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# Reciprocity in the FTAA: The Roles of Market Access, Institutions and Negotiating Capacity

Julio J. Nogués

*Special Initiative on Trade and Integration*

# **Reciprocity in the FTAA: The Roles of Market Access, Institutions and Negotiating Capacity**

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# RECIPROCITY IN THE FTAA: THE ROLES OF MARKET ACCESS, INSTITUTIONS AND NEGOTIATING CAPACITY

Julio J. Nogués \*

*The benefits of the FTAA to Latin American countries will materialize through two channels: improved access to the region's markets, and enhanced growth prospects through the strengthening of basic economic institutions. Furthermore, the importance of these negotiations is heightened by the fact that they are taking place against the failure of the Uruguay Round to liberalize agricultural trade, and the lack of progress in the ongoing negotiations of the Doha round. Under these conditions for Latin American countries, who are net exporters of different bundles of agricultural products, the FTAA could be the best opportunity for accelerating growth in the region. The analysis includes a discussion of these issues stressing the fact that in order for the reciprocal exchange of concessions agreed in the FTAA to result in an important liberalization of intra-regional trade, Latin American countries will have to negotiate with greater firmness than in the past.*

## I. INTRODUCTION

Latin America has supported the Free Trade Area of the Americas (FTAA) because it sees this project as a way of creating the conditions for improved growth performance and declining poverty. In searching for these objectives with effectiveness, this paper calls attention to some of the conditions that are necessary in order for individual countries to internalize important benefits from the FTAA. While for any given country every bilateral and regional outcome of these negotiations will have its own unique set of economic effects, in this paper I focus attention on the negotiations between Latin American and the United States. The reason lies in the fact that, according to existing knowledge on the determinants of growth and convergence of per capita incomes, it is the outcome of this exchange of concessions that holds the promise of the most significant gains for Latin America. This paper argues that such a convergence is more likely to take place if: (1) the outcome of these negotiations is characterized by a reciprocal and a significant mutually beneficial exchange of market access concessions and, (2) Latin American countries strengthen some of their fundamental economic institutions.

The order of presentation is the following. Section II recalls the central role that reciprocity has played in regional and multilateral negotiations. This is of particular importance because this principle was developed in the United States (US) in the early 1930s and later incorporated into the General Agreement on Tariffs and Trade (GATT) as a central element of the multilateral trade negotiations. Two interpretations of reciprocity are discussed in this section: a narrow and a broad interpretation which suggests that Latin America can profit from the FTAA through many channels

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of which trade is only one of them. Section III argues that the outcome of Uruguay Round (UR), which is the most important precedent of the FTAA negotiations, was unbalanced against the Latin American countries. This experience leaves important lessons for Latin America one of which is the need to negotiate with firmness. Section IV presents a condensed discussion of the likely implications of the US goals for the FTAA. This analysis suggests that in spite of the fact that the US has an ambitious negotiating agenda, Latin America has much to gain from the FTAA. Section V highlights the role of this agreement as a potential force in support of the strengthening of institutions in Latin American countries. Here is where a broad interpretation of reciprocity helps to understand gains of the FTAA that are over and above those associated with the exchange of market access concessions. Granted that this is the case, the final two sections of the paper are written with the idea that the higher the degree of intra-regional trade liberalization, the greater will be the benefits for the hemisphere. Section VI will discuss several elements that help to understand the handicaps of Latin American countries in the trade negotiations. This discussion points to the need of undertaking a major reassessment on how these countries can strengthen their capacities to negotiate with firmness. Finally Section VII, presents some suggestions for moving in this direction including the creation of an institutionalized mechanism for oversight of the trade negotiations. The paper also includes an appendix that presents suggestions for analytical work that could (should) be undertaken in order for the Latin American countries to understand better the economic impacts of the FTAA.

## **II. RECIPROCITY PRINCIPLE IN HISTORY AND PRACTICE**

This section will address two questions: What is the origin of "reciprocity" in international trade? and, How has this principle been applied in practice? The discussion will highlight the different meanings that have been attached to this concept.

### **2.1. Reciprocity in history**

Under the Hoover administration, the US Congress passed the infamous Smoot-Hawley Tariff Act of 1930. As a consequence of the upward adjustment to the US tariff structure introduced under this legislation, the average tariff rate reached an all time high. As is well known, this led to an implosion of US and world trade flows, deepening the recessionary effects of restrictive macroeconomic policies that were being implemented in order to sustain the gold standard (Temin [1999]). Shortly after taking power, President Roosevelt abandoned this standard under which US industrial output had fallen by around 50% between 1929 and 1932. Together with this critical decision, several other significant economic and social policies were implemented. In relation to trade policy, under the leadership of Cordell Hull then Secretary of State, the US Congress passed the Reciprocal Trade Agreement Act of 1934, creating with it the opportunity for the world trading system to come out of the recession and restore economic growth (Destler [1992]).

This Act authorized the Executive to sign and implement trade agreements with other countries. In doing this, Congress delegated to the Executive its authority over tariff policy, it is mandated to oversee by the Constitution. By 1945 shortly before the creation of the GATT, the US had signed thirty-two reciprocal agreements granting tariff concessions on 64% of dutiable imports (Dam [2001]). A couple of years later, the concept of trade reciprocity that had been so successful in restoring growth to the US and world economy, was included as a central element of the multilateral negotiations under the aegis of the GATT. In effect, its Preamble stresses the importance of "entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other trade barriers".<sup>1</sup>

As is known, the result of these multilateral negotiations has been an extraordinary liberalization of industrial countries' trade policies particularly in manufactured products. Bhagwati ([1990], p. 3) reminds us that: "In the United States, the average tariff declined by nearly 92% over the 33 years spanned by the Geneva Round of 1947 and the Tokyo Round".

What are the reasons for the success of reciprocity in making the international trade negotiations a machine of liberalization? The critical element was the shift in the balance of power between different economic groups. The Smoot-Hawley Tariff Act had moved this balance in favor of import-competing industries. Not only was the balance of domestic pressure groups in favor of protection but also, the mechanics of trade policy decisions was tilted against liberalization. As Dam ([2001], p. 42) puts it, under Smoot-Hawley: "industries were able to logroll their way to victory because each tariff item came up for separate vote and exporting interests were unable to show in practical terms that any one tariff increase would lead to a reduction in their own exports".

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<sup>1</sup> Article XXVIII bis of the GATT on trade negotiations repeats this goal.

In contrast to this situation, under the reciprocal trade agreement act, it became easier for exporters to defeat protectionist legislation through trade negotiations. Finger and Winters ([2002], p. 50) explain the balance of power under reciprocity in the following way: "Reciprocity has been a motivating principle of the GATT/WTO system. While the economics of import restrictions recognizes that the domestic losses from a country's own restrictions exceed domestic gains, the politics has not find a way to enfranchise the domestic interests who bear these losses -import users including consumers and downstream industries. Taking up trade policy as an exchange of domestic restrictions for foreign restrictions amplifies the voice of export interests. The success of the GATT/WTO system manifests the ingenuity of reciprocally agreed liberalization to transfer political power over domestic import restrictions to export interests".

Summing-up, at least from the early 30s the political system of the United States has not approached trade liberalization as a unilateral policy. This liberalization has been possible only as the outcome of exchanging market access concessions in bilateral, regional or multilateral trade negotiations. In contrast, much of the liberalization implemented by developing countries including those in Latin America, has been implemented unilaterally (see for example Loser and Guerguil [1999]).

## **2.2. Reciprocity in practice: Experience of Latin America and the US**

Did the reciprocity principle as applied in international trade negotiations, achieved a balanced or reciprocal exchange of concessions? In discussing this question it is of interest to highlight the different meanings that have been associated with "reciprocity". To start, it is of interest to recall that neither the 1934 US Reciprocal Trade Agreement Act nor the GATT defines the meaning of "reciprocity" or of the "mutually advantageous" concepts. As Finger and Winters ([2002], p. 51) put it, the: "logic of the GATT/WTO is that in the negotiations each member is sovereign to determine for herself if a proposed agreement is advantageous to her - to decide the criteria by which to identify the pluses and minuses, to apply those criteria by whatever formula she considers appropriate".

While this is the case, it is still of interest to recall some evidence indicating that up to the Uruguay Round, the exchange of trade concessions agreed during the first seven multilateral rounds appears to have been quite balanced. One first piece of evidence comes from average tariff rates. In fact, for the countries that actively engaged in trade negotiations during these rounds, the evidence indicates that having started from very high protection levels in the years immediately following the end of WWII, today their average tariffs are quite similar. For example, the post Uruguay bound average tariff rate of the European Union, Japan and the US are 3.2%, 3.7% and 3.3% respectively.<sup>2</sup>

A second piece of evidence comes from the mechanics agreed for exchanging concessions during the multilateral negotiations. While during the initial rounds, this mechanic relied to a great extent on the "principal supplier technique", the Kennedy and Tokyo round negotiations were concluded with an agreement to apply a common formula across the tariff structure (Hoekman and Kostecki

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<sup>2</sup> The concept that best applies is that of relative reciprocity in the sense that each country determines whether an agreement offers a balance between the rights and obligations it entails. Note that in some cases, such a balance has been reached even through special and differential treatment policies.

[1995]). It is apparent that if all countries apply the same tariff reduction formula, the result is a balanced exchange of concessions.

While the outcome over a long time span of many agreed exchange of concessions has been one of close balance, this apparently was not the case in every negotiation. In particular, during the initial GATT rounds, the US appears to have overlooked the issue of balance in order to achieve non-economic objectives. Why? In the words of Bhagwati ([1990], p. 40): "One can view the postwar period from either of two stylized perspectives. Either one can argue with Kindleberger (1981), that the United States played a leadership role in supplying the "public good" of a GATT regime oriented toward freer trade while letting "free riders"(such as Europe in the early years of GATT, and the developing countries), escape the burden of accepting symmetric market access obligations, or one can draw the inference that the United States was acting as the leader in the sense of sustaining GATT by permitting justifiable asymmetries of obligations for these nations on a temporary basis".

More recently as will be argued in the next section, Latin American countries signed the Uruguay Round in spite of a clear imbalance in market access concessions against most of them. One cannot nevertheless conclude from here that these countries made an error in signing the multilateral agreements now in the World Trade Organization (WTO). In judging this issue, it is important to recall that these countries were coming out of decades of inward-looking policies and for the leadership of the late 80s and early 90s, it was important to bind the liberalization that was being implemented during those years. In this sense, the UR provided an opportunity to tie domestic policies to international commitments in this case, commitments undertaken under the aegis of the GATT/WTO.

### **2.3. Summing-up**

In the history and in the practice of multilateral trade negotiations over many decades, the reciprocity principle played a crucial role of tilting industrial countries' political economy in favor of liberalization. The quantitative evidence that is available suggests that during the five decades of GATT reign, reciprocal international trade negotiations resulted in a significant liberalization of industrial countries' barriers to trade in manufactured products. This experience suggests that for Latin America, one can view the FTAA negotiations in either of two ways. The first is an agreement that should be judged in terms of balance in the exchange of market access concessions. This is the narrow interpretation of reciprocity. The second is an agreement that in addition, will help to strengthen the institutional infrastructure of Latin American countries and increase the prospects of higher growth. According to this view, the FTAA should also be seen as an opportunity for creating public goods in Latin America; the broad interpretation of reciprocity. The next section will offer a discussion of the Uruguay Round negotiations along the first of these interpretations or from the point of view of the narrow interpretation of reciprocity. As seen, this experience leaves important lessons for Latin America in its FTAA negotiations.



### **III. THE URUGUAY ROUND: EXAMPLE OF AN UNBALANCED OUTCOME**

The Uruguay Round is the salient example of an unbalanced negotiation in terms of the value of market access concessions given and received by developing countries. In the context of this paper, it is useful to recall some of the outstanding elements that account for the unbalance paying particular attention to some that are of particular importance to Latin America.<sup>3</sup> The Uruguay Round negotiations are the most significant precedent of the FTAA negotiations and therefore, the lessons from this experience are of relevance to the negotiations undertaken by the Latin American countries.

I discuss the following topics: (i) the promise for the UR as stated in the 1986 Ministerial Declaration, (ii) some results of the trade negotiations and, (iii) how the unbalanced outcome broke earlier promises.

#### **3.1. The UR promise**

Most qualified observers and multilateral institutions heralded the launching of the Uruguay Round in part because industrial countries accepted to include textiles, clothing and agricultural protection on the negotiating table. The expectation was that this Round would increase the market access opportunities faced by developing countries in developed country markets. The promise of these new trading opportunities and the lack of negotiating experience helps to understand why developing countries accepted an ambitious negotiating agenda that included several "new areas" that had not been the subject of negotiations in the previous MTNs such as services and intellectual property where comparative advantage is clearly on the side of industrial countries. Therefore, the grand exchange of concessions expected for this Round at its launching ceremony in 1986, can be characterized as one where Latin American countries would liberalize their markets in the new areas of interest to industrial countries in exchange for increased market access in agricultural and labor intensive manufactured products. What was the outcome?

#### **3.2. The unbalanced UR outcome <sup>4</sup>**

In order to assess the outcome of the UR, in what follows I summarize some of the salient numbers on the negotiations on market access concessions, implementation, services, and intellectual property.

##### *3.2.1. Market access*

The outcome of the market access negotiations can be assessed in terms of: (i) the proportion of imports whose tariffs are bound and, (ii) the depth of the tariff cuts. Estimates show that developing

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<sup>3</sup> To be sure, the Uruguay Round also created benefits through the strengthening of a rule-based trading system and a revamped dispute settlement mechanism. Nevertheless, these benefits are shared by all WTO members and therefore in relation to other regions, I will argue, the net gains of the Uruguay Round to Latin American countries were lower.

<sup>4</sup> This subsection draws from Finger and Nogués [2002].

country tariff bindings increased significantly in the UR, and came close to the incidence of bindings that characterizes industrial countries which already was very high before these negotiations started (Blackhurst, Enders and Francois [1996]). However, one important difference is that most bindings by developing countries are at higher levels than applied tariffs.<sup>5</sup>

Regarding the proportional depth of the tariff cuts, that of developing has been far more important than that of industrial countries. The reason for this is that at the start of the UR, developing countries protected their markets more than industrial countries and furthermore, several of them were implementing significant unilateral liberalization programs. The proportional tariffs cuts indicates that developing countries' import prices declined by a higher percentage than those of industrial countries.

In regard to non-tariff barriers, the analysis of this UR obligation shows that developing and industrial countries have generally complied with this obligation. In this area, there are no major differences between industrial and developing countries.

Furthermore it is important to observe that while the liberalization agreed by developing countries have already been implemented, industrial countries' concessions still have to be completed (case of textiles and clothing liberalization coming due in 2005), or still has to be negotiated (case of agriculture). The market access concessions given by developing countries and driven mainly from unilateral liberalization efforts, have in many cases accelerated their trade and output growth. The dark side of the UR imbalance is not here, but in the continued protectionism of industrial countries in sectors of the greatest interests to developing countries and also to them as illustrated for example by the high consumer costs that they are paying (see for example, Hufbauer and Elliot [1994]).

As illustrated by many studies, the costs to Latin American countries of this protectionism is very high (World Bank [2002] and Nogués [2003]). Because these countries' exports are heavily weighted with primary and agro-industrial products where industrial countries' liberalization was minimal, they are among the group that have suffered a particularly important unbalance from the Uruguay Round outcome. Thus, while countries in Eastern Europe and the East Asia and Pacific region received tariff concessions covering 56% and 36% of their exports respectively, those from Latin America received concessions on only 22% of their exports (Finger, *et al* [1996]).

The market access negotiations included topics where Latin American countries could expect to achieve some form of a balanced outcome. The promise that this would be the case is probably the most significant reason why they supported the UR negotiations. The fact that in these negotiations they did not achieve their goals implies that in the other topics where industrial countries appear to have comparative advantage, the imbalance could only be deepened. In what follows, I concentrate on implementation issues, services and "intellectual property".

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<sup>5</sup> As developing countries need to stabilize their trade policies, these bindings entail benefits even if unrequited. Nevertheless, according to tradition and the GATT rules, even in tariff bindings developing countries should stand firm and demand reciprocity.

### *3.2.2. Implementation issues*

Implementation issues include the problems faced by many developing countries in trying to comply with some UR agreements such as the Agreement on Custom Valuation, the Sanitary and Phytosanitary Agreement, the Agreement on Technical Barriers to Trade, and the Agreement on Trade Related Intellectual Property Rights. This experience calls attention to one significant factor that the Latin American countries cannot overlook in the FTAA negotiations, namely that of technical assistance. Among many other factors, the Uruguay Round outcome has been criticized for not having included as a binding obligation of developed countries, the provision of technical assistance and financial resources in those areas other than market access, where these countries sought concessions from developing countries. In the FTAA negotiations, Latin American countries have much to gain from technical assistance provided by the US. For example with this assistance, Latin American can become a continent known for its excellency as a food producer and distributor (Henson [1999]).

### *3.2.3. Services*

In most services (not all), it is industrial countries that have the comparative advantage to supply them. For example, many services are essentially non-tradable and in order for them to be supplied, they require foreign direct investment. Statistics show that these FDI flows have come mainly from industrial countries. For these services that include areas such as power generation and distribution, gas distribution, telecommunications, water supply, finance etc., in the Uruguay Round industrial countries sought the "right of commercial presence" and many developing countries including from Latin America, binded important concessions of this type (Hoekman [1996] for a general analysis, and Nogués [2001a] for a more detailed discussion of Argentina). As a partial exchange to these valuable rights to "commercial presence", developing countries sought to achieve concessions in the area of "movement of persons" but so far, industrial countries have refused to negotiate this topic.<sup>6</sup> If their economic analysis concludes so, Latin American countries should continue to demand that in order to achieve a mutually beneficial exchange of concessions in the services negotiations of the FTAA, the US should consider ways for introducing greater flexibility to its existing rules on movement of persons (Winters, *et al* [2003]).

### *3.2.4. Intellectual property: The case of patents for pharmaceutical drugs*

Against the opposition of several developing countries, developed countries pushed the "agreement" on Trade Related Intellectual Property Rights (TRIPS). This occurred against the lack of theoretical and empirical analysis showing that policy reforms induced by the TRIPS will increase world welfare, or the welfare of developing countries.

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<sup>6</sup> Note the abysmal imbalance between the multilateral rules that govern international capital movements -that in the FTAA negotiations are included in the negotiating group on investment-, the abundant factor of industrial countries, with those that govern labor movements, the abundant factor of poor countries including Latin America.



TRIPS covers several "intellectual property" topics but given the size of the pharmaceutical market and the economic interests at stake, I concentrate remarks on patents for pharmaceutical drugs.<sup>7</sup> The patent section of the TRIPS has more to do with the issue of appropriations of the rents generated in developing countries, than with concerns regarding their innovation and growth potential. In countries with a sizable share of the pharmaceutical market supplied by domestic companies like Argentina, Brazil and India, the introduction of patents will result in a significant transfer of rents to industrial countries' pharmaceutical companies (Nogués [1993] for early estimates, and World Bank 2002 for recent and global estimates).<sup>8</sup>

It is also of interest to recall that as late as the 70s and 80s, several industrial countries still did not provide patent protection to pharmaceutical drugs. For example, France introduced patent protection for pharmaceutical drugs in 1960; Germany in 1968; Japan in 1976; Switzerland in 1977, and Sweden and Italy in 1978. In these countries, patents were introduced when the size of their pharmaceutical drug companies was such as to make the likelihood of drug innovation from investments in R&D high. Patent protection was implemented somewhere along the development process and it was always a domestic policy decision taken without regard to foreign interests. For developing countries after TRIPS, there is no such independence. For them the adjective has been "pirates" and on this word, international companies built an intelligent public relations campaign.<sup>9</sup>

In section IV I show that as part of the FTAA negotiations, the US is seeking to strengthen the intellectual property laws of the region in order to achieve TRIPS plus regulations. This is another instance where reciprocal concessions in the FTAA negotiations will most likely not provide similar benefits to the Latin American countries.

### **3.3. Broken promises and principles**

The 1986 Ministerial Declaration that launched the Uruguay Round is an example of political correctness. Where promises had to be made they were made and where principles had to be listed, they were listed. The problem came later when the outcome of the negotiations showed that significant promises and principles had been broken. The lesson is that written promises are of

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<sup>7</sup> Pharmaceutical drugs is one of the industries for whom patent protection is important as an incentive for investing in R&D. Pharmaceutical drug companies have one of the highest ratios of R&D to sales and most drugs can be easily copied. Furthermore, because the all-inclusive costs of developing and marketing a new drug is in the order of hundreds of millions of dollars (some estimates suggest that this cost can be in the order of \$500 millions dollars), domestic companies of developing countries simply don't have the size nor the resources to undertake R&D activities with a reasonable expectation of marketing one successful drug. Therefore in most Latin American countries there is simply no possibility that introduction of patent protection will foster investments in R&D in pharmaceutical drugs and the preliminary evidence suggests that this in fact is the case (Finger and Nogués [2002]).

<sup>8</sup> A recent estimate based on data for 2000, suggests that Argentina could end up transferring rents from granting patents to pharmaceutical drugs in the order of US\$ 425 million per year (Nogués [2001a]). Since October 2000, when Argentina began to grant these patents, these rent transfers have begun to increase. These estimates should now be reassessed in light of the Doha Ministerial Declaration on Access to Medicines (WTO [2001b]).

<sup>9</sup> Before the TRIPS, most developing countries granted patent duration of differing length and in some industries including pharmaceutical drugs, where the satisfaction of basic needs was an important consideration, they also distinguished between process and product patents. Clearly, different countries decided their structure of IPRs policies in terms of what they perceived to be in their interest.

little help unless trade negotiators are prepared to stand firm by the letter. In the FTAA what in fact will matter is the capacity of countries to oversee that promises and principles be respected. Reminding some examples from the UR will help to illustrate.

### *3.3.1. Promise of agricultural liberalization*

The 1986 Ministerial Declaration of Punta del Este asserts that: "Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines (...) by improving market access through inter alia, the reduction of import barriers...". The data and sources cited above indicate that this did not occur. What happened?

Some of the core elements of the Agreement on Agriculture included: the substitution of non-tariff barriers by *ad valorem* tariffs equivalents and for industrial countries, the reduction of these tariffs by 36%. Analysis undertaken on the substitution of NTBs with tariffs suggest that developed countries used the opportunity to declare base tariffs of their UR obligations that in general were higher, sometimes several times higher, than the *ad valorem* equivalents. In fact, there have been instances where the height of tariff declared to the WTO were such that their reduction by 36% would imply tariff rates that today are higher than the ones prevailing before the UR. These "dirty tariffs" were the norm and not the exception (Hathaway and Ingco [1996]).<sup>10</sup>

### *3.3.2. Transparency*

On transparency, the 1986 Ministerial Declaration asserts that: "Negotiations shall be conducted in a transparent manner...". In many cases, transparency was not there. The agricultural dirty tariffs is one example. A second example is found in the implementation of the Agreement on Textiles and Clothing (ATC). While this Agreement has complied with the promise in the Ministerial Declaration that the textiles negotiation should seek "the eventual integration of this sector into GATT...", the obscure part has been in the implementation where some countries have liberalized much less than the notional liberalization indicated in the ATC.<sup>11</sup>

### *3.3.3. Reciprocity*

On this, the Ministerial Declaration included the following language under Section B on "General Principles Governing Negotiations":

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<sup>10</sup> A puzzling question is why did the Cairns Group, that is heavily weighted by Latin American countries allow this to happen. This episode is I believe, one that the region should assess with greater care as it might provide some important lessons.

<sup>11</sup> The problem lies in the meaning given to the expression "integrate into the GATT" which is to certify that a textile or clothing product is clean of restrictions to trade that are illegal under the GATT. According to the ATC, the staged liberalization is measured against 1990 imports from a list of textile and clothing products that runs some thirty pages long. During the first stages, countries can choose which products in the list they "integrate into the GATT". This list includes the products where at least one industrial country has chosen to protect with GATT illegal instruments under the MFA. Since not all countries protected all of the products in the list, they can choose to integrate first those products which they were not protecting with quotas. As a result, so far liberalization by industrial countries has been smaller than the notional 33% that according to the ATC, should had been liberalized by now (Finger and Nogués [2002]).

"Balanced concessions should be sought within broad trading areas and subjects to be negotiated in order to avoid unwarranted cross-sectoral demands". Furthermore, "...the developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs...".

This section has argued that in the Uruguay Round reciprocity in the tradition of the first seven rounds of the GATT, was not there.

### **3.4. Summing-up**

The UR was the first multilateral round where developing countries participated actively and the results show that even in market access concessions, they never came close to achieving a balanced exchange. Because of the particularly disappointing outcome of these negotiations on agriculture, Latin American countries who are net exporters of these products, came out with a more significant imbalance than many other regions of the world. Because these negotiations failed to reduce barriers for region's exports, its growth prospects did not improve. Clearly this negative experience should not be repeated.<sup>12</sup> One lesson is that in order for the FTAA negotiations to conclude with a significant reduction of barriers to market access, Latin America should negotiate with firmness; this will be for the benefit of all members.

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<sup>12</sup> Why did Latin America signed to the Uruguay Round agreements? Part of the explanation could lie in the fact that this round was a single-undertaking and the GATT was subsumed in it. Therefore, not signing implied that the country was left out of the trading system including the GATT. Second, at the time, Latin America was implementing major reforms including structural adjustment policies. Under these special circumstances, signing to the WTO agreements offered an opportunity for the leaders of those days to lock-in some important elements of these reforms. Granted that these were powerful motives for signing, it is still the case that these agreements, particularly the Agreement on Agriculture, opened very few markets to the exports of the region and this has been very costly.

## IV. US POSITIONS IN THE FTAA NEGOTIATIONS

Having stressed the importance of reciprocity in international trade negotiations, in this section I discuss the prospects for a balanced outcome of the FTAA negotiations. The purpose here is to offer a brief discussion on the extent to which these negotiations will open new export opportunities to Latin America.<sup>13</sup> For doing this, I look at the US broad negotiating positions in a number of areas.

### 4.1. Agriculture

The US objectives for the FTAA are quite ambitious. I will start with agriculture, where the US is seeking to achieve conditional free regional trade within the Americas. I say conditional because according to the USTR the "...US does not consider export credits, export credit guarantees or insurance programs when provided consistent with WTO rights..." to constitute an export subsidy for the purpose of the FTAA agreement. I see in the general statement on the US agricultural objectives, an opportunity for strengthened cooperation with Latin American countries particularly within the region and in the multilateral negotiations. This is also made clear by the USTR when it asserts that it is important to cooperate "...among FTAA countries in the WTO negotiations on agriculture to seek the maximum possible improvement in market access opportunities, (...) and the multilateral elimination of export subsidies for agricultural products". Achieving free trade in agricultural and agro-industrial products in a similar way as the NAFTA did among its members, will provide substantial gains even if export subsidies and domestic assistance policies are not reduced (Monteagudo and Watanuki [2002]). It is true that subsidies can harm exports of some Latin American countries but there are ways by which this damage can be handled or compensated (Nogués [2003]).

### 4.2. Services

On services, the US wants this chapter to be "...comprehensive and should cover in principle all services sectors and services providers". Furthermore, in this same page, the USTR asserts that it: "...excludes immigration policy and access to employment markets from the scope of the services chapter of the FTAA agreement". Given the US strong comparative advantage in most services other than those provided by unskilled labor, if the outcome is close to what the US would like, then apparently this country is likely to gain more. Nevertheless, upon closer analysis, many of the services where the US demands an important liberalization from Latin America require domestic presence through foreign direct investment. Revitalizing these flows following the economic crisis that is affecting the region could will also be a source of economic gains. In any event, if temporary movement of workers would provide important benefits as suggested in the literature (Winters, *et al* [2003]), then, Latin America should be prepared to demand this reciprocity in the services negotiations.

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<sup>13</sup> My objective here is not to provide a detailed analysis of the negotiating positions of different countries on different issues but to offer illustrative comments on the extent to which some negotiating positions are likely to result in a balanced or unbalanced exchange of concessions. The comments are based on the positions of the US as summarized in the web site of the USTR (<http://www.ustr.gov>).

### **4.3. Government procurement**

In the Chapter on government procurement, the US: "...seeks meaningful commitments to provide suppliers throughout the region with the opportunity to compete, on a non-discriminatory basis, for a broad range of government procurement contracts". Again research is needed on the pattern of comparative advantage to supply these contracts but given the magnitude of resources stationed abroad, my a priori is that the competitive edge in government procurement is on the side of the US.

### **4.4. Intellectual property**

For the chapter on intellectual property, the USTR asserts that "...FTAA countries will need to make adjustments to their intellectual property rights regime...". As a couple of examples illustrate, in this chapter the US is clearly seeking a TRIPS plus agreement. The US seeks to restrict the use of compulsory licenses by limiting the circumstances in which these can be issued. This objective collides head-on with the Doha Ministerial Declaration on medicines and public health (WTO [2001b]). On pharmaceutical drugs, the USTR seeks to require "...FTAA countries to grant pharmaceutical patent holders an extension on the term of their patents for any unreasonable delay in obtaining marketing approval...". As argued in the appendix, these and other US proposed regulations are likely to increase the transfer of rents from patent monopolies in Latin American countries to the right holders in the US.

### **4.5. Other issues**

These negotiating groups plus the one on market access cover the bulk of border and non-border policies that will affect the flow of goods and services among the FTAA countries. Other groups address negotiations on trade rules (dispute settlement, investment regulation, antidumping and countervailing measures), while still others address the newer issues of trade and environment, and trade and labor rights both of which remain contentious. The salient USTR goal mentioned for these last couple of topics is to ensure that a party to a trade agreement with the US does not fail to enforce its environmental and labor laws. The Latin American countries remain seriously suspicious on whether the negotiations on these topics, might end harming them through for example, eco-protectionist measures (see for example, Bhagwati [2002]; Araya and Esty [2002]).

### **4.6. Summing-up**

In a nutshell, the US has presented a clear statement of the objectives that it is seeking to achieve in the FTAA negotiations. The brief comments indicate that in several areas it seeks WTO plus regulations. Some of these like those listed for the agricultural and services negotiations, will be welfare enhancing for all the FTAA countries. Others like those on intellectual property, trade and environment and trade and labor, are less clear on the gains they can provide to the Latin American countries. As indicated in the appendix, in these and other areas, research is urgently needed.

On the other hand, two issues suggest that the FTAA is likely to represent the best broad trade agreement that Latin America could sign in the next couple of years. First, given that the region is

a net agricultural exporter, achieving free hemispheric trade in these products would represent a major achievement in a situation where the difficulties of moving along these lines in the Doha negotiations, robs the world economy of the opportunity to shift to a more liberal trading system (Nogués [2003]).<sup>14</sup> The strength and cohesion that the FTAA will take in favor of multilateral liberalization of agriculture is difficult to predict but clearly, a continent that has associated rich and poor countries in favor of such an outcome will have greater force than either alone. The second potential gain of importance for Latin America is in the area of institution-building and strengthening. Linking these economies to that of the US opens a unique opportunity for improving the growth prospects of the region not only through direct trade effects but also through indirect effects associated with predictable economic institutions. The overall balance therefore suggests that the FTAA should continue to be strongly endorsed by Latin America but as indicated below, more determination will be required in order to maximize its gains. I turn now to a discussion of the potential role of the FTAA for unleashing growth and convergence forces through institution-building.

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<sup>14</sup> Currently the region already has a web of trade agreements with several trade diversion effects and complicated and protectionist rules of origin (Estevadeordal [2002]). The FTAA promises to eliminate many of these impediments to intra-regional trade.



## V. THE POVERTY AND INSTITUTIONAL ROLES OF THE FTAA

Research undertaken during the last ten to fifteen years has shown that *per capita* growth is positively correlated with income growth of the poorest segment of the population. More concretely, econometric analysis looking at the experience of many countries over several decades have shown that a 1% improvement in *per capita* income is positively associated with a similar improvement in the income levels of the poorest 20% of the population (Dollar and Kraay [2001]). Obviously, this relationship, shows important variability indicating the existence of cases where economic growth has not been associated with a reduction in the incidence of poverty. These are cases where economic growth has been accompanied with a worsening in the distribution of income. Note that even in these instances either growth has to be slow or the distribution of income has to deteriorate significantly in order for poverty not to decline.<sup>15</sup>

If growth is a fundamental pillar that sustains the fight against poverty, then the question that has to be asked is which are the policies that promote it. The answer coming out of the most recent literature is that growth is promoted by opening-up policies with the rest of the world, and by stable and predictable institutions. During many years, the debate over the links between openness and growth did not come to a clear conclusion and an important part of the problem was the difficulty in measuring openness. For example, many studies measured openness with variables such as average tariff rates when in fact many other policies also determine the degree of integration of an economy with the rest of the world (see for example, Sachs and Warner [1995]).

Another source of difficulty in measuring the links between openness and growth is that trade liberalization policies are usually accompanied by other structural reforms such as the lifting of barriers to investment flows. Finally and most importantly, the degree of openness has been found to improve growth mainly when countries have strong institutions including respect for the rule of law, high bureaucratic quality, low levels of corruption, minimal risk of expropriation and minimal risks of the government repudiating its contracts. In econometric studies, measures of institutional strength provide a clear and strong explanation of economic growth and of differences in the levels of *per capita* income across countries (Hall and Jones [1999]).

This literature adds an important dimension to the discussion of the benefits and costs of the FTAA. To the extent that it will become a force in favor of stronger institutions in Latin American countries there is an added benefit, perhaps a very important one, for the region.<sup>16</sup> In particular it is of interest here to bring into the picture a few comments on the literature studying the characteristics of the convergence path of poorer countries and regions that have integrated themselves with richer countries or regions. This topic is of particular interest to the analysis of the potential effects on Latin American countries following their integration with the US economy.

Barro and Sala-i-Martin [1995], and Ben-David [1996] find clear evidence of this convergence for poorer regions of the US, and for European countries. In a recent paper, Berg and Krueger [2003]

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<sup>15</sup> China for example, is the developing country where income distribution has worsened significantly but growth has been so strong that it has taken 200 million people out of poverty.

<sup>16</sup> Obviously this effect should be stronger in countries like Argentina that starting in early 2002, violated many contracts and unilaterally declared default.



summarize these findings in the following way. Regarding the contribution of Barro and Sala-i-Martin, their analysis finds that over: "long and relatively stable periods, poorer regions converged to richer ones at a rate of about 2% per year". Regarding Europe, the finding is that: "convergence among the main European countries only became marked after 1958, once the trade liberalization associated with the European Economic Community took place".

Poorer regions of the US and poorer countries of the EEC were closely integrated with their richer partners not only in terms of trade flows but also in terms of institutional infrastructure and factor movements. The FTAA model is certainly not about tying countries together with the same degree of intensity in terms of trade and institutions as the examples just indicated. Nevertheless, it is an important step in that direction particularly in a world where the multilateral system is not being successful in liberalizing agricultural markets. The literature on convergence suggests quite strongly that whether the FTAA will become a positive force for stronger growth of Latin American countries depends not only on the extent of intra-regional trade liberalization but also and perhaps more importantly, on the extent to which these countries strengthen their economic institutions.<sup>17</sup>

Despite the fact of significant gains of the FTAA that may not necessarily flow through traditional trade channels, it is still true that the greater the degree of trade integration among the countries in the region, the stronger is growth likely to be.<sup>18</sup> In this regard, the greater the negotiating capacity and determination of Latin America at the negotiating table, the more open will the FTAA end up being. Therefore, in the final sections I want to concentrate on issues and recommendations that may assist Latin America to strengthen its negotiating capacity.

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<sup>17</sup> Greece for example, joined the EU in 1981 but its economy did not show convergence of *per capita* incomes. An analysis undertaken by the World Bank suggests that this occurred because: "Greece did not implement the necessary reforms after joining the EU" (World Bank [2000] p. 51).

<sup>18</sup> Nevertheless, recent research shows that more than just goods and services move through trade flows. Recently for example, Schiff, Wang and Olarreaga [2002] have shown important productivity gains for Mexico after the formation of NAFTA. The FTAA opens the possibility for other countries in the region to also accelerate their total productivity growth.

## **VI. STRENGTHENING LATIN AMERICA'S NEGOTIATING CAPACITIES <sup>19</sup>**

In this section, I summarize some of the handicaps that developing countries face in the international trade negotiations. Certainly not all of these handicaps characterize every Latin American country but some could be quite general. Further research is needed in order to arrive at more precise findings. In what follows I will discuss handicaps associated with the following issues: (1) experience and domestic managerial arrangements, (2) the pros and cons of negotiating as a member of a trade agreement, (3) lack of knowledge on economic impacts of reciprocal concessions in different areas and, (4) the importance of private-public sector linkages.

### **6.1. Experience and management arrangements**

The Foreign Affairs Ministries of many Latin American countries are responsible for the international trade negotiations including those of the FTAA. Is this an adequate institutional arrangement? Some comments suggest that it may not be the best arrangement. First, in the new agenda of trade negotiations, tariffs and non-tariffs barriers to trade is only one of the items on the table. Had trade negotiations remained focused on these barriers, the decision on which ministry is responsible for the negotiations would have not been that serious. But as seen, the negotiating agenda that has been expanded considerably since the Uruguay Round to include a number of topics where concessions granted sometimes may result in net costs and concessions received in these same areas could turn out to be of little or no value. Diplomats have not been trained to assess the economic dimensions of the increasing number of items that are being included in most negotiating agendas and as a consequence, they are more likely to agree to unbalanced outcomes.<sup>20</sup>

Second, most career diplomats are lawyers by training and they do not necessarily share the same kind of concerns that economists might have as they observe a negotiation lacking reciprocity. Reaching agreement in a negotiation is usually higher in the ranking order of priorities of the Foreign Affairs Ministry, than walking away from a meeting because a balanced and mutually beneficial negotiation is not being reached. Such "undiplomatic" action is more likely to occur when those sitting on the other side of the table have "political clout" i.e. usually industrial countries.

Third, the structure of incentives in their careers, implies that diplomats usually are keen to obtain a foreign assignment as local wages are lower than those they receive abroad. Under these circumstances, it is a challenge to train diplomats with the goal of transforming them in the elite negotiating group of the country. As career diplomats, sooner or later they will want to leave for a foreign assignment.

Finally, as said above, most Latin American countries have relatively little experience with international trade negotiations. I have no doubts that over time career diplomats will gain experience

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<sup>19</sup> This section draws from Nogués [2001b].

<sup>20</sup> Obviously, the Ministry of Foreign Affairs is advised by other government offices. The problem here is that these other offices also have no experience in dealing with trade negotiations and often they feel removed from the long-run consequences of the advice they may give. In practice therefore, except for institutionalized interactions with the Ministry of Economy, in the absence of instructions from other Government agencies, the Ministry of Foreign Affairs can decide by default.

but say ten years from now, most of the international negotiations now under way will most likely have been concluded and the experience gained by then, may come too late.

## **6.2. Pros and cons of negotiating as a member of a regional agreement**

In the FTAA negotiations several Latin American countries are participating as members of regional trade agreements. This has one strength and one handicap. On the positive side, negotiating as a group increases the strength of the demands and this is particularly significant when some of the important economies have still many concessions to bind at the WTO. This is the case for example of Brazil in services and thus within the MERCOSUR, this country has a relatively strong negotiating position *vis à vis* the US. Obviously, the extent to which this edge is of value to the other members, also depends on the capacity of Brazil to internalize the gains from the concessions it will be giving.

On the negative side, there are difficulties of arriving at common negotiating positions for a group of countries than for single countries. First, Latin American economies are still relatively volatile and at a given point in time, different members of a preferential trade arrangement (PTA) will be at different points of their economic cycles; this is likely to affect protectionist demands differently in the member countries. Things are made worse when there are serious macroeconomic divergences as was the case during 2001 and 2002 among the MERCOSUR countries.

Finally, the differential structure of the economies is still another obstacle to arriving at a common negotiating position. For example within the MERCOSUR, Paraguay and Uruguay are more specialized economies than Argentina and Brazil which shows for example, in the concentration of trade. Thus, while in 2000 the first five products accounted for 28% of Argentina's exports to the EU, in the case of Uruguay they accounted for 49%.<sup>21</sup> The consequence of this, is that Paraguay and Uruguay are willing to close a trade deal with a fewer number of concessions received than is the case for Argentina and Brazil. While a few quotas and tariff concessions might create important export opportunities for the first two countries, for Argentina and Brazil, it takes more to arrive at an attractive deal.

## **6.3. Knowledge and trade negotiations**

There are piles of econometric studies arguing that the gains to developing countries from their own and their trading partners' liberalization policies are in the billions of dollars. In my view there are two problems with using these studies to entice countries to participate in international trade negotiations. First, when compared to the observed outcomes, the prediction from many of the forecasting models have been quite out of the mark (see for example, Francois [2001]). Second, these models cannot capture the some dimensions of the complex economic realities of individual countries as they relate to the trade negotiations.

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<sup>21</sup> On the MERCOSUR-EU negotiations, see Devlin [2000].

As a consequence, in my view there is no alternative to that of undertaking country-specific microeconomic or sectoral analysis of the costs and benefits associated with different packages of concessions. Thus, if for any given Latin American country, one likely outcome of the FTAA negotiations will be reciprocal market access concessions in say goods, services, intellectual property and government procurement then, probably the most accurate way of finding whether this is a mutually beneficial outcome, is for each country to undertake the necessary economic analysis. For trade in goods, the meaning of a balanced exchange is quite straightforward but in other areas including services, intellectual property and a host of other issues, the impact of reciprocal concessions is not that clear.

In the absence of knowledge on country-specific economic effects, the Latin American countries are negotiating blindfolded. In this area, more research is urgently needed. This contrasts with the situation of industrial countries including the US that apparently know with precision what they want to achieve in the negotiations. These specific objectives are defined in close consultations with interest groups and in many cases, they are supported by a good understanding of economic costs and benefits. As illustrated next, this knowledge comes not only from academic research but also from government-financed analysis and what is probably most important, from a long experience of close collaboration and exchange of ideas between the private and public sectors.

#### **6.4. Private sector-public sector linkages**

Latin American countries have practically no tradition of holding consultations among public offices and between the public and private sectors for defining positions to be taken at the international trade negotiations. As said, in the Uruguay Round for example, the Latin American countries appear to have acted more from the basis of unilateral reforms than from the basis of negotiating an exchange of concessions. Thus, the UR did not serve as an experience to strengthen inter-agency and inter-sectoral communications for the trade negotiations. This I believe is a serious handicap. First, without a good private-public sector communication line, the Government cannot be sure about the strength of the political support it has when defining specific negotiating strategies. Second, lack of political support from the private sector weakens the negotiating position of the country *vis à vis* other countries that negotiate on the basis of a clear consensus (Odell [2000]).

Compare this with the apparent situation in the US. Thus for example, Dam [2001] notes the importance of lobbying and political action committees (PACs). Lobbying Dam asserts: "...is a growth industry. In 1998 expenditures on federal lobbying increased 13% to more than \$1.4 billion dollars; the number of registered lobbyists reached 20,512 in 1999. That amounts to 38 registered lobbyists and \$2.7 million in lobbying expenditures for every member of Congress!" (*Ibidem*, p. 11). Although only a fraction of this lobbying is related to trade issues, the numbers and their trends illustrate an economy where politics and economic interests are well informed of each others activities. Trade interests are also advanced through PACs which channel an important fraction of private money to political campaigns. According to Dam, the number and importance of contributions by PACs is also growing fast.

Add to this aggressive campaigns by different sectors. One example cited by Dam is the TV campaigns at the time of the 1997 Congressional discussions for renewal of the fast track. The AFL-CIO defined this renewal as one decision that would result in job losses while the Clinton

administration defined it as an opportunity for economic growth. In the end, the AFL-CIO won and Clinton conceded that "According to every public opinion survey, I have completely failed to convince a substantial majority of American people of the importance of trade to our economic development" (*Ibidem*, p. 17). Something similar could end up happening in several Latin American countries when the time of approval of the FTAA is submitted to a vote by the Parliaments.

In addition, the negotiating resources at the disposal of the US Government for trade matters that are available in the Department of Commerce, in the USTR, in the International Trade Commission and in the United States Department of Agriculture among others, are very important. For example, there is no important trade negotiation that is closed without a serious economic evaluation of the consequences of its outcome for the US economy. These studies are usually undertaken by the International Trade Commission but other State Departments usually collaborate.

In short, the inter-agency communications and the close private-public sector linkages ensure that when the US trade negotiators sit at the table, they have a good grasp of the economic effects of the issues at stake and what is more important, they have a clear political support from the private sector. The following quote in reference to the FTAA negotiations is illustrative of the strength of these linkages: "The US positions were developed with input from the full range of federal executive branch agencies (...) Advice from non-governmental sources has been obtained primarily through the formal private sector advisory committee system (...) The US International Trade Commission has performed the economic analysis of the probable economic effects of an agreement" (<http://www.ustr.gov>). I believe most Latin American countries have still to build and strengthen these crucial linkages. Not doing this is equivalent to weakening the arguments of their representatives at the negotiating table and therefore, increasing the likelihood of unbalanced outcomes.

## 6.5. Summing-up

Developing countries including those from Latin America bring to the negotiating table, what appears to be serious structural handicaps. In some cases, they simply don't have the resources that are necessary even to attend the discussions. This extreme example of "unequal exchange capacity" characterized the situation of several least developed countries during the Uruguay Round negotiations (Blackhurst, Lyakurwa and Oyejide [1999]). Apparently these countries were asked to sign by the cross and were told that at a later date they would receive technical assistance explaining them what it was all about.<sup>22</sup>

While more advanced developing countries including some in Latin America are in a better resource position, they are also handicapped from what appears to be other weaknesses including: (i) relatively short negotiating experience, (ii) inadequate management arrangements, (iii) difficulties in reaching consensus among members of regional trade arrangements, (iv) lack of knowledge of probable economic effects of exchanging concessions on the vast array of issues on the negotiating table, (v) weak inter-agency coordination, and weak public-private sector coordination

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<sup>22</sup> In many cases, this assistance never materialized and still today the WTO is struggling to get even a small increase in resources for technical assistance programs and is having great difficulty in meeting this goal.

and communication lines and, (vi) a negotiating agenda that continues to increase in terms of complexity.

If Latin American countries can strengthen some of the above-mentioned areas, they will be in a stronger position to demand reciprocity where it corresponds. They will also be in a better position to put on the negotiating table, the topics that are of their interest and if they cannot prevail, at least they will be better prepared to assess the consequences of alternative outcomes. All this would be for the benefit of a superior FTAA.



## **VII. CONCLUDING REMARKS AND SUGGESTIONS**

I have argued that the Uruguay Round, the most significant precedent for the FTAA negotiations, was seriously unbalanced against Latin America. In relation to this outcome and the ongoing Doha negotiations, the FTAA promises to open markets to the products where Latin America has clear comparative advantage namely, agricultural and agro-based manufactures. In this regard, the FTAA probably represents the best opportunity for accelerating growth through trade in the region.

In order for maximizing openness in the FTAA, I have also argued that Latin America has to negotiate with determination. In this regard, I have indicated the sources of some handicaps at the negotiating table and I want to conclude this paper by offering some suggestions that might assist Latin American countries to achieve the goal of maximizing openness within the FTAA.

### **7.1. Reciprocity in the FTAA**

The Uruguay Round opened a divide in the trading system in such a way that we can talk of the "before" and "after" it. The GATT trading system, in which developing countries did not participate much, was more transparent and balanced than the WTO system. In the old system, the weaker countries could feel quite assured that the hegemonic countries would not abuse of their power. This appears to be no longer the case and now differences in resources, in experience, in managerial capacity, in knowledge, and in negotiating strength matter. It would appear that one way of modifying at least partly the outcome of trade negotiations, would be to go back to respect the fundamental GATT principle of negotiating on the basis of reciprocity and mutual benefits. This appears to take particular importance in the context of the FTAA negotiations as it was the US who developed, protected and cherished this principle for more than fifty years. Latin American countries appear to have a strong argument here and the challenge is how to make this operational. This takes me to the next couple of suggestions.

### **7.2. Standing firm**

When in doubt, Latin American countries should stand their ground to have the courage to insist that all reasonable doubt be removed as to the economic effects of different items of the FTAA before they sign anything that is clearly not a gain for them. This is a defensive strategy that, if repeated every time there is a "reasonable doubt", should eventually generate forces in favor of rebalancing the odds in trade negotiations.

### **7.3. Congressional oversight**

I have argued that many countries in the region have given the responsibilities for the international trade negotiations to their Foreign Affairs Ministries. I have also argued that many, certainly not all, of these Ministries are ill-equipped for meeting this challenge successfully. This implies that several countries are assuming risks that are higher than necessary which in turn worsens the likelihood of achieving a mutually beneficial exchange of concessions in the FTAA negotiations. In these circumstances, the Congress of the Latin American countries could assume the responsibility



of ensuring that the negotiations undertaken by the Executive Power are balanced and in fact, result in a mutually beneficial exchange of concessions for their countries. Such an action would not only ensure a better outcome but would also strengthen the negotiating capacity of the Latin-American countries in the FTAA and other international trade negotiations.

#### **7.4. Cohesiveness**

In addition to "blocking" and introducing Congressional oversight committees into the trade negotiations, Latin American countries should look into their negotiating arrangements. In some, there appears to be room for improving the management and skills allocated to the negotiations. They should also increase their internal cohesiveness by internal alia, strengthening the public sector-private sector consultation process. Again, a strengthened public and private sector linkage provides a more clear negotiating mandate to the Executive Power and would also strengthen the position of the Latin American countries at the negotiating table (Odell [2000]).

#### **7.5. Economic knowledge**

Additionally, with relatively few resources, Latin American countries can gain greater knowledge on economic impacts of the FTAA agenda. Some suggestions are presented in the appendix. It is important to recall that in much the same way as it relies on its mighty intelligence (academic and entrepreneurial), the US has a tradition of listening and considering arguments that are supported by serious research. Unfortunately, Latin America has little or no tradition of negotiating on the basis of economic studies.

#### **7.6. Training**

Finally, I want to conclude this paper by suggesting the importance of strengthening the training of trade negotiators. The literature presents many examples of successful and unsuccessful tactics used by different negotiators, from different countries, on different issues. Many of these examples have been studied carefully by some distinguished researchers who could address training courses. Likewise, exposing the regional trade negotiators to the experiences of other successful colleagues like those that negotiated the NAFTA agreement for Mexico, could also provide important lessons. While this will not reduce the gap between the experience of the US and the Latin American countries in conducting trade negotiations, the learning to be achieved by exposing Latin American officials to these experiences can only serve to strengthen their negotiating capacities.

## APPENDIX

### ILLUSTRATIVE LIST OF ECONOMIC STUDIES

The purpose of this appendix is to suggest studies that Latin American countries could undertake in order to determine the likely gains associated with different negotiating topics of FTAA. These studies can be classified in three broad thematic categories: (a) employment and macroeconomic effects; (b) analysis of economic effects related to reciprocal concessions in a number of relatively new areas and, (c) negotiations on regional trade rules. It should be underscored that because negotiations are dynamic and have a shifting focus of attention, the list of studies that I am proposing should be flexible to include additional topics along the negotiating process.

The financial resources needed to undertake these and related studies should be within the resource constraints of the Latin American countries. I believe the down-side risks of this proposal is small in relation to the expected benefits. Finally, the suggestions are presented in a general format which means that once each country has decided on a specific list of subjects, only then will they be in a position to define the central questions to be studied under each study.

#### **1. Employment and macroeconomic effects**

##### *1.1. Trade negotiations and employment*

The FTAA will have expansionary effects over some sectors and contractionary effects over others. Two salient questions in this regard are: Which is the likely net effect of these sectoral shifts of output on employment?. The analysis of this question should include not only comparative static effects but also, considerations on dynamic adjustment paths. The importance of this can be illustrated by the fact that it is likely that in 1993 few if any economic analysts predicted the magnitude of the positive economic effects that in more recent years the NAFTA would have on Mexico.

##### *1.2. The FTAA and tax collections*

It is apparent that if the FTAA ends up having positive and important macroeconomic effects, aggregate tax collections will eventually rise. Nevertheless, it is also possible that some of these effects will materialize only with a lag and if this happens, the tariff reductions implemented for complying with the implementation of the FTAA could result in a temporary shortfall in tax revenues. Unless the country is well prepared to compensate for this shortfall, negative effects could appear for example, through increases in country risk associated with increasing budget deficits and/or the introduction of distortionary taxes.

##### *1.3. Agricultural sector*

As mentioned, the US has confirmed that in the FTAA it is seeking to achieve free trade in agricultural products. In general terms, the American continent has comparative advantage in the

production of these products as it is a net exporter, and therefore, the FTAA does not appear to be the agreement where Latin American countries could achieve a substantial increase in their agricultural exports. Nevertheless, recent research indicates the opposite and the reason appears to lie in the different structure of agricultural production associated with different resources and climatic conditions. Given the crucial importance of the FTAA agricultural negotiations, it seems important for the Latin American countries to analyze the specific products where the agreement is likely to foster trade. Likewise these countries must analyze how successive generous US Farm Bills could affect the objective of regional free trade in agricultural products. Finally, it is important to analyze whether the FTAA negotiations can strengthen the multilateral agricultural negotiations where the decisions of major importance for Latin America will be taken.

## **2. Services, government procurement and other new areas**

Generally speaking, it can be said that if the knowledge regarding the country-specific effects of the FTAA for trade in goods remains low, those related to the effects of negotiations in the new areas, is practically non-existent. As said, continuing along this path, is equivalent to negotiating blindfolded.

Unlike the analytical tools available for the FTAA effects on trade in goods, the analysis of reciprocal concessions in the new areas such as services, government procurement, intellectual property, does not rest on such firm grounds. In spite of this, there are many ways by which studies of these areas could serve the interests of the Latin American countries in the FTAA negotiations. A few comments might illustrate.

### *2.1. Services*

The starting point of the FTAA services negotiations are the concessions given and consolidated in the WTO as part of the Uruguay Round General Agreement on Services. In the FTAA negotiations, the US is seeking extended access to most types of services and in practically all of the four modes for delivering them that are specified in the articles of this Agreement. For any Latin American country that is seeking a balanced exchange of concessions it is important to estimate even if approximately, the gains to be achieved by foreign providers of services and those to be achieved by the domestic providers. To start making progress in answering this question the first step is to analyze which services the country has consolidated in the WTO and which services concessions can still be given as part of the FTAA negotiations. As a general rule, the Latin American region is a net importer of services, while the US is a net exporter of services. Therefore, liberalizing trade in services is more likely to benefit the US than the Latin American countries. If so, according to the reciprocity principle, these countries should be in a position to demand compensating concessions in other areas from the US. Alternatively, Latin America could negotiate greater flexibility in mode 4 of the Agreement on Services: temporary movement of workers. But in order to argue any of these with force, the Latin American countries should build the economic analysis showing solid evidence.

A serious problem in many Latin American countries with the services negotiations is that the statistics are either non-existent or seriously flawed. One example that I lived from close experience

is the adjustment that were made to several items of Argentina's balance of payments accounts and published in 1999. The following table illustrates the adjustments made to the statistics on trade in travel services which is the most important services trade flow of many Latin American countries. Average differences in export revenues of 50% in trade statistics are a drawback for the trade negotiations.<sup>23</sup> One thing is to seat with trading partners to discuss liberalization in tourism services, for example hotel services, when your travel exports are \$1.7 billions, and quite a different one is when the statistics show these revenues to be \$813 millions as they appeared in 1993 during the UR negotiations. Clearly in services trade, Argentina participated in the UR with quite bad statistics and it could very well be that in other Latin American countries, the accuracy of official statistics on services are also seriously flawed (see Whichard [1999]).

**PROPORTIONAL ADJUSTMENTS TO PREVIOUS ESTIMATES OF THE BALANCE OF PAYMENTS  
STATISTICS ON TRADE IN TRAVEL SERVICES, ARGENTINA 1992-1998**

Account	1992	1993	1994	1995	1996	1997	1998
Exports	47%	51%	52%	52%	52%	47%	46%
Imports	18%	24%	24%	37%	35%	32%	31%

Source: Finger and Nogués [2002].

Finally, there is the contentious issue of movement of persons where I believe that Latin America should stand firm in its demands. Nevertheless, to increase the likelihood of success in the FTAA negotiations on this issue, Latin American countries need to undertake studies on the distribution of the benefits of reciprocal concessions in services including and excluding liberalization of the existing regulations on the movement of persons.

## 2.2. *Government procurement*

In Government procurement the US is demanding an ambitious liberalization. In these negotiations, the starting point between the US and Latin American countries is not similar. One of the few WTO plurilateral agreements is the Agreement on Government Procurement, which has been signed by most industrial countries, but most developing countries including those in Latin America have still not joined. In relation to these negotiations one important question to address refers to the differential comparative advantages of supplying goods and services to the governments of the other FTAA countries? Another important question for Latin American countries is how the opening of government procurement will impact on the small and medium enterprises that are now supplying their home-country governments? These and other questions could be addressed

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<sup>23</sup> This revision came as a result of a survey to tourists undertaken in 1996. This survey was complemented by new estimates of average daily expenditures of non-residents in Argentina. Ideally, these surveys should be undertaken every year but budgetary constraints preclude this. This situation contrasts with that in many industrial countries that can finance travel surveys every year and some as the US, even undertake samples on a monthly basis. These countries have significantly more accurate statistics on services than developing countries and therefore and in a much better position to assess the economic consequences of negotiating reciprocal exchange of concessions in this area.

in country-specific studies with the aim of assessing even if approximately, whether reciprocal concessions in this area imply a balanced exchange of concessions.

### *2.3. Intellectual property*

While the Doha Ministerial Declaration on access to essential medicines has clarified several gray areas of the TRIPS agreement, this does not prevent the leading innovating countries to seek strengthened property rights in their regional agreements. Most if not all of the US proposals in this area will have a positive impact on the transfer of patent rents from Latin America to the US who together with Canada are practically the sole innovators in the FTAA. What amount of additional rents would be transferred as a consequence of extending the patent duration due to delays in marketing approvals? What benefits could the country receive in exchange for modification of patent legislation along US demands? These are the type of questions where applied economic analysis can shed light.

## **3. FTAA negotiations on trade rules**

Again the starting point of these negotiations include several of the WTO Agreements. As said, the Uruguay Round implied an important advance in the number and coverage of the regulations of the multilateral trading system. Some of these include the redrafting of all types of regulations that were included in the GATT such as the rules on dispute settlement, on antidumping, on subsidies on safeguards, etc. These are rules that in one way or the other, Latin American countries are familiarized with. Even so, these countries should become aware of the specific aspects of these important regulations that may be producing more harm to them, than benefits. It seems to me that in these areas, aggregate topic-specific studies and not country-specific studies should be the way of gaining knowledge for Latin America to be in a position to propose modifications to existing rules. For example, one area that has been a source of contention is the US antidumping and countervailing regulations. The aim of a regional study on these policies should be to propose least trade-distorting modification to the existing WTO rules with a view to harmonizing regional antidumping and countervailing regulations and mechanisms.

Other WTO rules including those regulated by the Agreement of Technical Barriers to Trade and the Agreement on Sanitary and Phytosanitary Measures are newer to the Latin American countries. As a matter of fact, many of them have encountered problems with the implementation of these Uruguay Round Agreements. These are areas where a given structure of reciprocal concessions could provide benefits to all the countries in the region. For example, studies showing that US funded technical assistance for the implementation of these agreements would also over time, result in increased regional trade flows of the products covered by these rules. This would clearly be a win-win exchange of concessions but for this to materialize, research is needed in order to uncover in detail how to structure reciprocal concessions in this area.

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