

Floor Discussion of the Bouzas Paper

The approach that Jaime Ros took in his comment on Bouzas' paper raised the crucial question of whether one could really draw a clear distinction between 'natural' processes of integration, on the one hand, and 'institution-driven' processes, on the other. History and geography are important 'natural' factors, but aren't they, to a certain extent, reversible? And would it, therefore, not be more appropriate for anyone interested in regional integration to see that the institutional-driven tendencies and the natural-driven tendencies go in the same direction? These and other questions prompted Jaime Ros to give an immediate clarification.

Jaime Ros: "I realise that I made too much of the contrast between institutional – I mean, driven by agreements – and natural processes. What I want to correct is the impression that I may have given that these two processes are completely separate. This is not the case. I mean, NAFTA is after all an agreement between the US, Canada and Mexico, which are three natural partners. And Mercosur is an agreement between four countries which are natural partners. So the institutional processes are not completely divergent. The point I was trying to make, however, is that it will not make much difference for Chile's future trading relationships whether it gets into NAFTA or not. Or, to give you another example, it will not make much difference whether Uruguay gets into NAFTA or not, or whether Argentina gets into NAFTA or not. These are countries that are predestined to become first South American countries in an economic sense, with a high density of trading relationships with their other natural partners in South America. It is only in the long term that they may become hemispheric countries and in that sense part of NAFTA."

Percy Mistry then asked Jaime Ros what would be the right sequencing for Latin American countries. "If you are Chile, what would make more sense for you to do: join NAFTA first, or join Mercosur first, or repair the relationship to the Andean Pact and join that first? What do you do? And what should be the sequence then between the agglomerations eventually becoming hemispheric?"

According to Jaime Ros, the choice of sequence would not be obvious at all. "Let me take the case of Chile. The choice for Chile is not necessarily NAFTA or Mercosur. There are, for instance, serious disadvantages of joining Mercosur. Why? Because Chile has a much more diversified basis of natural partners in the hemisphere than other Mercosur countries. So it may not be in its interests to join a bloc which would protect a sub-set of its

natural partners. It may well be that it is in the best interests of Chile to try to go for what it has been doing, which is free trade agreements with a large number of natural partners.”

Robert Devlin strongly endorsed Bouzas’ plea for trying to make regionalism and multilateralism compatible. For this purpose, Article 24 of the World Trade Organisation (WTO) would be a very useful mechanism, Devlin said with a tone of optimism. “In fact this may happen because since so much world trade now is preferential, a lot of the disputes that are going to emerge are going to do so within the context of integration agreements, and this could bring the whole question of regionalism more into the WTO than might be the case when integration was a sort of side player in the world scenario.”

Devlin also stressed the importance – and difficulty – of resolving the ‘convergence issue’.

“There are a lot of different approaches being put out there and I hardly know how to go about it. There are some who like the market approach: just let the chips fly and sooner or later it will all get together and there will be one big hemisphere. Then there is the sub-regional approach: most Latin American countries are not really ready for hemispheric integration, so play in the little leagues, stay in your sub-regional group, make it stronger and then come back and talk to me when you are up to international standards. Then there is the NAFTA group who think that NAFTA should be the platform from which to proceed with hemispheric integration. And a variant of that is the SAFTA/NAFTA hypothesis.

The US thinks the process should be US-led and NAFTA-based. I myself am sceptical about NAFTA serving that role, basically because the NAFTA partners right now talk about the ‘highest standards’ – NAFTA is much more than a free trade agreement. They are insisting that the standards be as high as NAFTA and either you play or you don’t. Well, I have a feeling that very few countries in Latin America, at this stage anyway, are able to reach those ‘highest standards’, which means that a lot of people will be left out the game, and this could have some of the detrimental effects Roberto referred to. Then there is also the question of whether NAFTA is the proper vehicle, because in many respects NAFTA is very forward-looking and advanced, but there are aspects that aren’t so advanced. A good example is the rules of origin, which are much more restrictive than the LAIA rules of origin. So it is not clear that NAFTA would be what Latin America wants to hook on to.

Now, it is likely that some variants of all these options are going to be at play in the next few years and no single one will probably dominate, but the crucial question is: will they converge? That is where I think a multilateral mechanism is an important thing to push for at the political level because it helps to overcome some of the problems that Roberto was pointing out about the uncertainty of where regional integration is going.”

Cristian Ossa wondered whether one could really infer much from Jaime Ros' classification regarding the niches in which every Latin American country could eventually flow if trade intensity vis-à-vis each other and vis-à-vis the United States were considered. "If one looks, for example, at the bilateralist group, we have Canada, Mexico, Venezuela, Ecuador. All these countries are largely there because of natural resource endowment – all of them are oil exporters. As it happens today, the US is a large oil importer, but 20, 30 years ago the situation could have been quite different. And, in the future, the situation may change again. So shouldn't we look more at the financial interaction amongst firms, and the interaction at different levels between trading partners, rather than just at global figures which may be largely determined by natural resource endowment?"

A second point raised by Ossa was that Roberto Bouzas had mentioned some of the costs of not being in NAFTA – the erosion of preferences, trade diversion – but that perhaps another cost should be added. "Staying out, voluntarily or involuntarily, has perhaps major costs in terms of perception of managing the corresponding economy. About those who are out, it has often been said that they don't fulfil basic macroeconomic conditions, or that they are heavy polluters, or that they are irresponsible. This is not something we can easily measure, but in the perception of financial agents – and also governments or multilateral institutions – it no doubt has a pejorative connotation. So perhaps this is something one should take into consideration when studying the costs of staying out of NAFTA."

Reply by Roberto Bouzas

"I understand Jaime Ros' comments as stating not that procedures or institutions or mechanisms don't matter, but that what the indices tell reinforces certain institutional decisions or certain mechanisms to converge or to make the preferential trade agreements in the Western Hemisphere converge. I think it is not an either/or, but rather the one reinforcing the other. Institutional mechanisms reinforce those agreements which make economic sense, though the definition of what makes 'economic sense' may be a long discussion.

As regards Robert Devlin's observation about the role of Article 24 of WTO, the new understanding and interpretation of Article 24 may become an improvement on the previous Article 24 of GATT. Yet, I think that Article 24 in its new form does not address one crucial issue: accession rules and transparency as regards accession. In that field there is a role and there should be at least a forceful expression on the part of the Latin American policy-makers that this kind of mechanism should be established at the hemispheric level, even if it is not at the multilateral level. Basically because I think that

when large disparities of market power exist, rules are important. It is essential that we create more effective rules, at least at the hemispheric level.

There was a question by Percy Mistry about where to go next in terms of policy decisions in Latin America. What do you join first? There is no straight and unique answer to that question. It depends very much on the particular country we are talking about and the cost-benefit analysis – not only the economic cost-benefit analysis, but also the political cost-benefit analysis – which is made. What is sure for most Latin American countries, if not for all, is that most policymakers should work for more transparent mechanisms in the hemisphere.

Finally, about the cost, other than trade and investment cost, of not entering NAFTA, I think we really have to make an effort to take this out of the discussion. The idea that NAFTA was a seal of approval for good macroeconomic management has been very dramatically contested in December 1994 by the Mexican crisis. So I think we would rather take out this ‘seal of approval’ issue. For instance in the case of Chile, you don’t really need two seals of approval. If you did things right and you were able to do that in the context of an open economy and a stable macroeconomic environment, what would you need a new seal of approval for? So I think that after the Mexican events the seal of approval issue has shown itself to be much more relative and politically biased and motivated than was thought a year ago.”