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The Impact of the FTAA in the Americas and the Pacific: Challenges and Expectations

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1. INTRODUCTION

The purpose of this paper is to discuss the impact of the proposed Free Trade Area of the Americas in both the Americas and in the Pacific economic regions, from the perspective of the Latin American countries.

The main proposition is that the prolegomena of the benefits of the FTAA for Latin American countries, in the context of both the new trade area and in the context of the Pacific economic region, cannot be solved in terms of market access, but in terms of reforming the production and trade structures of their economies, by expanding and enhancing consumption, investment and trade.

As long as the Pacific economic region is becoming one of the epicenters of the world economy, inserting in said area is becoming one of the most important issues to be considered for the globalization processes of the countries in this hemisphere.

As one of the centers of the world, the Pacific region is relatively new, it is evolving, it is wide and characterized by a variety of cultures, traditions and a diversity of historic linkages, races, languages and religions. It is a region in a process of defining its identity, still lacking homogeneity and also lacking a sense of community and a sense of shared political values.¹ Contrary to the Latin American case, its trade processes evolved without the help of support of formal institutional arrangements.

Even though the Pacific region shares more than 50% of the world GDP, 32% of the global surface y about 38% of the global population², Latin America's role in the regional economy is marginal. It barely reaches 1,4 % of the trade volume and it is limited to commodities in cases such as Colombia. Also, investment from the region it is not significant.

Given those circumstances, it has been argued that as long as the participation of Latin American countries is limited to small volumes of commodities, investment in logistics and in technology is not justified because that will raise unjustified transaction costs. Also, commitments in terms of international trade within the context of open regionalism such as APEC should be examined, given that they would have to be extended to non member economies in the context of the WTO and in the context of other trade arrangements³.

¹ YAHUDA, Michael. The International Politics of the Asia – Pacific, 1945 – 1995. London: Routhledge in Asia, 1996. p. 1-17. PERDOMO, Armando. "Consideraciones sobre los compromisos comerciales de Colombia al ingresar a la APEC". In GARAY, Luis Jorge; RAMÍREZ LEYTON , Doris; DE LOMBAERDE, Philippe. El Futuro de Colombia en la Cuenca del Pacífico. Bogotá; Universidad Jorge Tadeo Lozano, 2000. p. 217 – 227.

² It is worth noting that the contribution of The United States to regional trade is as significant as it is in the case of Latin America. Without the U.S. the region contributes to 27% of the world GDP, 13% of the world surface and 31% of the global population

³ PERDOMO, Armando (2000) p. 217-227.

On the contrary, some others consider that a pro-active insertion in the region is needed, given its actual importance in the global economy in terms of trade, for the configuration of economic blocks and the opportunity it offers to have access to technology, to investment resources research and development and new markets⁴.

The resulting institutional arrangements of the FTAA process will be fundamental given its simultaneous impact in both the Americas and the Pacific regions. The United States, Canada, Mexico, Chile and Peru are member economies to APEC and they are committed to extend all the preferences and benefits accorded in RTAs such as the FTAA to other member economies in terms of the Bogor Declaration (1994).

Even though it is too early to evaluate the actual contribution of the FTAA on both regional and global trade, and in the framework of the Bogor Declaration in particular the previous considerations justify the need to discuss the factors concerning the impact of the FTAA in the Pacific economy and particularly in its process of regionalism and of consolidations of economic integration in the region.

This paper is intended to contribute to that discussion, addressing some of its most relevant issues. First, it reviews the FTAA process; then it compares the EAI with reference to the Bogor initiative, its similarities and its differences and the challenges for the FTAA negotiation process in terms of its ability to respond to the expectations and requirements of both processes - EAI and Bogor.

2. THE FTAA NEGOTIATION PROCESS:

2.1. The Enterprise for the Americas Initiative:

The FTAA negotiation process was promoted for the very first time at the launch of the Enterprise for the Americas Initiative by the President of the United States:

“We must build on the trend we see toward free markets and make our ultimate aim a free trade system that links all of the Americas: North, Central, and South. And we look forward to the day when not only are the Americas the first fully free, democratic hemisphere but when all are equal partners in a free trade zone stretching from the port of Anchorage to the Tierra del Fuego.

“I’m announcing today that the U.S. stands ready to enter into free trade agreements with other markets in Latin America and the Caribbean, particularly with groups of countries that have associated for purposes of trade liberalization. And the first step in this process is the now-announced free trade agreement with Mexico. We must all recognize that we won’t bring down barriers to free trade overnight; changes so far-reaching may take years of preparation and tough negotiations. But the payoff in terms of prosperity is worth every effort, and now is the time to make a comprehensive free trade zone for the Americas our long-term goal”⁵.

⁴ GARAY, Luis Jorge. “Una nueva agenda política Internacional” y “Acerca de una agenda estratégica básica para Colombia frente a la Globalización y a los procesos de integración regional. In GARAY, Luis Jorge; RAMÍREZ LEYTON, Doris; DE LOMBAERDE, Philippe. El Futuro de Colombia en la Cuenca del Pacífico. Bogotá; Universidad Jorge Tadeo Lozano, 2000. p. 63-66 y 253-262.

⁵ Remarks Announcing the Enterprise for the Americas Initiative *June 27, 1990*

This proposal included initiatives to help Latin America to overcome the debt crisis by promoting trade, foreign investment and sustainable development. Of these, only the issues concerning trade received serious attention⁶.

The Enterprise for the Americas initiative represented a fundamental change in the U.S. policy towards Latin America in response to the challenges that posed the then new developments in the international system. By the end of the eighties the United States faced an increasing competition from both the European Union and from Japan, at the same time Latin America was perceived as region where the U.S. had a natural comparative advantage, and the North American region was also perceived as an area strongly integrated in terms of production and trade. Even more, “NAFTA was the first reciprocal free trade pact to link a developing country as an equal partner with industrial countries”⁷.

Terms such as war, threat, subversive, were replaced by synergy, co operation, collaboration. Payne⁸ considers that together, the EAI initiative, the Summit of the Americas and the FTAA negotiations represent a shift in the attitude of the U.S. government towards the American hemisphere to compensate the loss of global hegemony that has operated since the end of the Cold War by establishing a regional hegemony by linking trade, security and ideological agendas on the basis of consensus in a way that more than building a regional block in a proper sense, it is the establishment of political and economic conditions in the region consistent and supportive of the U.S. post cold war policies and interests.

2.2. Summit Of The Americas:

Efforts to joint the economies in the American hemisphere in a single agreement started in the Summit of The Americas, Miami, 1994. The Chiefs of State and heads of Government of the 34 democracies in the region agreed to establish a Free Trade Area of the Americas, where barriers to trade and finance shall be eliminated progressively by the end of the negotiation in the year 2005⁹. Three other Summits have followed within the same course of action, at Santa Cruz de la Sierra (Bolivia), Santiago (Chile) and Quebec (Canada).

The Summits represented a new spirit of partnership within the countries of the continent based upon four interrelated objectives¹⁰,

- ?? To preserve and strengthen the community of democracies of the Americas
- ?? To promote prosperity through economic integration and free trade
- ?? To eradicate poverty and discrimination in the hemisphere, and
- ?? Guarantee sustainable development and conserve the environment.

⁶ FRANCO, Andrés. “Colombia y el ALCA 2005: las dificultades políticas de un proyecto económico” . In Ramírez, Socorro y Restrepo, Luis Alberto. Colombia entre la Inserción y el aislamiento. Bogotá: IEPRI – Siglo del Hombre – editores. 1997. p. 71 – 95.

⁷ SCHOTT, Jeffrey J. Prospects for Free Trade in the Americas. Institute For International Economics (2001) p. 9

⁸ Payne, Andrew. “The United States And Its Enterprise For The Americas”. In: Andrew Gamble and Anthony Payne. Regionalism and World Order. Macmilan, 1996. p.125.

⁹ Ibid.

¹⁰ Schott, Jeffrey(2001) p.1

Actually, the agenda of the Summits is quite large. It includes: 1. strengthening democracy; 2. human rights; 3. strengthening society; 4. cultural values; 5. corruption; 6. drug trafficking; 7. terrorism; 8. mutual confidence; 9. free trade; 10. capital markets; 11. hemispheric infrastructure; 12. energy cooperation; 13. telecommunications; 14. science and technology; 15. tourism; 16. education; 17. health; 18. women; 19. micro enterprises; 20. white helmets; 21. sustainable energy use; 22. biodiversity; 23. pollution prevention.

Trade is only one issue, but it was the one that prevailed at the meeting in Miami, and continues to do so mainly due to the interests and efforts of the developing countries. It has been argued that the commitment reached three weeks before the Summit, by the Asia Pacific economies with the U.S. to liberalize trade by the year 2010 in Bogor, was a main reason in order to maintain the pace with the Asia Pacific economies¹¹.

2.3. FTAA Negotiation Process and Structure:

During the preparatory stages of the FTAA negotiations four Ministerial meetings took place, Denver, June 1995; Cartagena, March 1996; Belo Horizonte, May 1997; San Jose, March 1998. In the San Jose meeting, Ministers of Trade recommended to the Chiefs of State start negotiations and established the structure, principles and general objectives for them.

FTAA negotiations were officially launched in April 1998 during the Santiago Summit. It was agreed that the negotiations were to be conducted in a transparent manner, taking into account the differences in terms of economic development within the region and taking into account the size of the economies, in order to facilitate full participation of all the democracies of the region.

The fifth Ministerial meeting, the first since negotiations officially started, was held in Toronto, November 1999. There, the Ministers commissioned Negotiations Groups to prepare a draft agreement to be presented at the Sixth Meeting which took place in Buenos Aires, April 2001. The groups related to market access were required to discuss methods and procedures for the negotiations in their areas. Ministers also approved measures for business facilitation, concerning in particular customs procedures, in order to facilitate hemispheric trade.

Timetable. Negotiations are due to conclude by January 2005 and the agreement shall enter into force no later than December of the same year. This is to say, that by January 2006 the agreement shall be applied in the whole continent. Concerning market access, recommendations on the methods and modalities for tariff negotiations were completed and presented at the CNC meeting held at Isla Margarita, April 2002, and tariff negotiations will be initiated no later than May 15, 2002. A second version of the draft agreement shall be presented at the Ministerial meeting in Ecuador, September 2002..

A number of agreed principles guide the negotiations. These include, among others:

- ?? decisions will be taken by consensus;
- ?? negotiations will be conducted in a transparent manner;
- ?? the FTAA will be consistent with WTO rules and disciplines, and should improve upon these rules and disciplines wherever possible and appropriate;

¹¹ Schott, Jeffrey. (2001) (p.2)

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- ?? the FTAA will be a single undertaking (“nothing is agreed until all is agreed”);
 - ?? the FTAA can coexist with bilateral and sub-regional agreements and countries may negotiate and accept the obligations of the FTAA individually or as members of a sub-regional integration group; and
 - ?? special attention will be given to the needs of the smaller economies.

The FTAA negotiations are carried out under an agreed structure that is member-driven and ensures broad geographical participation. Chairmanship of the Negotiations: rotates every eighteen months, or at the conclusion of each Ministerial meeting. The following countries have been designated to serve as Chair of the FTAA process for successive periods: Canada; Argentina; Ecuador; as well as Brazil and the United States jointly.

The Ministers Responsible for Trade exercise the ultimate oversight and management of the negotiations. They meet generally every eighteen months and, since the negotiations were launched, do so in the country which is holding the FTAA Chairmanship.

The Vice Ministers Responsible for Trade, who as the Trade Negotiations Committee (TNC), have a central role in managing the FTAA negotiations. The TNC guides the work of the negotiating groups and other committees and groups and decides on the overall structure of the agreement and institutional issues. The TNC is also responsible for ensuring the full participation of all the countries in the FTAA process, ensuring transparency in the negotiations, overseeing the administrative secretariat, and overseeing the identification and implementation of business facilitation measures. The Committee meets as required and no less than twice a year at rotating sites throughout the hemisphere.

There are nine Trade Negotiations Groups with specific mandates from Ministers and the TNC to negotiate texts in their subject areas. They were established for market access; investment; services; government procurement; dispute settlement; agriculture; intellectual property rights; subsidies, antidumping and countervailing duties; and competition policy.

Four Committees and Groups address cross cutting issues: the Consultative Group on Smaller Economies follows the progress in the negotiations with regard to the concerns and interests of the smaller economies. The Committee of Government Representatives on the Participation of Civil Society, established to achieve transparency in the negotiating process and to broaden public understanding and support for the FTAA. The Joint Government-Private Sector Committee of Experts on Electronic Commerce established to study how to broaden the benefits to be derived from the electronic marketplace in the hemisphere. Finally, a fourth group on institutional issues was established.

Other issues. An ad hoc group of experts was established to report to the TNC on the implementation of the customs-related business facilitation measures agreed upon at Toronto. These measures, which do not require legislative approval but can be implemented administratively, are designed to facilitate commercial exchange within the Americas, and indeed benefit all traders. The transparency related measures, initiatives to increase the flow of information about trade and trade-related issues among the countries of the Americas, are disseminated through the FTAA Homepage. The Tripartite Committee, which consists of the Inter-American Development Bank (IDB), the Organization of American States (OAS) and the United Nations Commission for Latin America and the Caribbean (ECLAC), provides analytical, technical and financial support to the process and maintains the official FTAA Website. These institutions also provide technical assistance related to FTAA issues, particularly for the smaller economies of the Hemisphere. The FTAA Administrative Secretariat, located in the same site as the meetings of the negotiating groups, provides administrative and logistical support to the negotiations. It keeps the official archives of the negotiations, and provides translation and interpretation services. The Secretariat is funded by a combination of local resources and the Tripartite Committee institutions.

3. THE FTAA PROCESS AND THE BOGOR DECLARATION: COMMON ISSUES AND DIFFERENCES:

“The Miami Summit put forward a vision of free trade in the Americas similar to that in the APEC region, but with a more concrete and traditional negotiating approach. In both cases, the commitment was to achieve free trade within a decade or two after a lengthy implementation period for some politically sensitive sectors and for some developing country participants”¹².

The Bogor Declaration process and the proposed Free Trade Area of the Americas share a number of common features although there are a number of fundamental differences. On the one hand, there is the interest to commit the U.S. to liberalize trade and the diversity and asymmetry among the member economies of each process. On the other hand, the Bogor Declaration contains a flexible, non formal commitment, while the FTAA approach is more formal and in its approach -notwithstanding that its agenda is closer to open regionalism than most of the existing trade agreements in the region. In the proposed FTAA non trade issues are crucial for the process, institutions for economic integration have evolved differently in each area and there are differences in terms of economic performance and development strategies.

3.1. Diversity And Asymmetric Relationships In The Americas:

Alike the Asia Pacific economic region³, the American hemisphere is characterized by a diverse group of countries in terms of size, population, surface, economic growth, market size and trade participation, with a high degree of vulnerability and of fragility.

The FTAA will comprise some of the richest and poorest, largest and smallest countries in the world. The U.S. economy is ten times bigger than that of Brazil, the second biggest one in the region, and almost 100 times larger than the combined total of all the Central America and the Caribbean countries. Together, the U.S., Brazil and Mexico account for more than 85% of the western hemisphere GDP and two thirds of its population, while the population of all Caribbean islands is fewer than Canada. In addition to that, the gap between rich and poor in the region have widened during the negotiation of the FTAA due in part to financial crises of Mexico (1994) and of Brazil (1998) and to the political turmoil in Andean region⁴.

3.2. Trade, Development And US Policies In The Hemisphere:

As it was said before, even though FTAA negotiations were launched at the Miami Summit in 1994, US President George Bush has proposed a vision of integrating the hemisphere in a single free trade zone as part of the EAI policy in terms of extending somehow NAFTA across the hemisphere and invited Chile to start negotiations in that sense. Although NAFTA contains an access clause it was not clear how those negotiations were supposed to proceed. Even more, at the beginning of his administration,

¹² Schott, Jeffrey (2001) p.2.

¹³ The Pacific economic region comprises at the same time developed countries, newly industrializing countries, and developing ones. In terms of per capita income its largest economy is 114 bigger than the small one. It comprises the two largest economies in the world, the economies of fast growth and the largest Muslim country in the world. One of the most valuable assets of APEC is its ability to joint together all this diversity under a vision of cooperation and partnership for prosperity.

¹⁴ Schott, Jeffrey (2001)

President Clinton was not very fond of the FTAA idea, but it managed to tie security and trade agendas to each other in a more intense way as his predecessor managed to¹⁵

This program signified a change in attitude and in orientation with respect to the U.S. policy towards Latin America in response not only of the transformations of the international system as a consequence of the end of the cold war, but also in response to the external debt crises of the eighties and its effects on the U.S. banking and financial systems.

Since the end of the eighties, the U.S. has sought to renew its position towards the hemisphere starting with the same concept of “the Americas” – despite the fact that Latin American and Caribbean affairs in one way or another have always been relevant to US foreign policy agenda¹⁶.

Traditionally, this policy was divided and characterized into different stages for the purposes of analysis, reflecting a kind of progression ranging from the national consolidation of Latin American States in the 19th Century, the assertion of power in Central America in the twenties and thirties, the initiatives to establish a partnership with Latin America before the World War II and during the first cold war, the Alliance For Progress of President Kennedy and the reassertion of hegemonic power of President Reagan.

Post cold war US policy towards Latin America was elaborated on a completely different basis¹⁷. Apart from the reshaping of the international system and the interest in starting a new round of negotiations in GATT in particular and the debt crises, US national interests were relevant. Many of the policy changes adopted by Latin American countries to raise sufficient internal savings to solve the debt problem and to prevent similar crises were induced, supported and promoted by the U.S., making those economies more vulnerable to their external environment than in the past¹⁸.

Another main interest for the U.S. was the proposal for carrying on a new trade round of negotiations in GATT –which materialized in the Uruguay round- and leaded also to the trade negotiations with Canada in 1989. By 1990 within the Administration of Carlos Salinas De Gortari in Mexico an interest in establishing a free trade zone with the United States grows , following the Canadian experience.

To conclude this point, the EAI is formulated in a way which indicated that for Washington it was clear that they could not longer try to pursue a vision of a new international economic order without consensus¹⁹.

The success of the FTAA process is not only dependent on the influence of the recent orientations of the U.S. policies towards Latin America in the nineties, but also and more important, on the consistency and strength and coherence of the United States trade policy. In this sense there are worries about whether the U.S. is really committed to free trade. Given the importance of the U.S. for regional trade in the Americas, the actual commitment of the U.S. towards trade liberalization is a common concern, and incidents such as the safeguard measures for steel products of March 2002 and difficulties

¹⁵ PAYNE, Anthony. “The United States and Its Enterprise for the Americas”. In PAYNE, Anthony y GAMBLE, Andrew. Regionalism and World Order. London: Mac Milan, 1.996. p..93

¹⁶ Ibid,

¹⁷ Ibid. p.99.

¹⁸ Ibid. p.101.

¹⁹ Ibid, p. 104.

surrounding the extension of ATPA do not contribute to generate a positive environment for a successful negotiation.

These situations should be analyzed in terms of hegemony and of asymmetric trade relationships. The U.S. is the main commercial partner of the majority of the rest of the countries in the Americas and the differences in terms of their economic performance are of significance. In such circumstances it is not surprising that the final text of the FTAA reflects the interest and expectations of the U.S. towards regional trade in the hemisphere.

3.3. Non Trade Issues And The FTAA:

As it was said before, FTAA motivations cannot be properly appreciated without taking into account its role as the main component of the commercial agenda of both the EAI initiative and the Summit of the Americas. In this sense, some factors are likely to affect the negotiation process. First, there might be contradictions and overlaps between the regional economic and security agendas. Democratization process and trade liberalization tend to collide. Free trade makes drug trafficking policies more difficult to implement and environmental policies, if taken seriously might challenge many assumptions of the Washington consensus.²⁰

3.4. Impact of Formal Institutions In Regional Trade

One of the most important challenges of the FTAA is the need to respond to two completely different types of regionalism.

Economic integration in Latin America has evolved in a more traditional approach than in the Pacific. The first attempts to establish economic institutions in Americas (LAFTA and CARIFTA) were created as a mirror image and as a reaction to the European Economic Community, under the framework of the customs union theory, even though it required certain conditions difficult to find in developing countries, relying on laissez faire commercial theories and based on the static benefits of trade creation and of diversification²¹.

The following attempts to build up economic integration in the region, ALADI and the Andean Community among others, were focused towards the construction of industrial capacity, influenced by structuralist approaches, emphasizing on growth in terms of industrial production more than on efficiency on trade. Therefore the agendas of economic integration institutions comprised issues such as income distribution, employment, the impact of foreign direct investment on development and the role of multinational enterprises, greatly influenced by the works of Raul Prebisch and the UN Commission for Latin America and the Caribbean²².

As it has been discussed before, the FTAA initiative implies a strong departure from this orientation, influenced by the then new global and regional realities shaped by the debt crises of 1982 and by the end of the cold war. Notwithstanding that, this new round of negotiations have provoked a new

²⁰ Ibid. p.126.

²¹ Axline Andrew. "La Política de Regionalismo y las Asimetrías perspectivas para la integración hemisférica en las Américas". In: De Lombaerde, Philippe (ed.) Integración Asimétrica y Convergencia Económica en Las Américas Universidad Nacional de Colombia, 2002 p. 161.

²² Axline Andrew. (2002) p. 168

dynamic and a new impulse to existing RTAs such as Caricom, the Andean community and Mercosur²³, even though in the near future, its mere existence can be in doubt as it will be discussed below.

Regional integration in the Pacific, instead, is more difficult to understand. It is known that since 1999 there has been a tremendous growth of RTAs initiatives of different types, flexible in terms of territorial proximity, timetables and scope of the agenda – i.e. they are expected to go far beyond trade and investment- and it is expected that they will comply with the commitments of the Bogor and Osaka Declarations: open to other APEC economies and extension of the benefits to other economies in the region which raise concern and debate as to the contribution of such agreements to strengthen the institutional arrangements of APEC and to strengthen the economic and political changes adopted to solve the financial crises of 1997.²⁴

3.5. Economic Performance And Development Strategies:

Two issues are worth considering here. One is the relationship between the FTAA and the economic and political reforms adopted by most of Latin American countries since the beginning of the nineties. The other one is the discussion of what can Latin America learn from development strategies of South East Asian economies?

Since the early nineties Latin American countries have implemented development strategies based on the so called “Washington Consensus”, involving macroeconomic stabilization policies, trade reform, regulatory reform, privatization and development of strategy and the encouragement of investment from both domestic and foreign sources. In that context it has been argued that trade agreements must be used to reinforce and to secure the implementation of those reforms and to prepare the economies to compete more effectively in the global scenario at both public and private levels²⁵.

Concerning the lessons of the South East Asian countries, in addition to the historic low participation of Latin America in the Pacific, the question remains as to whether South East Asian countries have shown remarkable economic and development performances in the last years while by the end of the forties their levels of development were barely similar to the ones of Latin America. Heterogeneity and diversity of cultural, economic and political systems make it extremely difficult to identify the reasons behind this situation.²⁶

Latin American debt crises and East Asian financial crises of 1997 were but pretexts to discuss and to elaborate comparative frameworks between the economies of both regions and it became a common place to take cultural factors, management and organizational patterns and public policy contents and orientations from the Asian experience to patronize about the correct path to overcome Latin American problems.

Some analysts²⁷, however, remain faithful to the empirical evidence and to the history to conclude that the attempt to compare said economic processes, or to find models for Latin America, taken from the East Asian countries to conclude that there are so many differences that this was a useless task given

²³ Axline Andrew. (2002) p. 169

²⁴ “Regional Trading Arrangements: stock take and next steps”. PECC Issues Paper. October 2001.

²⁵ Schott, Jeffrey (2001) p. 5

²⁶ ACOSTA PUERTA, Jaime. “Economía política e industrialización en los países del Este Asiático. Política económica y desinstitutionalización en Colombia”. 38 **Colombia Internacional**, abril –junio de 1.997. p. 38-61.

²⁷ Fishnlén, Albert. “Latin American Failure Against the Backdrop of Asian Success” and Lawrence Whitehead. “Tigers in Latin America?” 505 ANNALS AAPSS September 1.989,

that, apart from the different historic background issues such as the export oriented policies in the South Asian region cannot be adequately explained without particular specific circumstances in terms of regional strategy and balance of power.

4. CHALLENGES FOR FTAA

4.1. Relationship with sub – RTAs.

Clearly, the FTAA negotiations raise expectations concerning the discriminatory and exclusive character of any arrangement of economic integration. However, on the one hand, from a formal point of view the FTAA is proposed as a free trade zone and therefore, in principle, there is no reason to assume a raise in tariffs and other trade barriers with respect to third countries²⁸. On the other hand, as long as the proposed FTAA contributes to liberalize and to promote regional trade the opportunities for investment and business will grow, but this will depend on its relationship with other existing sub regional agreements.

The decision taken at the Ministerial Meeting of San Jose is that there should be a coexistence and one of the conclusions that can be taken from the negotiation itself so far is that existing sub regional agreements have contributed a lot to the negotiations of the so called bracketed texts –most of the developing countries have participated under the umbrella of the respective agreement.

In addition to that, it has been suggested that these agreements can play a crucial role in bringing together troublesome neighboring countries and helping to deepen certain aspects of the economic integration process that can be crucial for the success of the FTAA process.

However, there is a tension as to whether the resulting agreement of the FTAA should be NAFTA oriented or more Andean COMMUNITY / MERCOSUR oriented. Given the scope of its agenda, its relationship to the Summit of the Americas process and the hegemonic role of the United States, one might think that the balance will shift towards NAFTA.

Finally, apart from the political will it is worth considering whether “first generation” sub regional agreements can actually co exist with an open, “second generation” regional agreement; whether the impact of hemispheric trade will make sub regional trade irrelevant, whether said situation will facilitate or impede trade liberalization²⁹. Given that the most critical issue is whether entrepreneurs will perceive a fair playing field for free trade in the region, adaptation and deepening of the WTO commitments is imperative for the success of the FTAA process.

4.2. The FTAA And The WTO:

²⁸ BORA, Bijit. “North America Free Trade Agreement”. In BORA, Bijit y FINDLAY, Christopher. Regional Integration and the Asia-Pacific. Oxford University Pres, 1998. p. 180-181.

²⁹ “Regional Trading Arrangements: stock take and next steps”. PECC Issues, OCTUBRE, 2001 and M. Salazar Xirinachs “Implications of Proliferating Sub Regional Trade Agreements: Lessons from the Latin America Experience”, delivered at the seminar Regional Trading Arrangements: stock take and next steps. Bangkok, June, 2001.

Compatibility with provisions contained in the WTO agreements must be mentioned, not only because there is a lot of uncertainty as to the review by the WTO, but also because a number of issues concerning the agenda are going to be discussed at the Doha round of negotiations, parallel to the FTAA process and because this situation demands on the countries to develop the ability and strategy to carry on both negotiations simultaneously³⁰.

4.3. Rules of Origin:

Rules of origin are a challenge to any economic integration process. They are crucial to its success because they affect production, technological change, the offer of domestic intermediate products and exports and presently they are central to the negotiations. The group on market access has identified certain criteria to shape the resulting regime:

- ?? Rules should be efficient in the sense that they should facilitate trade, avoiding unnecessary obstacles by being transparent and predictable on its specifications and on its administration objectives;
- ?? Rules should be compatible with the commitments assumed by the FTAA members under the WTO
- ?? The adoption of the Harmonized System for Codification and Description of Merchandises.

In that context it is critical to consider the degree of excellence on transformation during the process of production. To that end, the following recommendations have been made:

- ?? Rules should be specific on the object of the rules of origin.
- ?? The criteria necessary for the classification of rules should be reduced to a minimum.
- ?? An adequate balance between alternative rules of origin and the degree of excellence required for productive transformation should be achieved.
- ?? Transparency and simplicity on the procedures designed to verify observance of the rules.
- ?? The use of alternative policies such as the extension of the period of expansion of the market or the reduction of the differences between national tariffs against third countries, should be considered carefully.
- ?? Comply with the WTO provisions.

The other point of concern here refers to the coexistence of different RTAs and the expectation concerning whether the different regimes prevailing in the area will be compatible.

4.4. Sustainability of Reforms:

As it has been discussed before, there is a strong relationship between all the initiatives formulated in the context of the EAI and of the Summit of the Americas to liberalize trade in the hemisphere and the political and economic reforms implemented by most Latin American countries under the guidelines of the so called Washington Consensus. Current problems such the political situation in Venezuela, the political violence in Colombia, the economic problems of Argentina and common issues to the whole region such as unemployment and the increasing pressures for protectionism in most of the countries raise concern on the actual ability of countries to generate policies to sustain already implemented reforms and to advance addressing present democratic, economic and social problems.

³⁰ "The Millennium Agenda for the Asia - Pacific: responding to new challenges and uncertainties. PECC Issues, September 2000.

4.5. Strength of Democracy:

While the Miami Summit established a vision of free trade in the Americas, and the Santiago Summit started the negotiations, the Quebec Summit established the timetable for dismantling trade barriers and included a number of other initiatives. Some, in terms of cooperation to prevent or mitigate and respond to natural disasters and some in terms of transparency of the FTAA talks and of an increasing and sustained communication with the civil society. But more important, the Leaders recognized that maintenance and strengthening of the rule of law and strict respect of the democratic system are critical issues to the success of the FTAA and other summit initiatives. In that sense they established a sort of democratic clause in the sense that only democratic nations will be welcome to participate in summit initiatives such as the FTAA. It was warned that any unconstitutional alteration or disruption of the democratic order shall constitute an insurmountable obstacle to the participation of that State's Government in Summit Process:

“We acknowledge that the values and practices of democracy are fundamental to the advancement of all our objectives. The maintenance and strengthening of the rule of law and strict respect for the democratic system are, at the same time, a goal and a shared commitment and are an essential condition of our presence at this and future Summits. Consequently, any unconstitutional alteration or interruption of the democratic order in a state of the Hemisphere constitutes an insurmountable obstacle to the participation of that state's government in the Summit of the Americas process...”³¹

However, an automatic disqualification to continue participating in the process was not agreed. Instead it was convened to conduct consultations, “recognizing the utility of neighborly advice and political coercion – which had worked successfully to forestall coups in both Central and South America during the 1990s.”³²

“...Having due regard for existing hemispheric, regional and sub-regional mechanisms, we agree to conduct consultations in the event of a disruption of the democratic system of a country that participates in the Summit process”³³.

5. IMPLICATIONS FOR LATIN AMERICAN COUNTRIES:

This paper argues that in order to consider and to evaluate the challenges and opportunities that the FTAA can generate for the insertion of its member countries in the global economy, it is necessary to consider the probable impact of the FTAA in the Pacific economy, so the need to understand and to analyze the dynamics and complexities of the economic integration processes in the area.

In that sense it has compared the main points of the Summit of the Americas and of the Bogor Declaration and considered the critical issues concerning the negotiation of the FTAA process, based on the experiences of the Pacific.

Finally, it is worth making some remarks about the expectations on the results of the FTAA negotiations. APEC trade liberalization arrangements and experience shows clearly that liberalizing trade is not an end in itself. The economic prolegomena of the economic cooperation framework

³¹ Declaration of Quebec City, 22 April, 2001.

³² Schott (2001) p. 110-111.

³³ Declaration of Quebec City, 22 April, 2001.

established in the Bogor Declaration (Indonesia, 1994) cannot be solved in terms of market access. Trade creates opportunities for all type of business, no matter its size. Its benefits expand to all business, big and small, taking into account that the fragility of the last ones, given their lack of resources that makes them the main recipients of the initiatives to facilitate customs procedures, business mobility and common trade standards, among other measures³⁴.

But trade is not everything. By itself, trade cannot respond to the main challenges of economic development in terms of institutional development and of human resources. Also, it cannot generate strong financial systems, nor can it solve the problems in accessing to information technology, or generate a sense of community, central issues to economic development. These considerations explain why building economic capacity is central to APEC agenda³⁵.

³⁴ Timothy Ong, Chairman, APEC Business Advisory Council (ABAC) 2000. **APEC's Relevance** – Address to APEC SME BUSINESS FORUM. Bandar Seri Begawan, 20 June 2.000.

³⁵ Ibid.