

**The Latin America and Caribbean Countries and Trade Negotiations: an Exercise in  
the Development of Scenarios**

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## **1. Introduction**

The intensity and complexity of the trade negotiations agenda for the Latin American and Caribbean countries (LAC), mainly as of the early 90's, has undoubtedly created new political challenges for those countries.

In addition to the obvious need to allocate scarce human and technical resources to several different negotiation processes, preparations for the negotiations are becoming increasingly complex: on one hand, the new trade agenda is producing significant realignments of positions and coalitions, both on the domestic plane and among countries. On the other hand, the expanded scope of the negotiations agenda and the establishment of regimens applicable to domestic regulations restrict the countries' freedom to implement national policies for the promotion and protection of domestic production.

With various types of interaction among distinct negotiations processes being carried on simultaneously, uncertainty is growing over the negotiations and the economic impact of each particular negotiations process, as well as of the negotiations as a whole. Complementary and competitive relationships exist among the different trade negotiation processes. Furthermore, the economic and political environment in which the negotiations are taking place conditions their progress as a whole.

The objective of this paper is to contribute to mapping the plausible scenarios for trade negotiations involving the Latin American and Caribbean countries. The year 2005 will be used as a horizon point, given that the negotiations for the Free Trade Area of the Americas (FTAA) negotiations will be concluding by the start of 2005. The date is also an important reference point for commitments assumed by the members of the Andean Community and MERCOSUR<sup>1</sup>. Section 2 summarizes recent developments in the atmosphere surrounding trade negotiations pertaining to Latin American and Caribbean countries, as well as in the three negotiating processes considered in this exercise: the World Trade Organization (WTO), the FTAA, and the sub-regional and bilateral agreements involving the LAC countries. Section 3 presents the scenario development exercise, based upon an identification of key variables (driving forces) creating the atmosphere for the negotiations. Also presented in this section are alternative hypotheses for the way these variables will play out. These scenarios are derived from a plausible interplay of variables and hypotheses. Finally, Section 4 contains some final considerations regarding the scenario development exercise and the implications of the scenarios for the countries of the region.

## **2. The Atmosphere for Trade Negotiations - Principal Negotiations Currently Underway**

The exercise of developing scenarios for the trade negotiations of the LAC countries was based upon formulating plausible and likely hypotheses of interaction among four blocks of variables. We have formulated different hypotheses for each set of negotiations, using alternative combinations of a set of identified attributes.

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<sup>1</sup> *Mercado Común del Sur* ("Common Market of the South")

The three “internal” blocks and variables refer to the distinct projected trajectories for the (three) negotiation processes studied in this paper. There is also an “external” block of variables, intended to reflect the international context, in particular, the context of international trade relationships for the three negotiating processes described herein. Given the peripheral condition of the LAC countries, their political options are highly dependent upon the international context. The “external” block of variables is intended to reflect precisely “the tensions and pressures that arise from the global plan, in terms of economic organization, regulatory standards, and the power structure (Bouzas, Da Motta Veiga and Hirst, 2001).

Whether considered as a whole or individually, the Latin American and Caribbean countries are involved in a great number of trade negotiations, some of which are with countries or groups of countries outside of the Western Hemisphere. For instance, the MERCOSUR countries are currently negotiating a trade liberalization agreement with the European Union, while Mexico concluded a free trade agreement with the European block in 2000. Other Western Hemisphere countries (Chile, Peru, Mexico, USA, among others) are participating in the APEC<sup>2</sup> negotiations, while the policy of preferences unilaterally granted by the European Union to the Andean and Caribbean countries plays a relevant role in the trade strategy of those countries.

Nevertheless, in addition the reasons of practicality, there are well-founded reasons to restrict this scenario development exercise to the three negotiation processes mentioned above:

- In the first place, all the countries of the Americas (except Cuba) are participating in multilateral, hemispheric, and sub-regional/bilateral negotiations within the Hemisphere. Participation in other initiatives -negotiations with players beyond the Hemisphere- is very heterogeneous. In order to develop scenarios that are useful for the totality of the countries in the region, this paper must focus on negotiations that are “common” to all countries of the region (which is the case of sub-regional and bilateral processes that involve countries of the Hemisphere only).
- In the second place, these are negotiation processes that -within the time horizon set for this exercise- appear capable of individually producing a significant impact on the overall strategy for trade negotiations of the Latin American and Caribbean countries. These negotiations are the pillars of such a strategy, and the trajectory adopted for any one of them affects the strategy for the countries of the block in other negotiations and in negotiations overall.
- In the third place, whether due to their objectives and negotiating agenda, or due to the commitments that have been or will be undertaken by the countries of the region, or due to the economic influence of the trade partners involved, these negotiations will tend to have a relevant and heterogeneous impact on the pattern of international participation in

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<sup>2</sup> Asia Pacific Economic Cooperation

the economy of these countries, as well as on these countries' microeconomic policies and the competitiveness of their industry.

- In the fourth place, despite the existence of similar agendas, the three negotiations processes are characterized by clear differences with respect to:
  - their explicit objectives: the establishment of a common market or a customs union, in the case of some of the sub-regional initiatives in the LAC, such as MERCOSUR and the Andean Community; the establishment of a free trade area, in the case of the FTAA; and, for the WTO, a reinforcing of the principles of non-discrimination among countries, companies and sectors in the world trade system.
  - the economic and political influence of the LAC countries in the negotiating process.

## ***2.1. The World Trade System and the Trade Negotiations Environment***

The highly satisfactory conclusion of the Uruguay Round -whose results were reinforced by the success of several sectorial negotiations in the service industries in 1996 and 1997-together with the reduction of the US fiscal deficit, the recovery of momentum in U.S. exports, and a diminishing concerns regarding the creation of trade "fortresses" on the regional level<sup>3</sup>, came together in the mid 90's, to form a favorable picture for the growth of the inter and intra-block trade flows. Such an atmosphere was unlikely to support an unrestrained expansion of protectionist initiatives. Pessimistic scenarios forecasting the emergence of "war among blocks" and intensified protectionism were set aside, and a vision that a few years earlier would have been considered excessively optimistic for developments in the world trade system proved true.

The reintegration of the principal Latin American economies into international trade and financing circles, the emergence of a third generation of "tigers" in Asia (Indonesia, Thailand, Malaysia and the Philippines), and the increasing integration of China and Russia into the world capitalist market, were also components of this picture.

The extent of the Mexican crisis in December 1994 was insufficient to alter the fundamental elements of this picture. Yet the crisis did make it clear that the world trade system's tendency to move in the direction of increased liberalization in the international flow of goods and services was not without complications. Liberalization was accompanied

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<sup>3</sup> Bergsten (1998) emphasizes the contribution of regionalism to multilateral liberalization during the 80's and the 90's: "when the EU and others refused to proceed with the new round that the USA was seeking in the early 1980s, the United States reversed its traditional policy of sole reliance on multilateral liberalization and agreed to negotiate bilateral free trade agreements with Israel and then Canada; the EU and others took notice and subsequently agreed to restart the multilateral bicycle. When the Uruguay Round faltered in the late 1980s, Mexico successfully sought US and Canadian agreement to negotiate NAFTA and several Asian countries (notably Japan and Australia) took the lead in creating APEC; the EU and others took notice and the Round regained momentum..."

an increased mobility in the flow of capital, which could have an immense impact, capable of destabilizing exchange policies and even the flow of goods and services themselves.

In 1997, the picture painted by the success of the Uruguay Round and the various other trends that encouraged the liberalization of trade and investment flows began to unravel. Financial and exchange crises occurred in several Asian countries, and the economic situation in Japan deteriorated. It became evident that these processes can significantly affect the outlook for cooperative agreements in the development of an international trade system at this turn of the century. An example of this was seen in the idea of holding a new round of multilateral negotiations. With the recession in Japan and the devaluation of the yen, new concerns arose regarding uneven balances of trade among the principal international players and, in particular, with respect to the growth of the trade deficit in the USA.

Two other factors in addition to the Asian crisis have resulted in diminishing expectations for a continued liberalization of trade and investment flows worldwide:

- Firstly, manifestations of difficulties faced by the former socialist countries, such as Russia, and some of the major Latin American economies, such as Brazil, in migrating towards an economy open to the world. The financial instability of the emerging economies became clear, while at the same time, the OECD<sup>4</sup> countries clearly saw the growing importance to world trade of the markets and economies of several developing countries, given their export capacity as well as the growth of their imports (SELA<sup>5</sup>, 1997).
- Secondly, the political influence in the principal OECD countries of social forces and political positions characterized by the generic evaluation that “globalization has gone too far,” using Rodrik’s words (1997), and that the regulatory changes introduced as a result of the growing economic interdependency were not only creating unemployment in the OECD countries, but were also generating political alignments with low standards based on minimal criteria, creating a threat for social norms and cultural values that are sacred to these countries. It seems clear that, in increasingly and irreversibly addressing “systemic frictions” among national economies and encouraging an international standardization of regulations, the international trade negotiations agenda was potentially much more conflictive than an agenda restricted to mere tariff issues: negotiations are increasingly affecting institutions, practices, and even national traditions. Indeed, in these types of negotiation, even the determination of the issues to be negotiated are a subject for debate and differences (Kahler, 1995).

In the last few years, there were several indications that political forces opposed to new liberalization initiatives, both multilateral and regional, took the offensive. For instance, they succeeded in blocking the approval by the US Congress of fast track authority for the Executive branch. They also impeded the conclusion of the negotiations for the Multilateral

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<sup>4</sup> Organization for Economic Cooperation and Development

<sup>5</sup> *Sistema Económico Latinoamericano* (“Latin American Economic System”)

Agreement on Investment (MAI) in the OECD, in addition to demanding participation by environmental NGO's and union representatives in trade negotiation forums. These forces actively contributed to the failure of the WTO Ministerial Meeting in Seattle in December 1999. On these occasions, these groups politically manipulated the idea that "international economic integration is administered by a small group of governments and big corporations, excluding all other interests, such as those related to labor, the environment and consumers." (Kahler, 1995)<sup>6</sup>.

According to Bergsten (1998), this new mode of protectionism should not be confused with the "raw protectionism" of the 70's and the 80's. Rather it is "a more nuanced reaction to globalization, accepting the inevitability of that phenomenon but seeking to manage it in potentially destructive ways (or) calling for a 'strategic pause' in further liberalization." According to Bergsten, protectionist pressures would be present or would tend to expand in the USA, the EU, and Asia (Bergsten, 1998). The fact that the emergence of this new protectionism coincides with a period of steady, vigorous growth of the U.S. economy only reinforces the perception that it is, in fact, a phenomenon whose motivations and social base are at least partly new.

Recent trends in the political debate on the international economic system, in general, on the world trade system, and in particular, on the governance structures for these systems, suggests that what might differentiate the end of the twentieth century from previous years is the emergence, on the international plane, of the first great tensions created by globalization and technological breakthroughs. Indeed, we seem to be facing a period in which the subject of the impact of globalization and of technological transformation has acquired prominence in the political arena and the status of priority issue in international negotiations. The domestic risks of globalization and of the successful technological revolution are becoming more explicit, and reactions seem to go beyond the mere defense of established interests that are directly affected by the changes.

It was not a coincidence that these risks and tensions have surfaced and acquired the status of a legitimate political concern ten years following the end of the Cold War. In fact, an international picture that essentially translates into a redefinition of positions and interests by the main players is currently consolidating, and was made possible due to the end of the Cold War. No longer does the political rationale of US leadership dominate domestic consensus in the main capitalist countries with respect to the liberalization of trade. The alliance between these countries aimed at reinforcing the western block in its opposition to the socialist block is gone. (Gilpin, 2000). According to Tussie (1998), "the demise of these principles of collective organization allowed for a de-ideologization of trade agreements," and led to the weakening of the political foundations of post War liberalization. Domestic or "parochial" agendas, using Gilpin's term, took on a greater importance. The costs of liberalization became harshly voiced, and the domestic pro-liberalization consensus disappeared.

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<sup>6</sup> In a recent article, Bhagwati (1998), one of the leading supporters of free trade and multilateralism, postures that when environmental and labor groups request the inclusion of "their" issues on the WTO agenda, they are merely reproducing what the business groups and governments interested in the protection of the intellectual property rights (IPR) did at the Uruguay Round: multilaterally legitimize trade sanctions to enforce regimens that little have to do with trade.

The USA has been reanalyzing its position and leadership style. At first it distanced itself from an unrestricted support for multilateralism, evolving towards a multitrack foreign economic policy that granted priority to regionalism in the 80's. Then it implemented an aggressive strategic trade policy, where unilateralism played a prominent role (Gilpin, 2000). The European Union increasingly opted for an agenda of consolidation and extension, and, more recently, has been confronting US proposals in areas that are politically sensitive for its domestic constituencies, such as agriculture, the environment, and consumer health and safety. On the other hand, Asia seems to be increasingly leaning towards a regional approach. There are solid indications that some the main trade players of the region, such as Japan and Korea, are abandoning an exclusively multilateral approach, and they have recently taken up proposals for the negotiation of bilateral free trade agreements. In addition, according to Tan (1998), the Asian crisis "put new ideas in motion that may lead to a new type of grouping of Asian countries that is not as compatible (as the APEC) with multilateralism," deriving its politically support from nationalism and from concerns over the denationalization of Asian companies and economies.

Against such a backdrop, it is not surprising that the globalization movement is undergoing a crisis of legitimacy, and that there is no minimum consensus among the main players of the international economy with respect to how WTO trade issues should be handled, or even with respect to issues related to the regulation of financial flows or, more generically, to the so-called new world financial architecture. Gradually, the discussion is moving towards issues involving the governance or management of globalization, which will probably dominate the concerns of those who support or oppose economic integration in the coming years (see Rodrik, 2000; Gilpin, 2000).

A stage is ending in which a further liberalization of trade flows and investments and the harmonization of policies seemed to be the ultimate objective of multilateral and regional negotiations. Another stage is now opening, in which this objective vies for attention with the objective of consolidating and granting coherence to recent liberalization efforts and to future liberalization movements.

## ***2.2. Negotiations in the World Trade Organization - WTO***

The world trade system concluded in 1999 under the shadow of the failure, in Seattle, of the Third Ministerial Conference of the WTO, whose main objective had been to launch a new round of multilateral negotiations, the so-called Round of the Millennium.

Why did the Seattle Conference fail? The reasons given to date may be grouped into three main categories: (i) difficulties related to procedures and methodologies in preparation for the negotiations, as well as the negotiations per se; (ii) a rigid negotiating posture on the part of one or more major players in the WTO; and (iii) a political and economic atmosphere that was highly unfavorable for launching a new cycle of liberalization negotiations. It may well be impossible to understand what happened in Seattle or to evaluate some of the main impacts of the failure of that conference without resorting to these perspectives.

In fact, the political and economic atmosphere surrounding the Ministerial Conference (see sub-section 2.1. above) was probably the primary factor in the Seattle failure, mainly because it had a more or less direct impact on the other two factors.

The set of tendencies that characterized the world trade system as of 1997 generated a pre-negotiation environment in which the outlook for launching a new multilateral liberalization Round seemed to be compromised on account of the strength acquired by four anti-liberalizing tendencies. These tendencies included the defense of the European Union's agricultural policies and the inclusion of environmental and labor matters on the WTO trade agenda, both of which were typical of developed capitalist economies. Another such tendency was to defend a strengthening of the "development dimension" in negotiations and trade agreements, a position shared by several poor countries. Furthermore, the USA increasingly imposed anti-dumping measures and voluntary export agreements, a practice it had eliminated since the end of the Uruguay Round.

In this respect, both the pre-negotiation phase and the Seattle conference itself seem to have proven that trade negotiations recurrently clash with the "hard core" of traditional protectionism of the rich countries (agriculture in the EU and protection of traditional sectors in the USA). Trade negotiations are also already starting to be characterized, however, by a new type of protectionism or trade "regulationism," clearly seen in the agenda of environmental and labor issues. In developed countries, this type of perspective seems to have a greater influence, at present, than do liberalizing interests in the public and political debate on international trade.

The WTO Ministerial Conference also revealed a new posture of the developing countries, seeking to restrict the scope of an eventual new Round. These countries forced a discussion on the implementation of the Uruguay Round Agreements and regained legitimacy for the concept of a differential, more favorable treatment, which had lost ground in the Uruguay Round Agreements. The upgrading of the participation of the developing countries, allied to strengthened protectionist and "regulationist" groups in developed countries, defined an atmosphere that was hardly conducive to launching a new liberalization Round. Together, they explain, in good part, the Seattle failure.

What are the foreseeable impacts of Seattle? The most obvious is the impact on the content and pace of multilateral negotiations: negotiations for the built-in agenda of the Uruguay Round commenced in January 2000. The main agenda items are agriculture and services. There is no timeframe for the conclusion of the negotiations and there are no precise negotiating objectives. There are still possibilities that a new Round will be organized under the responsibility of the General Director of the WTO and based on documents negotiated in Seattle. The most optimistic expectations are that, by the end of 2001, on the occasion of the Fourth Ministerial Meeting of the WTO in Qatar, an agreement for launching a new Round may be reached. A more realistic view suggests that several of the factors that hindered the launch of a Round in Seattle will persist in 2001, and that the negotiating impasse is unlikely to be resolved by the end of this year.

Nevertheless, the Seattle failure has additional foreseeable impacts. Periods of uncertainty in the multilateral arena tend to encourage regional integration initiatives. This is a lesson

of the 80's, and the experience of that period could repeat with the onset of the new decade, encouraging initiatives with the FTAA, APEC, etc. Approximately a year and a half after Seattle, there are some limited signs that this tendency could be materializing. Undoubtedly, the Seattle failure created new momentum for the FTAA received. In Asia and the Pacific, countries that up to now were totally opposed to bilateralism and indifferent to regionalism, such as Japan and Korea, are beginning to negotiate preferential agreements. Even in this case, however, some of the factors that were obstacles for multilateral negotiations are present, closely conditioning the dynamics of these initiatives. In reality, these factors essentially involve the domestic politics of the OECD countries, and will probably emerge and exert their strength in the regional agendas as well.

The current impasse of multilateral negotiations is clear evidence of a certain tension. On the one hand, there is a tendency, which marked the first half of the 90's, seeking to intensify the movements for liberalizing markets and harmonizing policies. On the other hand, efforts are being made to regulate these processes and subject them to conditions related to national objectives (development), social objectives (preservation of labor rights), and systemic objectives (conservation of a certain financial stability in the international arena).

### ***2.3. The Free Trade Area of the Americas - FTAA***

With the Buenos Aires Ministerial Meeting, held in April of 2001, another stage in the negotiations for the creation of the Free Trade Area of the Americas came to a conclusion. The ministerial declaration announced after the meeting highlights a determination to enforce the agreement no later than December 2005. Deadlines have been established for initiating negotiations on market access (May 2002), and a mandate has been given to the Negotiation Groups to work towards overcoming the discrepancies in the drafts of the thematic texts taken to Buenos Aires. Additionally, a Technical Committee for Institutional Matters was created, and concerns were stressed regarding differentiated treatment to be granted to smaller and less developed economies. Finally, U.S. restrictions on discussions agricultural issues on a hemispheric level seemed to have significantly diminished –through the same did not hold true for the anti-dumping issue. On the other hand, the Declaration makes reference to environmental and labor standards, although an observation was made that these issues often open the way for protectionist actions.

Although it is hard to imagine that the hemispheric negotiations will be reverted, one must not overlook the fact that the US Executive Branch has still been able to obtain fast track authorization (currently called trade promotion authority – TPA). This gives an indication of the strength of domestic resistance to the FTAA or any other negotiations carried out by Executive Branch and adopting a liberalization perspective. Brazil's position, for its part, is traditionally reticent with respect to a hemispheric trade policy, and if the leftist political forces win the presidential election of October 2002, the country may adopt a stance of outright opposition.

In all events, the FTAA appears to be a regionalization process typical of the first half of the 90's. It principally aims to liberalize markets and harmonize policies around the liberal

paradigm. This task has already been noticeably facilitated by the FTAA trade and industrial policies developed during the 1990's. With respect to the multilateral forum, the FTAA includes two new negotiating items: investment and competition policies. There is also a possibility that environmental issues and labor standards could be included in the agreement, though conditionally.

After Bush's election as President, efforts by the United States to accelerate the conclusion of hemispheric negotiations intensified, with support from some Latin American countries. Yet these efforts were sidelined after following negotiations at the Buenos Aires Ministerial Meeting. Since November 2000, the USA and Chile have been negotiating a bilateral free trade agreement. Furthermore, the new US Trade Representative (USTR) has repeatedly expressed that, given the potential difficulties for negotiating the FTAA, the U.S. might take recourse in bilateral agreements with Latin American countries to reinforce its position in the Continent.

#### ***2.4. The Sub-regional and Bilateral Agreements of the LAC Countries***

The LAC countries already have a reasonably long history involving preferential liberalization and economic integration processes on a bilateral and sub-regional basis. The Latin American Free Trade Association (LAFTA), the Andean Community, the Caribbean Common Market (CARICOM) and the Central America Common Market (CACM) date back to the 60's or the early 70's. All these initiatives had ambitious objectives, yet in general, they did not attain their principal goals. Integration proposals conflicted, in general, with national development strategies, especially in the large countries of the region, which promoted industrialization as a means for substituting imports.

The 1990's witnessed a new era of preferential agreements in the LAC, which now bear a connection to the review of strategies for development and international insertion in all the countries of the region. Traditional agreements, such as the Latin American Integration Association LAIA (successor of the LAFTA), or the Andean Community, were invigorated. MERCOSUR emerged as an important sub-regional initiative in South America, and a broad range of bilateral agreements (many of which were under the umbrella of the Montevideo Treaty that created the LAIA in 1981) was developed, aiming at establishing, within a given timeframe, free trade areas among its signatories. Also in the 1990's, Mexico –which maintained an aggressive policy of establishing trade agreements with other LAIA members- negotiated NAFTA with the USA and Canada.

In general, these agreements of the 1990's, while seeking to liberalize the trade of goods among signatories, also established trade regimens for and dealt with issues such as trade in services, investment, etc. Therefore, the scope of the agreements closely reflected the thematic paradigm consolidated at the Uruguay Round. Nonetheless, within the scope of the agreements signed among the LAC countries, the treatment given to issues that were not directly related to trade (or tariffs) could rarely be defined as WTO-plus.

The intra-LAC agreements were capable of creating sub-regional free trade areas –albeit with certain imperfections. Yet in general, the integrationalist projects have also sought to attain forms of integration that are more solidified. The MERCOSUR was created in 1991

with the objective of gradually evolving towards a common market. Recently, the Andean Community reaffirmed its aim of forming a common market in 2005, and defined a mid and long-term agenda for said purpose. The CARICOM has not abandoned its strategic goal of creating a common market, an objective also called for by the Central American Common Market members in the Guatemala Protocol of 1993.

Ambitious in their integration objectives and more modest in their actual results, the trade agreements signed among the LAC countries have certain common characteristics with respect to trends in their development and their outlook towards increased integration. These common features are noteworthy, despite the disparities in the composition of these agreements. It is especially important to highlight these commonalities, as they provide an insight on alternative development trajectories that the intra-LAC integration processes might take in the near future.

The most prominent commonality among these agreements is the fact that they are marked by “chronic” difficulties, which prevent them from going beyond the stage of free trade areas. While they include efforts to confirm customs unions, there is also a high degree of imperfection. Frequently, they include only some of the participants in the sub-regional integration schemes.

Differences in size, economic structure and international insertion patterns among the member countries of these agreements seem to explain the intense disparities among the trade policies of these countries, as well as the heterogeneous -and even contrasting- evaluations of the cost-benefit ratio implicit in the decision of advancing towards more solidified forms of integration. It is no coincidence that the alternative of free trade *versus* a customs union is once again being debated within the MERCOSUR, seven years after the implementation of the common external tariff in the block, overshadowing measures or decisions that are timely in nature.

Differences in foreign policies among the member countries of these agreements, as well as domestic issues of economic and political nature, plus conflicts between neighboring countries, also contribute to explaining this commonality in the trade agreements established among the LAC countries. On the other hand, the increasing trend in USA and the European Union to grant trade preferences, which mainly benefits the small economies of Central America and Caribbean, tends to increase the importance given by these countries in their trade policies to such extra-regional agreements, resulting in a relative reduction in their interest over sub-regional agreements.

Although the agreements reflect persistent difficulties in moving toward models of more cohesive integration, they nonetheless serve a certain function for their member countries. *De facto* free trade areas subsist, which have and continue to generate a considerable flow of trade among their members.

Plans for establishing a Free Trade Area of the Americas -the FTAA- have introduced a radical change in the picture. Thus, the countries of the Hemisphere are negotiating preferential liberalization and economic integration agreements with one another, with varying degrees of intensity and comprehensiveness. This change is rooted in two central

aspects of the FTAA: on one hand, the FTAA includes all the countries in the Hemisphere (except Cuba); on the other, the FTAA seeks to establish a free trade area typical of the 1990's. In other words, its negotiating agenda contemplates standard trade issues as well as issues that are only indirectly related to trade, such as investment and competition policies, among others. It is therefore a new-generation free trade area project, similar to proposals previously put into practice in the sub-regional or bilateral arena in the Hemisphere, such as NAFTA and certain other bilateral agreements, signed within the scope of the LAIA.

An outgrowth of the first aspect discussed above is the fact that the FTAA is at least potentially capable of "over-determining" the broad network of trade preferences developed over recent decades among the countries of the hemisphere, particularly, among the LAC countries. The FTAA will play a role in redefining the preferences established under these agreements, mainly extending them to all the countries in the Hemisphere, with terms and conditions to be negotiated.

As an outgrowth of the second aspect discussed above, it follows that the hemispheric Agreement will "compete" against current agreements, vis-à-vis standards and regimens applicable to trade policies, as well as policies that address other issues. Given the scope of the issues being negotiated for the FTAA and the prevailing characteristics of the agreements in effect among the LAC countries, particularly the exceptions to the negotiated liberalization processes and the paltry development of the "rules and regimens" dimension of those agreements, it is plausible to project that the FTAA will enter into considerable competition with these sub-regional and bilateral agreements.

### **3. Scenarios for the Development of Trade Negotiations among the Latin American and Caribbean Countries**

The relationships between the various trade schemes summarized in section 2 are complex. Nevertheless, this study has demonstrated that interrelationships involving influence and dependency are particularly intense in the first two such trade schemes (the world trade system and multilateral negotiations), as well as the last two (FTAA regional negotiations and LAC countries' sub-regional negotiations). The following exercise in developing scenarios will make use of this fact, and will be organized around two core sets of relationships: (i) the relationships created by the world trade system and multilateral negotiations, and (ii) the relationships created by current negotiations in the Hemisphere (FTAA and sub-regional agreements).

#### ***3.1. The World Trade System and Multilateral Negotiations***

As discussed in Chapter 2, recent developments in the world trade system suggest a partial reversal of the what appeared to be squarely headed in the direction of continuity in the liberalization process of trade flows and investment, originating in the Uruguay Round, as well as in negotiations that took place after the Round. The origins of this partial reversal are found in (i) the impacts of financial crises in several emerging economies in the late

1990's; and, (ii) the renewed political strength of social groups and political interests opposed to the "excesses" of globalization, both in the USA and in the European Union. These are two totally different processes, but they converge circumstantially in the sense that they reintroduce strong protectionist pressure into the international trade system, in a post Cold War world marked by lack of leadership and by the erosion of the bases of consensus -both domestic and international- that provided support for the liberalization and trade-opening processes of previous decades.

In this respect, the main tension that will dominate in the development of the world trade system and multilateral trade negotiations in the coming years will be over the continuity of the liberalization of trade flows and investment, and efforts towards homogenizing policies on "non-border" issues. The atmosphere will be a rather hostile one, marked by neo-protectionist or regulationist tendencies that can be traced to politicking and to social struggles in the OECD countries, as well as to tensions over trade issues deriving from international financial instability and a macroeconomic disparities among the major world trade players.

The critical uncertainty for the short run is how this tension will play out politically: A new liberalization cycle, driven by one or a few major players? The emergence of a new consensus, mainly among the OECD countries, striking a desirable balance between liberalization and regulation? Or the persistence of a non-cooperative, unstable equilibrium among the main players? Each of these trajectories would have a specific impact on the relationships between the major world-trade players and on multilateralism.

The scenarios for this block were developed using various combinations of attributes that are global in scope: (i) international macroeconomics and its impact on the trade flows and policies of the main players, (ii) the intensity and scope of the market liberalization process (market integration), (iii) the world power structure (or model for the exercise of hegemony), and (iv) model for international coordination.

Based on plausible combinations of these attributes, three scenarios were developed for the world trade system and multilateralism: anti-multilateral globalization, a new multilateral consensus, and non-cooperative equilibrium (Table 1).

**Table 1****The World Trade System and Multilateralism**

<b>Attributes Scenarios</b>	<b>Macro Environment / Trade Impacts</b>	<b>Market Integration</b>	<b>Hegemony</b>	<b>International Coordination (<i>Governance</i>)</b>
<b>Anti-Multilateral Globalization</b>	Stable / Few Negative Impacts	High	Unilateral: USA	Low
<b>New Multilateral Consensus</b>	Stable / Few Negative Impacts	High/Medium	Shared	Alta
<b>Non-Cooperative Equilibrium</b>	Unstable / Negative Impacts	Low-Medium	Questioning and Fragmentation	Low

**3.2. Regionalism in the Americas: the FTAA and the Sub-regional Agreements**

The analysis of the current LAC integration processes revealed a characteristic that is common to all of them: the difficulty to go beyond the free trade area stage, even though their objectives are much more ambitious. Such an objective has never been unsustainable. Rather, this situation, in general, is a result of an economic logic arising from discrepancies among the trade policies of the countries of the region, which have prevailed over political intentions. Furthermore, a liberalizing of trade between neighboring countries is an idea full of economic meaning. Implementation of the FTAA would radically undermine this situation. In reality, the continental agreement competes directly with each of the sub-regional agreements, which are locked into the free trade area stage. Should the FTAA be implemented, the sub-regional agreements would gradually lose functionality for their members.

When it comes to trade negotiations, this competition among agreements is the main tension in this block. The critical uncertainty for this block, in prospective terms, is the type of interplay that will emerge among the economic integration initiatives now underway in the Hemisphere.

The scenarios for this block of variables were developed using four reference attributes: (i) the intensity and scope of the market liberalization process (integration of hemispheric markets), (ii) the power structure in the hemisphere (model for the exercise of hegemony), and (iii) the dynamics of the sub-regional agreements among the LAC countries, especially MERCOSUR and the Andean Community.

Using plausible combinations of these attributes as a starting point, four scenarios were developed for regionalism in the Americas, using 2005 as the horizon point: FTAA

hegemony, trade balkanization, the FTAA along side of deep integration in South America, and regionalism in crisis (Table 2).

**Table 2**  
**Regionalism in the Americas**

Attributes Scenarios	Market Integration / Harmonization of Policies	Hegemony	Sub-regional Agreements in the South
<b>FTAA Hegemony</b>	High	Unilateral: USA	Stagnation / impasse
<b>Trade Balkanization</b>	Unequal: USA bilateralism + agreements in the South	Unilateral (USA), but Sub-regional hegemonies	Intensification of defensiveness
<b>Plural Regionalism</b>	Unequal: FTAA + forceful agreements in the South	Shared, with divergences	Intensification
<b>Regionalism in Crisis</b>	Medium	Disputed internally and externally	Stagnation / impasse

### ***3.3. Negotiation Scenarios: a Summary of the Different Blocks of Variables***

Based on scenarios identified for the two blocks of variables, a 3 x 4 matrix was developed. Among the twelve resulting scenarios, a selection was made of those that met the requisites of plausibility and likeliness.

With respect to relationships between the “world trade system / multilateralism” and “FTAA / sub-regional integration processes within the LAC,” there are two types of scenarios. The convergent scenarios are those in which the two blocks evolve analogously: “anti-multilateral globalization + FTAA hegemony,” “new multilateral consensus + plural regionalism in the Americas,” and “non-cooperative equilibrium + regionalism in crisis.” The first scenario is marked by unipolar globalization (with the USA as the single pole); the second is characterized by balance (multilateral / regional; regional / sub-regional), and the third, by crisis.

The divergent scenarios reflect the possibility that the two blocks could take different trajectories, thus projecting, in principle, a reasonable autonomy for regionalism in the Americas with respect to the first block of variables. This hypothesis, for instance, yields combinations of “non-cooperative equilibrium + FTAA hegemony,” or “non-cooperative equilibrium + trade balkanization of the Americas.” In these two cases, the U.S. trade initiatives in the hemisphere would evolve in the absence of multilateralism, in an

atmosphere characterized by crisis in the world trade system, and would be driven by such a framework of international impasse.

As a result of this exercise, the analysis focused on five projected scenarios that define sufficiently differentiated trajectories for the trade negotiations undertaken by the Latin American and Caribbean countries, considered as a whole, between the present time and 2005 (Table 3).

**Table 3**  
**Trade Negotiations Scenarios for Latin America and the Caribbean: a Summary**

<b>Blocks of Variables Scenarios</b>	<b>World Trade System and Multilateralism</b>	<b>Regionalism in the Americas</b>
<b>Unipolar Hegemony</b>	Anti-multilateral globalization	FTAA hegemony
<b>Building Blocks</b>	New multilateral consensus	Plural regionalism
<b>Regional Hegemony</b>	Non-cooperative equilibrium	FTAA hegemony
<b>Fragmentation and Bilateralism</b>	New multilateral consensus	Trade balkanization
<b>Impasse in Negotiations</b>	Non-cooperative equilibrium	Regionalism in crisis

- **Unipolar Hegemony** Scenario. This scenario combines the hegemony of the FTAA in the Americas with anti-multilateral globalization (in its first variant) or with non-cooperative equilibrium (in its second variant). In the first variant, a scenario in which the U.S. continues to play a role as the driving force of the world economy prevails in the world trade system. A disparity in performance between the U.S. economy and all other OECD economies exerts growing pressure on the other OECD countries. Institutional and regulatory competition lead Europe and Japan to intensify their liberalizing reforms of domestic policies, despite internal social resistance. The supremacy of the U.S.A. translates into bilateral pressure to negotiate issues of interest to the U.S., especially in regard to relationships with Asia, a region that enjoys a solid trade surplus over the U.S. The multilateral agenda is limited to a few sector-related issues, and is also driven by the U.S.A. In fact, the U.S.A. uses multilateralism to obtain plurilateral agreements on certain issues or in certain sectors, such as those related to international propagation of the so-called new economy. Paradigms for these agreements include the Information Technology Agreement and the Government Procurements Agreement signed at the Uruguay Round. The leading country exerts little or no pressure to hold a comprehensive Round for multilateral negotiations. There is little or no room for governance matters on the international economic agenda, and developing countries are divided into those that compete for access to preferential trade

schemes, and those that opt for South-South regional solutions.

In the second variant, non-cooperative equilibrium prevails in the international arena. The trend in both developed and developing countries reverts to one of trade liberalization and a regimen of investment in an atmosphere of economic instability, which significantly impacts trade flows. Protectionism and unilateralism make a strong comeback, and regionalism gains momentum in its stumbling-blocks version. Regional leading countries take advantage of these initiatives to reinforce their economic power vis-à-vis rivals from other geoeconomic blocks. Tripolar polarization between the U.S.A., the European Union, and Asia takes on conflictive characteristics, with an upsurge of trade disputes among the three blocks and the strengthening of anti-West Asian regionalism. The legitimacy crises in the WTO are not overcome, and a new Round is indefinitely delayed. Even the negotiations on built-in agenda fail: multilateralism falls into a deep crisis. In this scenario, domestic and regional agendas maintain their priority status for the main players: regional initiatives tend to gain momentum, encouraged by certain of those players who were dissatisfied with the multilateral inertia (such as Asia and the U.S.A.).

In the Americas, the scenario of FTAA hegemony prevails, combining, on one hand, vigorous progress on the FTAA, encouraged by domestic victories on the part of a continental pro-integration coalition -with the social safeguards- and, on the other hand, the persistence of economic and political difficulties in Latin American countries participating in sub-regional integration schemes, which hinder their progress towards more cohesive forms of integration. In this scenario, the FTAA becomes the preferential option of several members of sub-regional agreements, leading to a rapid evaporation of the sub-regional agreements within the context of the FTAA.

Any of the “global” variants described above could be combined with a situation in which the FTAA is consolidated in 2005 as the trade integration paradigm in the Americas, to the detriment of the sub-regional initiatives. That would generate a situation in which the LAC countries would essentially be facing conditions of asymmetric regionalism, marked by pressures for intense trade liberalization and for policy harmonization based on the North American liberal paradigm.

- The **Building Blocks** Scenario. This scenario is the result of the emergence of a new multilateral consensus in the world trade system, combined with the consolidation, in the Hemisphere, of a scenario of plural regionalism, resulting from the success of the various initiatives now underway, particularly, the establishment of the FTAA and the strengthening of the MERCOSUR and the Andean Community. On the global level, the prevailing scenario is characterized by a reasonably stable international macroeconomic and financial situation, a relative balance of power between the U.S.A., the European Union, and the Asian countries, and relationships of mutual nurturing between multilateralism and regionalism. Such a situation forms the backdrop for the formation, on new foundations, of a domestic and international pro-globalization consensus (in the main OECD countries and some developing countries). Rejuvenated programs for the training of personnel, such as the Workforce Investment Act of 1998 in the U.S.A., and international agreements, such as the Guidelines For Multinational Enterprises, signed in June 2000, within the OECD, gradually create the bases for a new domestic and

international social pact capable of sustaining a new cycle of liberalization. Environmental and labor issues are components of this new consensus. On the other hand, the multilateral agenda takes into account the growing significance of emerging economies, especially in Asia, Latin America, and Eastern Europe, within the global economy and, especially, in the international division of industrial labor. A new comprehensive Round of multilateral negotiations is held, whose agenda includes substantial reforms in subsidized promotion systems, as well as protection for sectors that compete with the exports of developing countries within the OECD. China's joining of the WTO and economic recovery in Asia create a significant increase of investment flows to that region. The influence of the "South" grows in international bodies, while Asian countries make progress in projects for the establishment of regional free trade areas. U.S. unilateralism is limited, due to Asia's growing strength and the economic and political consolidation of Europe.

In the Americas, the MERCOSUR, the Andean Community and FTAA are successful. FTAA negotiations conclude and the agreement goes into effect as of 2005, with transition periods and temporary safeguards for sensitive sectors and smaller economies, as well as with labor-related and environmental clauses, required by the Congress for its approval. The MERCOSUR and the Andean Community, merged since 2003 through a Free Trade Agreement, are completely consolidated as Customs Unions and succeed in negotiating issues on which little progress was made in the FTAA. Thus, the commercial identity of sub-regional blocks within the FTAA is maintained, and fully integrated common markets are expected to be established within the next ten years in the two groups. As a result of these developments, concrete expectations are that a situation characterized by the coexistence of several preferential trade agreements will prevail in the Continent, with different degrees of solidity.

The consolidation of a global consensual scenario is combined with a pluralist one in the Hemisphere, creating a scenario for Latin American countries, and particularly for South American countries, that is less asymmetric than the one described above. Issues of governance and development are considered legitimate, receive attention within the various trade negotiation agendas, and counteract tendencies towards liberalization of the markets and harmonization of policies based on liberal paradigms.

- **Regional Hegemony** Scenario. This scenario emerges from the convergence of an international scenario of non-cooperative equilibrium and the consolidation, in 2005, of a project promoting trade liberalization and policy harmonization, materialized through the FTAA. As mentioned before, within such a global atmosphere, regionalism gains momentum in its stumbling-blocks version: tripolar polarization among the U.S.A., the European Union, and Asia takes on conflictive characteristics, and the leading regional countries take advantage of these initiatives to reinforce their economic power vis-à-vis rivals in other geoeconomic blocks.

The FTAA negotiations conclude in 2005, with a comprehensive integration project and WTO-plus in areas as diverse as agriculture, services, investment, intellectual property rights, and subsidies. At the same time, sub-regional integration initiatives within the LAC

continue to undergo a period of difficulties and impasses in negotiations. In spite of this, these projects continue to exist. Pressure by the U.S.A. on its trade partners in the Hemisphere to build an unconditional, immediate alliance for its economic conflicts with Europe and Asia generates considerable resistance among the South American countries. Within this context, implementation of the FTAA may face some difficulties, especially with respect to the participation of these countries, and particularly the bigger ones, which are thus encouraged to use economic competition among the different blocks to their own advantage.

- ***Fragmentation and Bilateralism*** Scenario. This is the result of a scenario in which the FTAA does not prevail in the Hemisphere and where the bilateral negotiation of agreements with Latin American countries becomes the core strategy for the U.S.A. in the Americas, combined with an international situation in which the predominance of a new multilateral consensus limits the U.S.A.'s possibilities to impose its proposals in the WTO for market liberalization and policy harmonization.

In this case, given an international environment with these characteristics, coupled with domestic and external difficulties for approval of the FTAA, the U.S.A. opts for a strategy of promoting its agenda of liberalization and policy harmonization through the signing of bilateral agreements with Latin American countries individually. This type of initiative attracts Central America and Caribbean countries, as well as some of the members of sub-regional South American agreements. Such an initiative, however, is also a constant source of stress among these countries, to the extent that it contributes to exacerbating internal discrepancies in each block.

This situation provokes defensive reactions from some of these countries, with a strong political component, encouraging nationalism and anti-U.S. feelings. These reactions also have an economic component, with an upsurge of activism around industrial policies and trade protectionism in these countries. The possibility cannot be excluded that leading countries in these integration schemes, such as Brazil in the case of the MERCOSUR, might try to promote a strengthening of the block, with a defensive outlook vis-à-vis the U.S. bilateral initiatives and the risk of absorption of regional projects by such bilateral initiatives.

Thus, the Americas face a situation characterized by intense, fragmented negotiations and a certain level of trade conflict with political repercussions. The hemisphere, in very general terms, is divided into a block attracted by the U.S. initiatives and a Southern block. The Southern block is protectionist and politically anchored to a defensive sub-regionalism. Its economic and trade alliances are outside the Hemisphere.

In fact, given that a new multilateral consensus prevails in the international arena, the political options of the Latin American countries, especially countries connected to the U.S. bilateral project, grow significantly. In concrete terms, within this scenario, the possibilities increase for a free trade agreement between the MERCOSUR and the European Union countries, facilitated by the commencement of comprehensive multilateral negotiations, even in the agricultural field.

- ***Impasse in Trade Negotiations*** Scenario. This scenario combines a global non-cooperative equilibrium with one of regionalism in crisis in the Hemisphere. In this scenario for the hemisphere, sub-regional LAC agreements become bogged down in an endemic crisis and negotiations come to a standstill. The FTAA is also affected by a lack of domestic consensus in the U.S.A. with respect to the new liberalization initiatives, as well as by resistance to the project in other countries, especially Brazil. A deterioration of the political situation in the Andean Community countries may also be a part of this scenario. In such a case, momentum is exhausted and the incentives that sustained the regionalization initiatives, typical of the 90's in the Americas evaporate.

The worldwide prevalence of a scenario of non-cooperative equilibrium practically excludes the possibilities for Latin American countries or sub-regional blocks to explore "diversification" strategies, within the terms of trade agreements, outside the hemisphere. The prevailing scenario of international fragmentation discourages such initiatives. Political and commercial tensions tend to develop among the countries of the Hemisphere, including between partners of sub-regional agreements that are in the process of becoming unraveled.

#### 4. Final Considerations

Scenarios are simplified representations of reality. This is particularly evident when the method is applied to complex systems, characterized by a high degree of instability and of sensitivity to external or exogenous variables, which are in turn composed by parts or sub-systems with some autonomy, whose inter-relationships are asymmetric and heterogeneous. Such is the case of this exercise.

Given these conditions, the identification of inter-relationships among the hypotheses formulated regarding the manner in which the key variables will play out and the characterization of these inter-relationships –as constituting causality, as creating unilateral or mutual conditions, as being merely compatible or incompatible- becomes particularly difficult.

To be exact, in the case of systems with these characteristics, the requisites of likelihood, coherence, and relevance, which should guide the development of scenarios, loose their applicability to a great extent, given that there are few configurations (or scenarios) that do not meet such requisites.

A probable result of such a situation is a very high number of scenarios, which could produce results that are of less interest and are also less useful as a tool for mapping "possible futures."

Nevertheless, the scenarios identified above seem to express typical and clearly specified potential trajectories, both for the sum total of international negotiations in which the LAC countries are involved, as well as with respect to the atmosphere in which these negotiations are taking place. The identified scenarios seem to be particularly useful for mapping potential trajectories for regionalism in the Hemisphere, with 2005 being set as the horizon.

One of the conclusions of this exercise is that the LAC countries may face very heterogeneous scenarios with respect to priority trade negotiation forums. Table 3 below presents the priority negotiation forums for each of the identified scenarios.

**Table 3**  
**Priority Negotiation Forums under Different Scenarios**

<b>Forums Scenarios</b>	<b>Bilateral</b>	<b>Sub-regional</b>	<b>Hemispheric</b>	<b>Multilateral</b>
<b>Unipolar Hegemony</b>			<b>1</b>	<b>2 ( in the first variant)</b>
<b>Building Blocks</b>		<b>1</b>	<b>1</b>	<b>1</b>
<b>Regional Hegemony</b>			<b>1</b>	
<b>Fragmentation and Bilateralism</b>	<b>1</b>			<b>2</b>
<b>Impasses</b>	-	-	-	-

Note.: 1 is first priority; 2 is second priority.

Additionally, the scenarios are also heterogeneous with respect to whether the regional and global/multilateral dimensions are convergent or divergent. There are scenarios where these dimensions do indeed coincide, and scenarios in which regional and global trajectories go in quite opposite directions. It is therefore possible that negotiation agendas greatly differ, depending upon the negotiating forum. In other words, the LAC countries may have to face very heterogeneous negotiation agendas in the different scenarios. Table 4, while not intended to be exhaustive, illustrates this possibility.

**Table 4**  
**Priority Negotiation Issues under Different Scenarios**

Scenarios	Issues / Forums
<b>Unipolar hegemony</b>	<b>Hemispheric:</b> investment, governmental procurements, services (domestic regulation), environment and labor standards, intellectual property, industrial tariffs. <b>Multilateral:</b> sectorial agreements.
<b>Building blocks</b>	<b>Multilateral:</b> agriculture, industrial tariffs, services, investment, competition policy, environment, and labor standards. <b>Hemispheric:</b> same as multilateral, with less emphasis placed on competition policy, and more on governmental procurements. <b>Sub-regional:</b> agenda for strengthening of agreements: anti-dumping, subsidies, common trade policy, institutional issues.
<b>Regional hegemony</b>	<b>Hemispheric:</b> investment, governmental procurements, services (domestic regulation), environment and labor standards, intellectual property, industrial tariffs.
<b>Fragmentation and bilateralism</b>	<b>Bilateral:</b> investment, governmental procurements, services (domestic regulation), environment and labor standards, intellectual property, industrial tariffs.
<b>Impasses</b>	<b>Multilateral:</b> built-in agenda from the Uruguay Round <b>Sub-regional:</b> administration of trade conflicts

Another important conclusion of this paper is that scenarios where multilateralism has relevant influence and where sub-regional agreements do not disappear tend to be less restrictive for Latin American countries, and particularly for South American countries, in the sense that they are conducive to focusing on developmental issues. This translates into a balance between additional liberalization efforts, on the one hand, and, on the other hand, concerns with regard to governance issues and the impact of these liberalizing movements.

Finally, it is important to note that the feasibility of developing scenarios for trade negotiations by the Latin American countries considered as a whole does not necessarily mean that the Latin America countries have common interests within these scenarios. In fact, as Abreu (2000) indicated, the common trade agenda of the Latin American countries in the WTO is rather limited. An inclusion of the analysis of other negotiation processes, such as the FTAA and the sub-regional agreements, would probably reinforce the perception of heterogeneity of priorities and of negotiating interests among the Latin American countries.

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