement will leave the United States as the only country that has free trade with all others. My concern is that this arrangement would set up a complex system that is subject to much fraud, that cannot be supervised, and that will arouse strong political animosities. The United States in the 1920s abandoned its then traditional policy of conditional most-favored-nation treatment, under which a country received MFN privileges from the United States for a particular product only if it specifically made a trade concession to "earn" this. The reason for the change was that this policy was not suited to a great power, with vast trading relationships, because it generated interminable and insoluble conflicts. So, too, would a series of individual free trade agreements under which each negotiating partner would have to "earn" free trade by concessions suitable to its situation.

I can hardly think of a trade policy more designed to engender friction. In the name of economic integration, the end result would almost certainly be trade confusion and political conflict. A wiser policy would be to encourage the revitalization of subregional free trade groupings and to negotiate with them. On the assumption that there will be a North

American free trade area made up of Canada, Mexico, and the United States, the negotiations could then be between groupings: a free trade area in North America negotiating with a subregional LAC free trade area. The advantages of this pattern of regionalism are that it would encourage subregional economic integration in the LAC area and would reduce the confusion created by many bilateral agreements. Individual LAC countries that are uninteresting in economic terms as free trade partners, because their markets are not big enough, would be more attractive as part of larger groupings.

This model of group-to-group negotiations has a precedent in Europe in the free trade arrangement between the EC and the European Free Trade Association. The EC countries make up an inner circle in which the members are prepared to take on deeper obligations than are an outer circle of countries. The outer circle today is EFTA; tomorrow there may be another outer circle of former Communist countries, such as Hungary and Czechoslovakia. The inner circle in the Western Hemisphere would be the three North American countries. If their free trade prospers, they are likely over time to take on more comprehensive economic commitments than would be possible with Caribbean, Central American, and most South American countries. These countries could then be outer groupings, but still enjoy free trade among themselves and with North America.

LAC integration movements in the period after World War II were not complete failures, but their accomplishments were not substantial. One reason is that they used economic integration--free trade--not to reduce trade barriers, but to expand the scope for import substitution.[20] The

Latin American Free Trade Association, the Central American Common Market, and the Andean Pact were all born during the heyday of the import substitution philosophy propounded by the Economic Commission for Latin America (ECLA). ECLA also advocated regional integration movements as a way to expand markets, but always behind high import barriers. The result was almost foreordained. The more economically advanced countries found larger markets and the more backward were forced to pay high prices for imports. This, to use Jacob Viner's term, was trade diversion exemplified. In a single country, import protection imposes costs and generates benefits within national boundaries. Joint import protection among many countries distributes most of the benefits to a few countries and imposes the costs on others.

The creators of these highly protected integration schemes in the LAC region were aware of the unequal distribution of costs and benefits. They were not willing, however, to give up the high trade barriers against outside countries. They tried to overcome this inherent contradiction by complex schemes of integration or complementation of industries; that is, they divided sectors into a number of sub-industries and sought to allocate these by country. It is hard enough to plan this division of industry in a single country; it was impossible across countries.

The starting point for subregional economic integration in LAC today is quite different, one in which import barriers are low or are being reduced. This is closer to the model set forth by Viner. There may still be unequal benefits among countries, but not caused by wholesale trade diversion. Inequalities of this type can be dealt with by regional policies similar to those in the EC or within countries.

Conclusions

The United States now has clearly embarked on a policy of regionalism, not necessarily by abandoning the multilateral GATT structure, but by coexisting with it. The Europeans embarked on precisely this policy some three decades earlier. The first fruit of this new regionalism is the Canada-U.S. free trade area and the second is likely to be North American free trade to include Mexico as well. The initiative for free trade throughout the Western Hemisphere carries this regional logic one giant step further, but the structure of the proposal is faulty in that it could splinter the hemisphere by leading to a series of bilateral free trade agreements between individual LAC countries and the United States. Beyond the chaos this could create, many individual LAC countries are uninteresting free trade partners for the United States; their markets are just not big enough. A sounder approach would be to encourage subregional integration movements in the LAC region--in Central America, the Caribbean, among Andean countries, and in the Southern Cone--and offer to negotiate free trade agreements between North America and these groupings. Because LAC countries are now lowering import barriers, the conditions for subregional free trade arrangements are more propitious than they have been at any time since World War II. In due course, these region-to-region agreements could lead to the vision that President Bush set forth, of a hemisphere-wide free trade area. If they did not, regional trade would still have been liberalized.

End Notes

1. President Carlos Salinas's letter requesting the free trade negotiations was dated August 21, 1990. President Bush's letter to the chairmen of the Senate Committee on Finance and the House Committee on Ways and Means was dated September 25, 1990. The notification to the two committees was under what are known as fast-track procedures under which any agreement will be accepted or rejected in toto and not be subject to amendment on the floor of the Congress. There is a rigid procedure for fast-track permission, which means that formal negotiations could not start until the spring of 1991.

2. The quoted language from President Bush's letter of September 25 is deliberately ambiguous. What he seems to be saying is that the "consultations" will be trilateral, but that a final decision on the shape of an agreement will be held in abeyance.

3. White House press release on the President's Enterprise for the Americas address of June 27, 1990. The other two elements of the proposal were an investment sector loan program to be centered in the Inter-American Development Bank (IDB), reinforced by a proposed five-year multilateral fund of up to $300 million a year in grants related to investment reform; and a debt reduction program under which the IDB would also contribute to future enhancements under commercial bank debt reschedulings, plus case-by-case reduction of bilateral official debt of LAC countries. Reduction of debt from official U.S. sources can be most valuable to smaller LAC countries.

4. The Canadians use the air travel metaphor of "hub and spoke" to describe this scenario, one which they fear will provide the major benefits to the hub country, the United States. Perhaps, but I think that the hub country would have more headaches than benefits.

5. According to the U.S. Department of Commerce's International Trade Administration, U.S. exports to Canada in 1989 were $79 billion, 22 percent of world exports. Exports to the EC-12 that year were $86 billion and to Japan $44 billion.

6. The preferential trading arrangements I have in mind are the EC, EFTA, the free trade that exists between them, the Canada-U.S. FTA, the preferential trade between Australia and New Zealand, the preferences by the EC to the African-Caribbean-Pacific nations under successive Lomé agreements, U.S. preferences to Caribbean Basin beneficiary countries, the many systems of general preferences by industrial to developing countries, and a variety of preferential arrangements among developing countries.

7. Data are from the International Monetary Fund, World Economic Outlook (Washington, D.C., May 1990), p. 128; and Economic Commission for Latin America and the Caribbean, Economic Panorama of Latin America 1990 (Santiago, Chile, September 1990), p. 11.

8. The Wall Street Journal of September 13, 1990 (p. A18) has an article containing extracts from interviews with five Latin American economics or finance ministers on their reaction to the U.S. initiative. Colombia's finance

minister noted that "it is clear that Latin American leaders and technocrats are finally aware that protectionism is outmoded and ruinous." Mexico's economics minister said that "Free trade is crucial in today's increasingly interdependent world." Brazil's finance minister welcomed the initiative as a "positive sign to Latin America as a whole." Chile's finance minister said that "There is growing awareness throughout Latin America that having an open, trading economy is the surest path for pulling our economies out of the poverty trap." And Argentina's economics minister said, "We are enthusiastic about President Bush's proposal."

9. I base this sentence on a combination of reading the Canadian press, discussions with Canadian officials, and obtaining the views of Canadian business leaders.

10. U.S. Department of Commerce, U.S. Foreign Trade Highlights 1989. U.S. exports to Canada in 1989 at $79 billion were substantially greater than the $49 billion to all other countries in the Western Hemisphere combined.

11. Source: U.S. Department of Commerce, International Trade Administration, "Latin America Trade Review 1989: A U.S. Perspective," Table 4, p. 42.

12. International Monetary Fund, World Economic Outlook (Washington, D.C., May 1990), p. 149.

13. León Bendesky and Fernando Sánchez, "Procesos de integraci6n en América Latina: mecanismos y obstaculos," Comercio Exterior, vol. 40, núm.

7 (julio 1990), p. 623. The percentage refers to Mexican trade with other countries of the Latin American Development Association, which comprises most Mexican trade with LAC countries, but not all.

14. Ibid. The eleven countries are Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

15. Ibid, p. 624.

16. Ibid, p. 621. During the 1980s, the EC share remained more or less constant at about 20 percent of LAC trade; the Japanese share remained constant at between 5 and 6 percent; and the intra-regional share declined to between 14 and 15 percent. Reliance on different markets varies among countries. The proportions of export reliance on the U.S. market are: more than 80 percent for the Dominican Republic and Bahamas; between 60 and 80 percent for Mexico, Haiti, and Trinidad and Tobago; between 40 and 60 percent for most Central American countries, Venezuela, Ecuador, Panama, Jamaica, and Barbados; between 20 and 40 percent for Brazil, Chile, Colombia, and Peru; and less than 20 percent for Argentina, Uruguay, Bolivia, and Paraguay (data from the Inter-American Development Bank). As a general rule, the share of intra-LAC trade is highest for the smaller economies--Bolivia, Paraguay, and Uruguay, and lowest for the larger economies--Brazil, Mexico, Chile, and Venezuela (Bendesky and Sanchez, "Procesos de integración," p. 623).

17. Osvaldo Rosales, "Competitividad, productividad e inserción externa de América Latina," Comercio Exterior, vol. 40, núm. 8 (augusto 1990), p. 711.

18. Tino Perera, "Despite Debt Troubles, Latin America is Still a Key U.S. Trading Partner," Business America, October 22, 1990, p. 20.

19. An example of this is José Tavares de Araujo, Jr., "Integración económica en América del Norte y el Cono Sur," Comercio Exterior, vol. 40, núm. 8 (augusto 1990), pp. 739-744. The author, a Brazilian, attempts to graph the relationship between sovereignty loss and economic integration. He shows much concern about loss of sovereignty. This issue is far from dead even in Mexico, where steps toward economic integration with the United States have gone quite far.

20. Jacob Viner's The Customs Union Issue (Lancaster, Pa.: Lancaster Press for the Carnegie Endowment for International Peace, 1950) discusses the use of "free trade" agreements as techniques for increasing protection.

PETER FIELD
Senior Policy Advisor for the Western Hemisphere
Department of Commerce

The Enterprise for the Americas has three legs, or "pillars": debt, investment, and trade. The debt portion is essentially an effort to restructure official debt, or debt owed to the U.S. government. This includes both the concessional side, which represents about $7 billion now owed by the countries of Latin America to our government, and the market rate debt, which totals about $5 billion. The debt pillar could provide new breathing room for some of the smaller countries, such as Ecuador, Costa Rica, and Jamaica, but as a proportion of their total problem, it will not do much for the ones that have huge debts, such as Brazil, Mexico, and Colombia. On the other hand, if the Latin American countries could get together and encourage the other major creditor countries to chip in, there might be some real impact on the net transfer of resources out of the region, which has been measured at about $33 billion for last year.

The investment portion of the enterprise may not hold top priority for Latin American governments, because most of them recognize that they must simply attract the investment that they need. They know the plan is based on self-help, on putting the right macroeconomic policies in place, and that it is a question of making a climate that is attractive to investment, both domestic and foreign. The conditions that attract investment--regardless of the type--are the same. Enrique Iglesias, president of the Inter-American Development Bank, has been given an important role under this Enterprise for the Americas Initiative, particularly in the investment portion. One of its elements is that there be established an investment fund. This fund is going to be a high priority in the new session of Congress because it is a request to authorize $100 million for five years, or $500 million, in an investment fund that is really an investment development fund. This refers to technical assistance, provisions to help countries reform their investment regimes and help them with the privatization programs. We should not underestimate the role that the Inter-American Development Bank can play in this.

For most countries, the trade aspect offers the most promise. It is the notion of potentially creating a hemispheric free trade zone from Anchorage to Tierra del Fuego that captured the imagination of the Latin governments. It has not, however, caught the imagination of those in the United States, and particularly not the U.S. press. I could not find press coverage of the event on the day following the announcement of the initiative. Granted that some people say the president should not make announcements in the afternoon. But we will look back past the dust of Iraq, the budget crisis, the S&L debacle, and the Soviet Union economic meltdown to see that June 27, 1990 was an historic day in the evolution of our hemispheric relations. That day was the initiation of a process, not a program.

The three pillars of this process will support potential tradeoffs, which strengthens its appeal and its long-term impact. Under Secretary David Mulford gave the following outline to Senator Paul Sarbanes: if we can reduce the official debt for some of these countries, we not only provide them with breathing room to meet the necessary macroeconomic adjustments, but also we make the investment climate more attractive. If a country owes $100, it should be paying six percent interest; but it is only paying two and capitalizing the remaining four. That stock of debt can rise to $160 over a twenty-year period. If we forgive or write down 40 percent of that, and continue to take the same income stream so that it is budget neutral, that stock of debt could be reduced to zero within twenty to twenty-five years, which makes that country surely more attractive as an opportunity for direct investment. That is just one example. Another would allow for a country to restructure its official debt and accelerate the dismantling of some non-tariff barriers. In any case, the countries must see the need to do it, working with each other to do that.

Under the Uruguay Round, which is rapidly drawing to its deadline, we would offer deeper than average tariff cuts for products that we know are of interest to those countries. What would be new is that the United States Trade Representative (USTR) would go forward and offer those lists and not wait for the countries to come forward formally. The president has proposed special CBI-like treatment for Colombia, Ecuador, Bolivia, and Peru. Venezuela is a "wild card" in the Enterprise for the Americas, because it is excluded. This may be true of the Dominican Republic, as well, because it seems to be neither in the Caribbean Common Market (CARICOM) on the one hand nor the Central American Common Market (CACM) on the other.

What is the role of regional integration? Under this overarching umbrella, five things are happening. The Mexico agreement is pending. The five Central American countries are saying they have to act together and perhaps revive the old 1960s mechanisms. In the CARICOM, the Kingston Declaration indicates their fear of becoming marginalized, so they have put the Central Bank presidents to work to come up with something like a monetary union; they may develop a common external tariff. With stimulus from the U.S. effort to eradicate the drug crop, an Andean common market is developing. It has been a disaster because of Decision 24, but perhaps they can get it together. And the Southern Cone is the key--that vital axis of Argentina-Brazil trade which was the basis and the hope of the old Latin American free-market ideas going back to the Prohibition days. They want to establish a common market by the end of 1994. Uruguay and Paraguay want to be in on it. The Chileans feel they are so far ahead of everyone else that they should be signing an FTA with the United States today. The problem is that the enormous volatility, instability, and massive inflation rates in the two principal countries--Brazil and Argentina--provide no basis for what they would like to get. There are short-term problems, but the goal is there; the political will is there.

How do you bring those five movements towards negotiating an unprecedented hemispheric FTA with the United States? We should learn from Canada. The Canadian Ambassador to the OAS said that the Canadians like to think that the FTA they signed with the United States is the first concrete step toward the hemispheric free trade zone, which makes Mexico not the first but the second. How to get these poor countries into rich clubs is something to think about. The Europeans are thinking about how to get a Portugal, a Malta or a Greece into the European Community; maybe we can learn from that, too.

DONALD S. ABELSON
Deputy Assistant U. S. Trade Representative for Mexico
Office of the U.S. Trade Representative

The president of the United States informed the U.S. Congress on September 25th of his intent to negotiate a free trade agreement with Mexico. The issue of the actual date on which negotiations commence has no relevance to the will to begin and the fact that the president has stated his intent. We expect that by the beginning of 1992 we will have an agreement signed by the presidents. We expect that all domestic procedures in the United States, which call for introducing legislation to the Congress for approval, not for ratification as a treaty, to be completed by the summer of 1992, before the U.S. presidential election. Free trade agreements really are, particularly for the United States, prospective agreements. We are trying to create a future, trying to create opportunities and challenges for our traders--our importers, our exporters, our industrialists, our agriculturalists, our service providers, our investors, and our holders of intellectual property.

But in Washington, D.C., right now, the job is to deal with the problems of today, the lists of the negatives or the impossibilities. The lobbyists are taking the concerns of particular interest groups and making sure that we do something about them. At this moment, we are not negotiating with the Mexicans, so we can think pie in the sky. All of us together--the people in the government, the people in the private sector, the people in academic institutions--can start thinking about what it is that we want to create.

The folks who will bring us down will put our feet firmly on the ground. They will make challenges to our process, some of which we cannot meet, and we will have to bend and mold and shape the agreement to take their concerns into account. But at this moment, thinking broadly, we are after an agreement that is "comprehensive"--the word used by the two presidents in June, when they made the announcement of their vision, and by the two trade ministers when they reported back to the presidents in August.

The FTA will be comprehensive not only in coverage--that is, in terms of sectoral coverage or product coverage--but also in what it does. We will cut all tariffs to zero; that is normally the stuff of FTAs. The FTA will be comprehensive in its elimination of non-tariff barriers--quotas, licensing, border measures, internal measures. The FTA will be comprehensive in its elimination of barriers to investment. We do not want the environment in Mexico to have investment barriers. We want to eliminate the barriers that may exist to service providers. The United States is largely a service-based economy. Surprisingly, so is Mexico. And so any agreement that does not handle these kinds of problems is not the kind of agreement that we are looking for.

The agreement must protect the rights of intellectual property holders--patents, trademarks, trade secrets, and copyrights. They are the stuff with which we do our business, the technological base from which many of our companies and many Mexican companies proceed. In this we share a similar vision with the Mexicans. In January of this year, the Mexican Commerce Minister announced his government's intention to fully protect product patents. They have been working in a very concerted way on an improvement of the copyright law in Mexico. These two initiatives are not being done at the instigation of the United States or through an FTA negotiation. They are being done because the government of Mexico understands the important role of intellectual property rights. The agreement must also have a dispute settlement mechanism that assures all users of the agreement--we will be users of the agreement one day--that there is a way to secure those rights through an impartial, expeditious process.

If we are able to fashion an agreement like that, then we will have a job well done. However, there are real problems. Four days after the president's vision was announced in June, the AFL-CIO and the United Automobile Workers Union came out against it. The "it," of course, has not been drafted. So to be against "it" is to be against the concept. They assume the idea will be fashioned like others in the past--and they did not like those. The Rubber Footwear Manufacturers Association and the Western Growers Association are also officially against the FTA. It would be unfair to list other groups that may be against it, because maybe they will not be; maybe there is an opportunity here, a challenge they want to grab, and they will see that.

ISAAC COHEN
Director, Washington Office
Economic Commission on Latin America and the Caribbean

The reaction to the Enterprise for the Americas Initiative in Latin America has been highly positive. The traditional defensive reaction to anything coming out of Washington is not there, and this is important. The reason is that the Latin American countries themselves, some more rapidly than others, have been undergoing the process of liberalization. This makes the difference between today and what happened previously with the idea of a U.S.-Mexico free trade area. Mexico does not now have to remove its trade barriers to negotiate with the United States. It has already done so. And Mexico is probably the country in the region that has had the most defensive foreign policy against the United States.

The Inter-American Development Bank (IDB) has been given primary responsibility for the initiative. The Economic Commission for Latin America and the Caribbean (ECLAC) will associate itself with the IDB in promoting the idea. As for the hub and spoke process, it is important to try to group the Latin Americans together. It has been difficult for the executive in this country to get fast-track authorization from Congress to negotiate this agreement. I do not see the executive getting this authorization twenty-nine or thirty times to negotiate with each individual country. Some of the insecurities of the Latin American countries might also be overcome if there is a feeling that bargaining power will be increased by the nations grouping themselves together. The small countries are worried about the possibilities of negotiations between ABMEX (Argentina, Brazil, Mexico) and the rest of Latin America, which stays more or less outside of the picture. That is dangerous.

There are some positive developments in this sense. We are beginning to see the emergence of a group approach. The BAPU countries (Brazil, Argentina, Paraguay and Uruguay) are leading the way; they are close, apparently, to negotiating a framework agreement with the United States. There are also the bilateral arrangements and the framework agreements that have already been signed with Chile, Ecuador, Colombia, and Honduras; Costa Rica will probably sign one soon.

DISCUSSION

Joseph Tulchin, Director of the Latin American Program, asked about the potential difficulties of dealing with the Congress, which in the past has been less than euphoric in its treatment of free trade agreements, particularly with major countries like Mexico.

Field responded that it would be unwise to assume that legislation for the Enterprise for the Americas would sail through the Congress. However, some factors favor assuming a relatively proactive or sympathetic view of the Congress. One is the Hispanization of our society. Many congressmen feel there should be a way to tap this on a bipartisan basis in the House and the Senate.

A second positive factor is that many members of Congress have been worn out by the Central America crisis, particularly House Democrats. The enterprise might allow leaving behind the emotionally draining dialogue of the 1980s on Nicaragua, El Salvador, Cuba, and so on. What is needed is a careful, brick-by-brick congressional strategy in support of the Enterprise for the Americas. The peacetime presidential initiative it represents requires a specific process for handling it. A team is needed in the White House, or preferably in the National Security Council, to monitor these initiatives and make sure they succeed.

Additional areas of support for the enterprise could be built. The concept of foreign aid is now under review by the Congress. Legislation has been introduced that would address the tied aid and mixed credit approach in a systematic manner over a period of time. Instead of giveaway programs, we must start tying our foreign aid to conditions and being competitive on projects. We need to recognize that basic human needs can be met equally well by supporting a water project or an urban rapid transit system, as opposed to using the post-World War II cash balance-of-payments approach. Another area in which support can be built is the House of Representatives, particularly the Banking Committee, in the form of trade finance. There are many medium and small firms across the United States that are on the cutting edge of technology, looking for joint venture partners in Mexico, Colombia, Venezuela, and Argentina. They start by shipping goods, and for lack of available trade finance, they either lose export sales or divert the sourcing of that equipment to the Latin American market out of Europe, because trade finance is available there.

Abelson responded that, with regard to the USTR, the question is whether it believes that the Finance Committee in the Senate and the Ways and Means Committee in the House are in favor of or against the specific initiative on Mexico. Everything the USTR has heard so far from those two committees indicates that they support it. But, in the case of Canada in 1986, when the two committees were considering a decision to disallow the use of fast-track procedures, a vote was taken in Senator Bentsen's committee. It was a tie and he abstained. That did not prevent the administration from going ahead, it was just a reminder of the importance of this committee and its chairman.

When the administration submits its legislation, it will be done under the fast-track procedure, which means that the FTA agreement should be considered by the Congress in a simple up or down vote, without being subject to amendment or revision. As in the past--for the Tokyo Round trade agreements, the Israel FTA, and the Canada FTA--the individual representative or senator votes on the whole package--not some part of it. Votes taken in those previous instances have been overwhelmingly in favor of the treaties, and it is up to the administration to ensure that what is being negotiated is in line with the expectations of Congress.

Isaiah Frank of the Johns Hopkins University School of Advanced International Studies indicated that the free trade area with Canada is basically between two countries at roughly equal stages of development and with wage rates that are comparable. But one can understand why the AFL-CIO is opposed to an arrangement in which its members' wages and conditions are going to be under pressure from the production of low-wage products in Third World countries, with no possibility of protection.

Weintraub responded that this was a legitimate concern, but a sectorally driven and narrow one. The disarmament of tariffs in not really an issue. The areas in which labor such as the AFL-CIO is most concerned are those areas in which the United States already has either high tariffs or high non-tariff barriers. Therefore, the question really is the same trade policy question that has always been asked: How much protection should we have in our domestic economy in certain industries that are very labor intensive, such as automobiles and clothing? The United States has existing subsidies. There are emergency provisions for dealing with those kinds of issues. When the European Community brought in the low-wage countries, the adjustment took place over a period of time, and there were mechanisms for dealing with it. The areas Frank mentioned are not that extensive--apparel and perhaps some fruits and vegetables, which are now dealt with through seasonal arrangements despite the Western growers. The legitimate concerns of the AFL-CIO must be met by a long transition and extensive adjustment assistance.

Field suggested that it would be useful for the Enterprise for the Americas to have some kind of hemispheric-neutral forum where, in advance of these various subregional arrangements leading ultimately towards the hemispheric free trade zone, potential winners and potential losers could lay out their fears before negotiations that could lead to misunderstandings, heightened emotions, and an undesirable reaction in the Congress. Such a forum could perform a useful function and could bolster congressional support, which is vital.

Cohen remarked that the results of the Caribbean Basin Initiative have been disappointing. It is easy to pinpoint or identify labor as the main source of opposition, but, in fact, the strongest opposition to the processes of liberalization in the case of CBI has come from protected producers in the United States. The results of the new CBI II are also extremely limited. The success stories of Latin American exports to the market in the United States are based on the emergence of alliances between Latin American exporters and interest groups in the United States. As an example, Brazil supplies 50 percent of all the frozen concentrated orange juice (FCOJ) in the United States. The secret of this trade, ECLAC found, is the emergence of an alliance between the Brazilian exporters and the distributors of FCOJ in the United States--Coca-Cola, Tropicana, and several very powerful groups that have been able to overcome the opposition of the Florida orange growers. (A panelist added that Citibank is also playing an important role here by financing both the export and import.)

The International Trade Commission recently published a report that measured the welfare effects of the CBI in this country, which amount to only between $2 million and $8 million per year. Cohen noted that if the amounts involved are so minimal, interest groups in the United States are powerful enough to assert their position, as witnessed in the case of the CBI. The emergence of alliances is critical, and labor cannot be automatically counted as the opposition.

Frank agreed that alliances are important. He saw the U.S. automobile industry building an alliance with automotive manufacturers, or moving themselves to automotive manufacturing in Mexico and Brazil, or wherever. But that does not solve the question of the workers. The capital in an enterprise is internationally mobile, but workers in general are not. Those who are working in Detroit cannot go to where the plants are going to be moved. They have a stake in their jobs here in this country.

Gregory Schoepfle, Director, Division of Foreign Economic Research, U.S. Department of Labor, addressed the issue of adjustment as important to both the United States as well as the economies of South America. The social concerns in the adjustment process should be considered in the hemispheric initiative. This would not be done by the United States pointing a finger at Latin America, but by addressing immigration and other issues. When asked about funding for such an effort, Schoepfle noted that others had said that adjustment would not be terribly costly to the United States. But would the United States be willing to consider adjustment assistance programs, and will trade alone resolve the problems of developing new growth in Latin America?

Field agreed that the name of the game is economic growth, not trade liberalization as such. Economic growth is the long-term goal. The trade pillar of the Enterprise for the Americas Initiative is considered by most of the countries to be the most important one. But with the tradeoff potential built into this formula, the opportunities are great for expanding beyond the trade area. Productive investment is most important in the end.

The question is how far ahead are we looking? The United States is not thinking in terms of full factor mobility as far as labor is concerned. The United States is not talking about a single market or a single currency. There should be discussion, however, about the possibility of enhancing intra-regional trade, under the so-called bilateral Central Clearing Agreement, and about the Santo Domingo Accord. In the past, Field added, regional integration has been virtually ignored; it is only now being addressed. Brazilians are shocked when the United States talks about a hemispheric free trade zone but without planning to create a complete, single market.

The parties involved must be clear about their aims. It is legitimate for the U.S. Commerce Department to be worried about long-term share of the market and our economic interests throughout the whole region. Thus, the United States should be pushing hard on points such as performance requirements. But enhancing the climate for new direct investment is a win-win situation. The United States has an opportunity to take a big lead, since it still has a major share of the market in Latin America, although inroads are being made by the Japanese and the European Community in the high-tech area.

Weintraub agreed that trade alone is not enough. In a sense, a free trade agreement is not about trade, it is about income and employment, and about how trade as an instrument will help to increase income and employment. The Mexicans know it is an agreement about getting investment and increasing productivity. Indeed, the thinking in Mexico is about how to increase productivity and therefore reduce those wage disparities about which many people in the United States are concerned. Trade serves that purpose. Increasing investment for a big market, not just a small one, and securing it on a proper scale are the key issues. The idea of a social fund for the whole hemisphere is a reflection of the way the European Community does it. It is easier for the Europeans because the funds are regional, and because there is a common market with a certain amount of political cohesion. But this is not a fanciful proposal for this hemisphere. It will not happen now because of budgetary constraints, but it is not necessarily an unreasonable plan for five or ten years down the road.

Cohen cited that in Latin America today, the persuasive argument is that investment is going to be the only available source of external finance. Consequently, free trade is viewed as an instrument to attract foreign investment, to gain access to technology, to increase productivity, and to modernize productive structures in a way that makes it competitive. Latin Americans have been trying to observe very closely the Canadian experience. They have come to the conclusion that Canada has been the most successful in deriving welfare benefits and effects from its relationship with the United States, which is based on a neutral trading relationship that is very intense. It is, after all, the largest free trade area between two countries in the world. If Latin Americans look at the level of welfare and the standard of living that has been obtained in Canada, they get an idea of the direction in which their own prosperity could be moving.

Stuart Tucker of the Overseas Development Council raised the objection that while Weintraub advocated a regional approach, he also advocates a North American Free Trade Agreement (NAFTA) first. Thus the Latin American regional groupings would have to talk with the United States as well as Mexico and Canada. Once these three countries form the NAFTA, how are the regional groups going to negotiate with them? It might be easier in some ways to have twenty-nine individual agreements. There needs to be a method of getting the regional groupings to talk in an effective manner. There has been no mention of the effect of the Uruguay Round of trade negotiations on the potential Mexico agreement, on regional trade groupings within Latin America, and on the Enterprise for the Americas Initiative. The Uruguay Round has a significant implication for settlement of trade disputes. Caribbean nations in particular fear that in the absence of a GATT agreement there will be a series of retaliatory trade actions against them by the United States. Would anything be salvageable with regard to dispute settlement in the Uruguay Round, if the talks fail, that will make it easier for the regional system in Latin America to come together? And resolution of the debt problem is critical to all of these financial flows. Is not the U.S. requirement that its efforts to resolve the debt problem be budget neutral unrealistic?

Abelson said that the USTR office is confident that the Uruguay Round meetings in December will lead to a renewal of the dedication to complete the round. At this point the public position is that it will be completed in December in Brussels and that we will be successful in our major objectives, that is, in improving the multilateral trading system in the areas that are absolutely of essential importance, including agriculture. The Uruguay Round need not be successfully completed before going on to Mexico. It would be much easier to know that the Mexicans, for example, have joined in the international consensus on an investment code, a services code, and other issues, but that does not mean that bilateral negotiations with Mexico could not begin. Life would be made easier if there was a successful Uruguay Round, not just in textile products but also in agriculture. California melon growers have told the USTR that they would not mind the Mexicans coming in if they can sell in Korea, Singapore, Germany, and France, which is the goal of the Uruguay Round. But if they cannot sell overseas, then the Mexicans cannot come in. This is what the USTR is up against, but those problems are not unsolvable.

Weintraub clarified that he did not mean that the regional groupings should approach the United States, but that they could negotiate with the North American free trade grouping. This would be a North American--not a United States--hub. But such a plan also raises agreement on process. A free trade area does not have that kind of negotiating. Nevertheless, the United States and Canada are going to be negotiating with Mexico. It will require a new agreement because there are three entities involved. There is no common market and none of the countries involved is giving up negotiating sovereignty. But once a free trade agreement is in existence for five or six years, and if it is working, there will be all kinds of derogations from economic sovereignty.

Abelson provided the official position on the trilateral NAFTA: it is the intention of the U.S. government to negotiate with Mexico. That is the intention stated by President Bush in his letter to the Congress in September. In that same letter the president goes on to notify the Congress about consultations that will deal with the Canadian desire to participate; this regards the question of a mechanism by which the administration can deal with Congress on further Latin/South American initiatives. Canada's desire to be at the table requires a decision of all three governments. The important point is the Canadian desire to participate and to be actively involved in the discussion.

U.S. Sections 1102 and 1103 of the Trade Act of 1988 say that the administration must notify the Congress of bilateral and multilateral negotiations. It fails to mention trilateral and plurilateral talks, because no one thought, when drafting the law, that these gradations would have to be included. The administration must, then, talk with the members of Congress and work out an understanding. This is why the president's letter also said that, if the result of the consultations is that the Canadians participate, he would write to Congress again.

Ambassador Sally Shelton-Colby, a private consultant, praised the administration for launching the Enterprise for the Americas Initiative, but added that there is no mention of debt owed to international financial institutions, an issue that must be addressed. Japanese corporations have a surprising degree of interest in Latin America, due in part to the very impressive embrace of economic reforms that all of Latin America seems to be putting into practice. Chile, Mexico, Venezuela, and Bolivia are far ahead of Brazil, Argentina, and Peru, but those countries as well are moving towards market-oriented economic reforms. The Japanese recognize that and are interested in positioning themselves. Specifically in the case of Mexico, the prospect of a U.S.-Mexico FTA is attractive to a number of Japanese companies who are less interested in production for the Mexican market than they are in production for the U.S. market. The willingness to place some of the burden for our own trade problems on Japan, rightly or wrongly, is strong in the Congress. To what extent will Japanese interest in Mexico complicate the congressional approval process for the U.S.?

Abelson responded that there has already been reaction expressed with regard to Japanese involvement in the maquiladora program: between 3 and 5 percent of all maquiladoras are owned by Japanese capital, and yet that is blown out of proportion by some members of

Congress who want it to appear as a special program through which the Japanese are sneaking their products into the U.S. market. Rules of origin can handle the problem of products getting around U.S. laws. What comprises a "Mexican," "Canadian," or "U.S." product for the purposes of the agreement can be discussed. The administration has built a model into the Canada agreement to demonstrate what it could look like. That would handle the product side. The other question, of course, concerns "transplants." If there is a Japanese or Korean transplant in Mexico, or a fully Mexican product under the current way of thinking, that product would enjoy the benefits of the agreement. These issues will have to be addressed as the negotiations proceed. There is the possibility of congressional over-involvement on this aspect. The administration's goal is to open up investment in Mexico for U.S. investors. If an opening is made at the same time for other foreign investors, so be it. The Mexican government's goal is to bring in capital of any kind.

Field added that Japan's growing interest in Latin America should shake America awake. Unites States investments in Brazil at $14 billion are about equal to its investments in Japan and France and dwarf U.S. investments in Mexico today. If one considers offshore platforms as business globalizes, Brazil has to be a major factor in the equation. And the extent of Japanese involvement in Brazil today, despite skittishness and the traditional cautiousness of the Japanese banks, is impressive.

José Luis Bernal, Consular for Economic Affairs, Embassy of Mexico, stated that there are groups that believe that most of the Japanese investment in Mexico is an attempt to circumvent the United States

Congress in areas where Japanese rules prohibit or restrict entrance into the U.S. market. This is not the case. Japanese participation in the maquiladora sector is limited in amount and types of products. In most of the cases where there is a product made of mostly Japanese components, rules of origin exist to ensure compliance with U.S. law. On the other hand, Japanese participation in joint ventures in Mexico is greater than its involvement in the maquiladora sector. The Japanese have been working in Mexico for many years, as have Europeans, Canadians, and even Latin Americans, investing in projects focused on the Mexican domestic market. Recently, the Japanese have expanded into energy, oil-related projects, ports, steel, and many large projects for which the Mexican government has been promoting foreign investment and privatizing. The promotion of foreign investment in Mexico does not have to be reconsidered or changed because of free trade negotiations with the United States.

Mexico's main interest in promoting the free trade agreement with the United States is to strengthen the economic reform that has taken place in the last few years. The U.S.-Mexico free trade initiative by President Salinas came before the Enterprise for the Americas Initiative was made public by President Bush. Also, Mexico's initiative was not aimed at improving its relationship with the United States but at economic reform and overcoming economic crisis. After reforms were implemented in almost every aspect of its economic policy, Mexico needed to secure access to foreign markets. Since most of Mexico's foreign market is located in the United States, it decided to secure access through a free trade agreement. Mexico believes that if it can reach this goal, it can continue expanding its economic reform and also provide new opportunities for investment for

Mexicans, and for the firms in the United States, Latin America, Japan, and Europe.

Regarding the possibility of other groups in Latin America getting together to promote free trade at the regional level, there is a perception in Washington, DC, that the Latin American countries are simply waiting for the Enterprise for the Americas Initiative to bring the blessings of economic development. This is false. In a recent trip to Latin America, President Salinas promoted not only Mexico's bilateral deals but also the idea of improving regional coordination and integration. He promoted a new group of thirteen member countries and a separate group of three, including Colombia and Venezuela, to benefit Central America. Latin American countries generally are making an effort to restore regional integration, and they are doing so with a new vision of opening their own economies and reforming their political and regional mechanisms for communication.

Tino Perera, International Economist, Office of Trade and Investment Analysis, Department of Commerce, argued that free trade supporters should be prepared to deal with the perception that sectors of the U.S. labor force may be adversely affected by free trade. There may also be some substance in this argument. In the European Community, the integration of countries like Portugal and Greece had not really created major adjustment problems. However, Portugal and Greece are small countries with small populations; there is no big trading partner in the European Community. Mexico and Brazil are large countries and are substantial trading partners of the United States.

Weintraub responded that one has to view the situation in those few sectors that are already highly protected in the United States because that is where the United States is producing its low-wage goods. One way to make this examination is to look at what developed in the European Community and get some sense of the dimension of the adjustment the countries faced and how they dealt with it. There are other ways to view this issue. One can examine the United States to see in which areas labor is most deeply concerned. Those areas can be studied to determine what kind of derogations have to be made from free trade, how transition periods differ, how long the transition periods have to be, and what sectoral adjustments are needed. The adjustments may be difficult, because Mexico has low wages and the United States has high wages. But if low wages were proof of success, Haiti would be exporting everything possible to the United States and India would be the most successful country in the world.

Felix Peña of the Inter-American Development Bank noted that some Argentines and Brazilians are optimistic about negotiating a free trade agreement with the U.S. Chile, Brazil, and Argentina might have full free trade agreements with the United States after 1992. If so, what will Congress think if, as soon as the Mexican negotiations are complete, it perceives that it will also have to address negotiations with Chile, Argentina, and Brazil? How could Congress explain a possible new kind of discrimination in which some countries have protected markets via a free trade agreement with the U.S. and some do not? Could they only have this insurance in ten to fifteen years once they develop their own common market and begin to negotiate?

Weintraub responded that when a country has a large restrictive arrangement in place, high inflation, uncertain social policies, high tariffs, and high protection, there is no way to join in a free trade agreement. Mexico, on the other hand, has been taking steps for about ten years, and this liberalization has made free trade talks possible. If Argentina proceeds along the lines that President Carlos Menem would like it to, if Brazil does the same under President Fernando Color de Mello, and if it proves possible to have a Southern Cone integration arrangement with as many as five countries, then it is possible.

A free trade area is discriminatory. It discriminates against everybody from the outside. That is why a multilateral approach is preferred to a regional approach. At present, however, regionalism co-exists with the multilateral approach. Therefore, the crucial aspect of any trade agreement is that the external tariffs have to be low. If they are low, then there is not as much trade diversion. Argentina is not a big trader with the United States, with only about ten to fifteen percent of its exports going to the United States. The countries that can be most affected by discrimination, at least in the immediate future, are in Central America. It is the responsibility of the United States and Mexico to try not to hurt them.

Isaac Cohen raised the issue that the Canadian ambassador went on the record that one of the problems with hub and spoke is that it is hard to give the same treatment to all of the spokes. There are also complaints from spokes that feel they are being denied a fair share of the trade. This is politically complicated.

Vincent Arraya of the Voice of America asked Abelson how concerned the United States is with Japanese investment in Latin America, what the United States is going to do about it in terms of investment in Latin America, and whether this issue would be addressed during President Bush's visit to the five countries in Latin America early in December?

Abelson responded that there is a U.S. policy of neutrality on investment: the United States is not against investment outside the United States; it neither promotes nor discourages investment on its own territory. Therefore, one can assume that this is the policy for investment in other countries.

Masahiro Matsumura of the University of Maryland noted that U.S.-Japan cooperation was an important dimension in the management of Latin American economies. But when the Enterprise for the Americas Initiative was proposed and publicized, the Japanese were unhappy; they perceived it as inconsistent and contradictory. Is the United States prepared to accept Japanese hegemony in Mexico comparable to that in the East and Southeast Asia?

Abelson responded that there is always a difference between the perception that Congress has of issues and the reality behind them.

Foreign capital transplants in the United States are U.S. companies, and they are treated without discrimination in the United States. The discussion, therefore, of whether or not the United States will treat them differently if they are located in Mexico or another foreign country is really academic. The U.S. should not because they are not treated differently by U.S. law. There is very little foreign capital that is not welcome in the U.S. economy.

To get at the political issue, the Bush administration has to seize the initiative and challenge those representatives who would be against an agreement because it may allow Japanese or other foreign capital to enter through "the back door." The administration has to argue that it is opening this market for U.S. traders and deal with the competitive environment of the future. If the United States does not do this, how can it begrudge other foreign capital competitors from doing what it should be doing?

Field responded that Japanese cooperation in the enterprise will certainly strengthen it. If the perception in Japan--and this may not be the case--is that it was not well-handled, then there are opportunities to help rectify that. But there is no reason why the Latin Americans, like the Rio group, should not go directly to the Japanese with the excellent contacts they have, with the Japanese export-import programs that are already in place in their countries, to urge them to help expand the potential benefits of the initiative. The European Community may be preoccupied with itself right now, but there are many Latin American countries, particularly in Central America and the Caribbean Basin, that hope that the European Community will want to play a more active role.

Cohen added that, under the initiative, a fund is going to be created in the Inter-American Development Bank to improve the investment climate throughout Latin America. For this fund, the United States has pledged in legislation proposed by the president $100 million a year for the next five years. The expectation is that contributions will come from Japan, the European Community, and Canada. This implies that it is going to be a level playing field for all investors. Latin America should not be interested in the emergence of a captive territory of investment for anybody.

Sylvia Saborio of the Overseas Development Council asked whether countries that are not at the negotiating table will be influencing the talks on a U.S.-Mexico agreement. What occurs with Mexico may influence future accords with other countries in the region.

Abelson responded that most activities that the United States undertakes in the trade world are precedent setting. The results of a Uruguay Round will set a precedent for what happens in these talks with Mexico. The Canada agreement is a precedent of sorts for the agreement with Mexico, and before that, the Israel agreement was a precedent for Canada. Mexican negotiators are probably looking behind them at the next country in line, just as the United States will be looking behind Mexico. This is nothing new. In the area of intellectual property rights, there is not a single Latin American republic that does not know the status of the negotiations with the United States and other developed countries on the protection of these rights. It will be no different in these discussions. Rather, it may actually be a positive factor.

Weintraub commented that he did not know what went on within the Bush Administration regarding the Initiative and the U.S.-Mexico free trade agreement. He assumes that the knowledge that there were going to be negotiations with Mexico stimulated to some degree the proposal for the rest of Latin America for political, if for no other, reasons. Weintraub agreed that the existence of the Initiative will play a role in negotiations for the individual country cases.