

From Miami to Cartagena: nine lessons and nine challenges of the FTAA *

De Miami a Cartagena: nove lições e nove desafios da ALCA

ROBERT DEVLIN **
LUIS JORGE GARAY ***

RESUMO : Em Miami, em dezembro de 1994, os chefes de Estado de 34 países do hemisfério decidiram construir uma Área de Livre Comércio das Américas (ALCA) até o ano de 2005. A iniciativa foi apoiada por um ambicioso Plano de Ação que ganhou mais definições nas declarações de ministros do comércio do hemisfério nas reuniões de acompanhamento realizadas em Denver e Cartagena. Com efeito, o processo preparatório para a ALCA está agora alinhado com onze grupos de trabalho intergovernamentais que desenvolvem bancos de dados, estudos comparativos e recomendações para negociações nas áreas tradicionais de acesso a mercados (barreiras tarifárias e não tarifárias) e chamado de “novas” questões como serviços, propriedade intelectual, compras governamentais etc. Com base em várias considerações objetivas e em perspectiva do projeto da ALCA, o estudo conclui que, enquanto ainda está em seu estágio inicial de preparação para as negociações e não está livre de problemas, o processo da ALCA foi bem-sucedido até o momento e, de fato, descreve várias lições construtivas que podem ser extraídas do processo sobre como iniciar iniciativas de integração. À medida que esse processo se aprofunda e passa para as etapas de negociação e implementação, surgem sérios desafios. O estudo identifica nove desafios que vão desde a definição dos objetivos precisos dos governos em relação à forma básica da ALCA até a especificação de questões institucionais e as bases para a aceitação do público por meio da disseminação de informações adequadas ao público em geral.

PALAVRAS-CHAVE: ALCA; abertura comercial; integração econômica.

ABSTRACT: In Miami in December 1994 the heads of State of 34 countries of the hemisphere decided to construct a Free Trade Area of the Americas (FTAA) by the year 2005. The initiative was backed by an ambitious Plan of Action which gained further definition in declarations of the hemisphere's trade ministers in follow up meetings held in Denver and Cartagena. In

*The authors thank Antoni Esteveadeordal, Claudio Herzka, Michael McPeak, Nohra Rey de Marulanda, Carlos Sepúlveda and two anonymous referees for their comments. The views expressed in this document do not necessarily reflect the official position of the Bank or its member countries.

** Inter-American Development Bank – IDB, Washington/DC, U.S.A. E-mail: robertde@iadb.org.

*** Inter-American Development Bank – IDB, Washington/DC, U.S.A. E-mail: jorgega@iadb.org. .

effect, the preparatory process for the FTAA is now in gear with eleven intergovernmental working groups developing data bases, comparative studies, and recommendations for negotiations in the traditional areas of market access (tariffs and non-tariff barriers) as well as the so-called “new” issues like services, intellectual property, government procurement etc. Drawing on several objective considerations and putting the FTAA project in perspective, the study concludes that while it is still in its initial stages of preparation for negotiations and not free of problems, the FTAA process has been successful to date and indeed describes a number of constructive lessons that can be drawn from the process concerning how to launch integration initiatives. As this process deepens and passes into the negotiation and implementation stages, serious challenges will emerge. The study identifies nine challenges that range from definition of the precise objectives of the governments regarding the basic shape of the FTAA to specification of institutional issues and the groundwork for public acceptance through the dissemination of adequate information to the public in general.

KEYWORDS: FTAA; trade openness economic integration.

JEL Classification: F15; F13; O19.

1. INTRODUCTION

In December 1994, heads of state of 34 governments in the Western Hemisphere met in Miami to declare their commitment to democracy and the promotion of prosperity through open markets, hemispheric integration, and sustainable development. The commitment to hemispheric integration was expressed in the decision to negotiate a Free Trade Area of the Americas (FTAA) by the year 2005, with substantial progress being achieved by the year 2000.

The commitment to build an FTAA defined an ambitious program that encompassed not only the market access issues typical of traditional free-trade areas but also so-called “new” issues such as services, investment, competition policy, and intellectual property rights. In the scheme, existing subregional arrangements in the hemisphere were explicitly recognized as “building blocks” for the construction of the FTAA. Emphasis also was placed on the need to ensure the effective participation of the smaller economies of the hemisphere.

The heads of state set in motion a work program for their governments. The initial background work was to be undertaken in the Organization of American States’ (OAS) Intergovernmental Special Committee on Trade (SCT). Further work would be defined in trade ministerials which were scheduled for June 1995 and March 1996. The work program would receive technical support from the OAS/InterAmerican Development Bank (IDB)/United Nations Economic Commission for Latin America (UNECLAC) Tripartite Committee, as well as from subregional organizations.

The FTAA project is the most ambitious collective economic undertaking in the history of the Americas. Notwithstanding some disparagement by skeptics, it is fair to state, especially given the magnitude of the undertaking, that the process has proceeded well so far (section I). Indeed, after the first eighteen months there

are already some lessons which can be drawn that are useful not only for the FTAA exercise itself but also for the launching of integration initiatives more generally (section II). It is important to bear in mind, however, that the FTAA process is still only in a first stage which largely involves technical preparation. The road that lies ahead undoubtedly will be a bumpy one, with many challenges to be overcome during the course of the coming years (section III) if the FTAA is to be realized with the participation and benefits outlined in Miami by the heads of State.

2. THE CONSTRUCTION OF THE FTAA: SO FAR, SO GOOD

As envisioned in the Miami Summit's Plan of Action, the initial background work for construction of the FTAA was successfully undertaken in the OAS's SCT. That Committee oversaw the preparation of a compendium on the basic norms regulating subregional preferential trade accords in the hemisphere and a comprehensive comparative study on the tariff structure and regimes of rules of origin prevailing in the Americas. Both of these projects were pioneering efforts commended by the trade ministers of the hemisphere and set the stage for the more comprehensive data gathering needed for negotiations of the FTAA.

The first trade ministerial meeting was organized by the U.S. government and took place on schedule in June 1995, in Denver. Trade ministers decided to launch seven intergovernmental hemispheric Working Groups (HWG) with precise terms of reference to diagnose the following key areas of any future FTAA negotiations: market access; customs procedures and rules of origin; investment; subsidies, anti-dumping and countervailing duties; standards and technical barriers to trade; sanitary and phytosanitary measures; and the problems of smaller economies. Each group was led by a designated coordinating country and most of them met three times in different parts of the hemisphere between June 1995 and early 1996. Countries' voluntary participation was energetic, as attendance was typically 20 to 25 national delegations. Moreover, significant advances were made in the building of unprecedented comparative data bases in the respective areas of work. Where progress has been slower is in the preparation of recommendations for organizing negotiations. But initial caution on the part of delegations is understandable since the recommendations in themselves are effectively a form of quasi-negotiation.

The March 1996 trade ministerial (organized by the government of Colombia in Cartagena) also proceeded on schedule. Arriving at a consensus declaration was considerably more difficult than in Denver, but the end result was quite satisfying and sealed the impression that the FTAA is indeed a process to be taken seriously. A number of important decisions were registered. Four new working groups were launched (services, competition policy, intellectual-property rights, and government procurement) with their own specific terms of reference and with designated coordinating countries; preparations were also begun for establishing a twelfth working group on dispute settlement. The significance of this should not be underestimated since the new groups cover some of the most controversial topics of the FTAA.

Furthermore, in Cartagena, each of the eleven existing working groups was explicitly instructed to give attention to the relevant problems of small economies. Coordination among the working groups was enhanced. And perhaps most importantly, a higher profile was given to the role of vice-ministers of trade, who would meet at least three times before a scheduled 1997 ministerial. The more intensive work of the vice-ministers was meant to complement the technical preparation for the FTAA process with the enhanced political direction that only officials with decision making power can give. One of the first tasks of the vice-ministers will be to analyze when actual negotiations can begin and to make recommendations on this matter in the 1997 ministerial.

The contact of the private sector with the FTAA process was enhanced in Cartagena. Like Denver, a business forum preceded the trade ministerial; however, this time trade ministers gathered at the end of this business forum to receive the reports of the various business workshops that met during the gathering.

Finally, ministers decided that the 1997 trade ministerial will be in Brazil. In spite of some difficulties in this regard, pragmatism prevailed: an FTAA without the commitment of Brazil and MERCOSUR is as unthinkable as an FTAA without the participation of United States and NAFTA.

Some skeptical commentators have perceived major shortcomings in the process such as a loss of U.S. leadership (because of no "fast track" authority); Brazil's reluctance to enter now into negotiations; the predominance of technical work over political vision; deficient coordination due to the absence of a secretariat; and lack of clarity in the process since there still is no announced date for beginning negotiations.

Notwithstanding criticism, when put in perspective a fair evaluation would be that the process has proceeded well so far. This conclusion can be based on at least five considerations.

First, just ten years ago having governments of hemisphere gather together to discuss an FTAA would have been inconceivable. Open economies and free trade were not yet on the agenda of Latin America and the Caribbean, while in North America regional integration was viewed with much skepticism. As will be elaborated on in the next section, there has been an important convergence of interests in the hemisphere that is being mirrored in the FTAA process.

Second, notwithstanding this convergence, conjunctural political difficulties in the U.S. regarding the issue of NAFTA led to uncertainty as to whether trade would even be on the agenda of the Miami Summit. Indeed, three months before the Summit the trade issue was in doubt. Thus, the emergence of the FTAA in Miami was a major achievement in itself.

Third, if one uses as a criterion the governments' own objectives set out in Miami, Denver, and Cartagena, the conclusion is that the process has been basically on track. With the four new working groups launched in Cartagena, the preparatory process is now in full gear. Governments have been participating in working groups and coordinating meetings throughout the hemisphere; this has required them to enter into time consuming and technically demanding prepara-

tory work even in the face of more immediately pressing domestic priorities, e.g., election year politics in the U.S., stabilization of the economy and consolidation of MERCOSUR in the case of Brazil, serious political problems in Colombia, economic crisis in Mexico and concern about domestic reform and consolidation of democracy in nearly all of the Latin American and Caribbean countries.

Most experts will admit that the hemispheric data bases being constructed in the working groups, although not a flamboyant exercise, is an essential preliminary step for negotiations over the coming years. Prior to launching the Uruguay Round of GATT talks, there was in fact five years of quiet preparatory work. To ask the FTAA to announce a date for negotiation in a little over a year after launching the working groups may be an unrealistic expectation.

Fourth, the FTAA process is already creating a legacy for the hemisphere that will be valuable even if no FTAA were to emerge. On the one hand, the data bases being prepared in the working groups represent a collection and systematization of valuable trade-related information that heretofore was largely inaccessible. When made available to the public, this information will enhance private sector decision making and contribute to improved market efficiency in the hemisphere. On the other hand, the working groups' preparatory work is reinforcing countries to focus attention on the new issues of a globalizing world economy and the disciplines of the WTO.

Finally, perhaps too much attention has been paid to the lack of fast track authority in the U.S. While fast track authority is ultimately necessary for a credible U.S. negotiation in the FTAA, its absence at this early preparatory stage is not a real set back to the process. Indeed, much preparatory work yet must be completed before credible negotiations can begin. The U.S. is effectively participating in the preparatory exercises and exercising leaderships in the working groups without fast track authority.

3. NINE LESSONS FROM THE FTAA PROCESS

The FTAA process is still in its first stage and most of the lessons that can be extracted thus far are of a positive nature. To use an aviation metaphor, it may be easier to take off than to enter into sustained flight and to land safely. Certainly, given the complexity of arriving at an agreement covering 34 sovereign nations, one can anticipate that less upbeat lessons will emerge in the future. In any case, the difficult road that lies ahead is foreshadowed to some degree in our later discussion of upcoming challenges for the FTAA (section III). But first, let us examine nine lessons that have thus far emerged from the process.

3.1 Successful initiatives in integration need strategic vision and leadership at the highest political level

The FTAA process has clearly reflected this lesson. The proposal and launching of the FTAA was, of course, the decision of 34 heads of State in Miami. Meanwhile,

the diligent effort of official delegations in the working groups has been motivated by the need to report substantive progress on the agenda in the series of previously scheduled ministerial meetings. Vice-ministerial meetings have guided the process outlined by the ministers, and as mentioned, their participation was intensified in Cartagena in order to strengthen the political direction of the FTAA work.

This lesson is not surprising. Vision and leadership at the highest political level has constituted a key ingredient in Western Europe's successful integration. Political impulse from the highest level has also underlined the revitalized process of integration in Latin America in the 1990s. Presidential level initiatives and ministerial follow-up have contributed to the emergence of dynamic new accords like MERCOSUR and have renovated such faltering traditional schemes as the Andean Group (recently reorganized as the Andean Community) and the Central American Common Market. The positive results from these initiatives are in part reflected in the boom of intraregional trade in the hemisphere.

3.2 Integration initiatives need consensus on a broad objective

The major reason that heads of State in the hemisphere could agree on the construction of an FTAA is that an important convergence of economic strategies in the hemisphere occurred in the 1990s. The debt crisis of 1982 served as a catalyst for a major shift in development strategies in Latin America and the Caribbean, toward trade reform and an opening up of the economies to the rest of the world. In contrast to the integration observed in the region in the 1960s and 1970s, the penchant for integration was combined with an interest in trade liberalization, expressed in the region's commitment to "open regionalism" and in the countries' active participation in the Uruguay Round.

North America in turn has had a long commitment to free trade. However, this tradition was combined in the 1990s with an unprecedented interest in regionalism, as expressed in the Canadian-U.S. Free Trade Agreement and its later expansion into NAFTA. Without this recent convergence of Latin American and North American interests, it is hard to imagine how the FTAA process could have emerged in the hemisphere. Indeed, as will be mentioned later, the realization of the FTAA will require that convergence on the broad objective continues and deepens over the coming years.

3.3 A collective objective must be backed by an ambitious, but realistic, plan of action, with regular monitoring and review at the highest level

The progress thus far in the construction of the FTAA is explained in part by the concrete plans of action formulated at the highest hemispheric political levels in the meetings in Miami, Denver and Cartagena. In essence, the plans have mapped out the areas of potential collective interest, established target dates, formed working groups with precise terms of reference, and pre-scheduled successive meetings of ministers and vice-ministers to guide and evaluate the process set deadlines and

set forth the next steps to be implemented. This approach has ensured follow-up and disciplined the process.

3.4 In the initial stage, much progress can be achieved with minimal institutional commitments.

The advances to date in the construction of the FTAA have been achieved by ad hoc working groups with voluntary national participation and by periodic ministerial meetings. Moreover, the creation of the first seven working groups decentralized a process that, prior to the Denver meeting, had been dominated by the United States. Indeed, working group meetings have taken place all over the hemisphere and have been coordinated by countries that range from the second richest in the region (Canada) to the second poorest (Bolivia).

Minimizing commitments in this regard allows the countries to avoid the premature building of an institutional architecture that might later prove to be inappropriate yet difficult to dismantle. In the 1960s and 1970s, Latin America and the Caribbean immediately established sophisticated institutional architecture in line with the ambitious goals of their newly launched integration schemes. It was a strategy that eventually came to haunt the integration effort because objective progress was much less than that called for by the stated goals. This situation left the countries with an overdimensioned and costly institutional structure that was ill-equipped to deal with the actual needs of the integration processes.

This lesson appears to have been absorbed by modern integration initiatives, as reflected in the minimalist approach that has guided the institutional development of MERCOSUR and NAFTA. The FTAA process has also avoided the temptation to overcommit itself institutionally, even in the face of some criticism that it needs of a secretariat. The decentralization of the FTAA process from Washington through the working groups has worked well so far. Such decentralization, moreover, has undoubtedly energized governments and broadened the official participation in the hemispheric process. At this first stage of the FTAA process a secretariat is probably premature and might just be a solution in search of a problem.

3.5 Effective technical support can be provided in the interim by existing multilateral and subregional organizations

One of the reasons that the FTAA process has been able to minimize institutional commitments is that in Miami governments of the hemisphere decided to maximize the use of existing institutions in the inter-American system. Thus, the Miami Plan of Action's special call for the technical support of the OAS/IDB/UN-ECLAC Tripartite Committee and subregional organizations in the hemisphere. Most observers would agree that the Tripartite Committee, along with its collaboration with subregional organizations such as ALADI and SIECA, and international organizations like UNCTAD has been effective in meeting the working groups' demand for technical support, especially in the face of the large volume of

requests and the tight time schedules involved. Indeed, as Trade Ministers stated in Cartagena: “We recognize and appreciate the valuable analytical and technical work done by the Tripartite Committee in support of the working groups. We are asking the Committee to continue to give support [...] as the groups may require [...]”.

The Tripartite Committee’s success in responding to the demanding requests of the governments in the working groups is a testament to the potential effectiveness of the inter-American system and to the positive role that sometimes maligned multilateral or regional organizations can play in collective initiatives.

3.6 Progress is fastest in areas in which there are easily identifiable common denominators

It is not surprising that the most progress achieved to date has been in the areas of investment and customs procedures. The hemisphere has already converged on a relatively liberal general framework for managing direct foreign investment - a shared framework that has created a common ground which should facilitate rapid advances in this area. The topic of customs procedures also enjoys a shared hemispheric interest in simplification and harmonization in order to facilitate trade. In contrast, progress in market access, rules of origin and subsidies and antidumping has been slower, in part because common denominators are not obvious in the initial stage of the process and must be fleshed out in extended analysis and discussion.

3.7 When the integrating group is very heterogeneous in terms of levels of development, then the distribution of benefits and question of special and differential treatment inevitably becomes a contentious issue that must be addressed

The Western Hemisphere’s national annual per capita income ranges from the world’s highest of \$26,000 (U.S.A.) to one of the world’s lowest of \$265 (Haiti); the hemispheric average is \$4,500, and heterogeneity is expressed in a whopping standard deviation of \$5,600, a figure larger than the average itself.

In the hemisphere’s integration processes one observes three traditions for dealing with the problem of “disadvantaged” economies. The first consists of institutionalized special and differential treatment for these economies, as manifested in a combination of permanent special exemptions and preferences, as well as in relaxed terms of compliance. This tradition is observed in ALADI, CARICOM and the Andean Community. The Uruguay Round also contains provisions for special treatment of low-income developing countries.

Another tradition is that special treatment is limited to transitory measures such as extended periods for complying with market liberalization *vis-à-vis* other members. This approach is seen in MERCOSUR, which gave a limited extension of periods (only one year) to Uruguay and Paraguay for completing of commercial liberalization measures.

Still another tradition is to grant the least developed no special treatment at

all. This approach has emerged in the new agreements being forged in the Central American Common Market and a number a new bilateral free trade accords in the region. In some sense, it also characterizes NAFTA.

It is unclear whether in the FTAA the “disadvantaged” countries will receive any special treatment and if so, the form the special treatment will take. Nevertheless, the issue has clearly been present throughout the initial stage of the construction of the FTAA. A working group on small economies was established in Denver to determine to what degree these countries have specific problems for full participation in the FTAA. In fact, the group is mediating a latent conflict between some smaller economies that want permanent special treatment and bigger ones that prefer to minimize the issue and channel it, at most, into temporary relief through extended liberalization periods. Pressure from the more “disadvantaged” economies has been escalating, however, as seen in the increased attention given to small economies by the Cartagena Declaration.

3.8 The inherently difficult coordination among 34 countries is further complicated by national political cycles

Agreement among a large group of countries is inherently difficult to attain. Indeed, one argument for regional integration itself is that a smaller group of like-minded countries can advance more rapidly toward liberalization than can the more than one hundred nations that negotiate in the framework of the GATT/WTO.

But 34 countries are still a large number – aggravated by the extreme differences in levels of development –, and the vagaries of national politics of any of the major players can make agreements more difficult at any given time. The most obvious example is the United States, where election year politics has demanded a lower profile for the issue of free trade. In spite of less than favorable circumstances, the leadership in the countries has managed the local political constraints up to now, and difficulties have not derailed the FTAA process. Moreover, as mentioned, the decentralization through the working groups and vice-ministerial meetings has seemed to energize delegations and exposed enthusiasm that has compensated for the vagaries of domestic political cycles. Of course, to keep the FTAA process moving forward and to minimize vulnerability to political cycles, basic commitments to free trade by mainstream political leadership is essential.

3.9 Deepening of subregional integration can be a building block for the FTAA

The Miami Summit’s Plan of Action points out that subregional integration schemes can constitute “building blocks” for the FTAA. This building-block hypothesis makes eminent sense.

On the one hand, the FTAA is still just an interesting “bet”; it would be foolish for countries to let the hemispheric process divert attention away from successfully consolidating their existing subregional integration schemes and expanding

them such as one observes in the Mercosur 4+1 formula with Chile and Bolivia, and eventually other south American countries, and also plans for new accessions to NAFTA. Looked at from another angle, the existence of subregional groupings actually serves as a secure base from which countries can reach out to the promise of the FTAA.

More to the point, many of the subregional agreements have their roots in the history and geography of natural trading areas. Hence, there exists every possibility that the FTAA might have to coexist with many such subregional efforts.

Moreover, most subregional agreements can in principle constitute building blocks by fostering increased liberalization in their member countries. Most subregional agreements in Latin America do not go much beyond the free circulation of goods. Hence, deeper and broader liberalization among associate countries in an existing subregional agreement could be a potential trial platform for preparing countries for broader hemispheric and multilateral liberalization. Of course, it would be easier for this scenario to materialize in the longer term if member countries of a subregional agreement respect the principle of "open regionalism" and also comply with their WTO obligations, which now constitute the basic common denominator in hemispheric trade.

4. SOME CHALLENGES FACING THE CONSTRUCTION OF THE FTAA

As mentioned earlier, achievement of economic integration among countries as varied as those in the Americas requires a firm political commitment among the parties; but that commitment also must rest on tangible progress and a degree of confidence in the sustainability of the process. From that arises the need to concentrate attention on actions of a collective nature that the parties must commit to and fulfill.

Indeed, the structuring of an FTAA faces a series of challenges that range from agreeing on the basic shape of the scheme to laying the groundwork for public acceptance through the dissemination of adequate information to the private sector and public more generally. Here we outline nine of the challenges which the process will confront sooner rather than later.

4.1 Defining the shape of the free trade area

Free trade areas are the simplest form of integration. They typically have meant free trade in goods. Until recently, this certainly had been the tradition in Latin America. However, with the introduction of the Canadian-US Free Trade Area and later NAFTA, free trade areas took on a more ambitious form: not only was there free trade in goods, but also services. In addition, NAFTA agreed on other trade-related disciplines such as intellectual property rights, government procurement, investment, labor and the environment (the last two in side agreements).

NAFTA's ambitious agenda reinforced the developments of the Uruguay Round

where traditional negotiations to lower tariffs combined with agreements over new issues: investment, services, intellectual property rights and dispute settlement procedures. The disciplines of the Round, which practically all Latin America and the Caribbean countries are now committed, represented a single undertaking; in effect countries could not choose among them but rather had to assume the entire body of the Round's commitments.

The FTAA's agenda for discussion incorporated all the traditional issues of a free trade area and the battery of "new" issues that arose in NAFTA and the Uruguay Round (indeed, by incorporating competition policy into the discussion, the FTAA could go one step further). It is still unclear, however, what shape the FTAA will take. Will the FTAA be free trade in goods and WTO level disciplines everywhere else? Or will it attempt to go beyond the WTO in other disciplines, and, if so, which ones will they be and how will they exceed existing commitments?

The discussion of an FTAA has exposed two polar positions. On the one hand, some have argued that by 2005 the WTO disciplines will have fully kicked in; thus, the logic of pushing disciplines beyond WTO levels. Indeed, the argument questions the sense of an FTAA that is satisfied by mere WTO disciplines, apart from the liberalization of intra-hemispheric trade in goods.

On the other hand, others have questioned the wisdom of the "WTO plus" focus. Free trade in goods in the hemisphere is viewed as a major achievement in itself that should not be underestimated. Moreover, meeting existing WTO disciplines will be difficult for many countries and raising WTO plus issues now may only serve to complicate an already complicated FTAA negotiation. Finally, it is sometimes argued that commitment to "WTO plus" obligations would weaken countries' bargaining positions in the next round of multilateral negotiations.

Be that as it may, it is important for countries to define as quickly as possible the shape of the FTAA. Not having a clear definition of the precise ultimate goal creates uncertainties and affects credibility which in turn can undermine progress. Definition of the shape of the FTAA -itself a form of negotiation- would help to: (i) focus discussions on the working groups; (ii) help establish priorities for the FTAA agenda, and (iii) set a better stage for the difficult negotiation of the details of an agreement.

4.2 Paths for the Formation of the FTAA

In practice, there are a variety of alternative routes for forming a free trade area depending on the objectives and the integration scheme selected, as well as the scope and depth of collective disciplines. That variety of routes increases with the expansion of the scope of the FTAA, the number of countries involved, and the diversity of bilateral or subregional integration agreements and multilateral commitments in force.

With respect to the latter point, it should be pointed out that there are a number of different types of preferential trade agreements among the countries of the hemisphere. Among them are: (i) selective and partial tariff reduction agreements

such as those negotiated within the framework of ALADI; (ii) universal tariff reduction agreements of an automatic nature under standard, general regulatory frameworks with few details; this has characterized Chile's recent bilateral agreements with Colombia, Mexico, Venezuela; (iii) preferential market opening within the framework of an automatic liberalization and a detailed regulatory scheme that differentiates between types of goods; this has characterized other recent agreements such as NAFTA and Mexico's bilateral FTAs; and (iv) agreements for the formation of an expanded market in an "imperfect" customs union where there are lists of goods not covered by the common external tariff, as in the Andean Community after 1992 and MERCOSUR since 1995.

Given these circumstances, once the specific shape of the free trade area of the Americas is defined, it will be necessary to move to an agreement on the path for the formation of the FTAA. Among the available alternatives are some basic ones such as:

(i) Convergence of existing bilateral or subregional agreements leading to a "single" framework agreement for all the countries of the hemisphere, which would supersede the commitments undertaken before the entry into force of the agreement. Without entering into an analysis of the conceptual and practical difficulties inherent in this alternative, it will suffice to point out that the present incoherences among such a variety of existing agreements would be difficult to overcome and would therefore be a serious obstacle to achieving eventual convergence.

(ii) Accession to an existing subregional agreement(s) in the hemisphere, which for all practical purposes, would replace the obligations resulting from other existing trade agreements in the region. In the hemisphere, only NAFTA or MERCOSUR could conceivably play this role. However, extending an agreement tailored to the particular economic and geo-political interests of a few parties to all the other countries in the hemisphere would be difficult given the heterogeneous makeup of the Americas.

(iii) The introduction of a "new" free trade agreement for the Americas which would coexist with the various integration agreements in the hemisphere. Although at first blush this path may appear to be politically more expedient, there would be substantial challenges to ensure coherence and transparency among the hemispheric, subregional and bilateral agreements and the countries' multilateral commitments to third parties.

(iv) Given the extreme heterogeneity of the levels of development in the hemisphere, the different stages of structural reform in the developing countries, and the vagaries of national politics, it may prove impossible to arrive at an agreement with homogeneous commitments across a full spectrum of disciplines. Therefore, a variant on the issue of paths could consist of two or more tracks where a group of "core" countries assume the full commitments of an FTAA, while a "periphery" of countries receive market access benefits (to minimize trade and investment diversion) in exchange for a structured commitment to graduate to the FTAA agreement. This "concentric circle", or "variable geometry" approach, has been an effective

strategy for consolidating integration in Europe. However, past proposals of this nature for NAFTA accession have not prospered.

4.3 Sequencing and schedule of liberalization

Once the essential shape of the free trade area, its disciplines and scheme of rules and regulations, as well as the path of formation have been defined, it will be necessary to specify details of implementation over time for each field and discipline covered by the agreement. This will involve the question of sequencing and timing.

Sequencing and scheduling are not trivial issues, especially for free trade areas that involve developing countries at different stages of economic reform. For instance, the economic literature points to potential destabilizing effects when countries liberalize trade and finance simultaneously. Therefore, should an FTAA include financial services and investment, there may be a need to consider the best sequencing of the opening of the goods market with other liberalizations that could possibly affect the volume and composition of capital account transactions. Schedules of liberalization also are important for developing countries because they will partially determine speed and mix regarding the appearance of the costs and benefits of an FTAA.

4.4 Treatment of the problem of the distribution of the benefits

Free trade is not an end in itself. Countries enter into free trade agreements to capture as effectively as possible the recognized benefits for growth and development. But there are costs too, especially in the early stages when adjustments take place due to changing trade patterns and the reallocation of resources. The more developed its markets are, the better positioned a country is to capture the benefits of free trade and absorb the concurrent costs. Also, the more de facto integration among economies prior to the formation of a free trade area (such as in the case of the three NAFTA partners), the smoother the transition to free trade should be. Since the hemisphere has such heterogeneous levels of development and commercial integration among its economies, the way benefits are distributed among members of the FTAA is a real concern for many countries; indeed, it affects the political will to support the hemispheric process and the sustainability of commitments.

Frequently the issue of special treatment has simply been the outcome of negotiation. However, this is a luxury that the FTAA may not be able to afford given the very heterogeneous levels of income and the stated objective of promoting democracy and development in the hemisphere. It is in this sense that a collective political decision is important as to whether, for some of the member economies, explicit support should be given to improve their capacity to benefit from the opportunities of hemispheric integration and to manage the costs. In that respect more definition needs to be given to the declaration by ministers in Cartagena which expressed a “ [...] commitment to actively seek the means for providing opportu-

nities that would tend to facilitate the integration of the smaller economies and increase their level of development”.

More advanced countries have shown increasing skepticism towards the issue of special and differential treatment. This partly stems from the perception of some that free trade is good under whatever circumstances and that the costs for some of being excluded from the FTAA are greater than the costs of inclusion. But it also stems from serious problems of the past where special treatment in free trade accords did not necessarily accelerate integration but drove a wedge among partners in an agreement that had as its primary objective the harmonization of trading conditions. Indeed, in Latin America, where the integration schemes of the 60s and 70s typically condoned special treatment, the issue became controversial. In Latin America's new generation agreements of the 1990s special treatment is usually modest and temporary, if it exists at all.

While one perceives less interest in special and differential treatment in the new integration initiatives of the 1990s, it must be mentioned that Latin America's subregional and bilateral accords usually do not reflect the extreme heterogeneity of development that would be observed in an FTAA. It is hard to image a sustainable FTAA without special mechanisms for at least some countries. But to overcome past problems, those mechanisms must be transparent, monitored for effectiveness and temporary in nature.

Choosing any type of differential treatment would require agreement on the criteria for selecting the member countries eligible for special status; the specific fields and disciplines in which commitments on differential requirements among members would be worked out; the duration of such special treatment, and the criteria and mechanisms for assessing the effectiveness of special measures in favor of the selected member countries.

4.5 Design of the institutional arrangement in the stages of negotiation and implementation of the FTAA

It should be noted that during the first stage of the FTAA process – consisting basically of data collection and diagnosis of the situation prevailing in the region for selected disciplines – the countries' decision to rely on the collaboration of the Tripartite Committee for provision of technical assistance, logistic support, information processing, and analytical evaluation of the documents and data bases has worked well. However, in subsequent stages the FTAA process will probably have to be supported by a more coherent institutional scheme.

A new institutional framework for the next stage of the FTAA (i.e., negotiations) might involve some type of formal secretariat mechanism. The nature and scope of this mechanism would depend, *inter alia*, on the type of free trade agreement to be negotiated. Thus, for example, if it were decided to proceed to the negotiation of a comprehensive agreement under the scheme followed in the Uruguay Round, involving each field regulated by WTO, it would be necessary to adopt a

more complex institutional arrangement than that required for a traditional free trade agreement limited to goods.

In any event, the secretariat mechanism would serve to monitor the negotiation process, evaluate progress with homogeneous criteria, identify problems and bottlenecks, suggest solutions, provide systematic technical assistance, disseminate public information and provide overall continuity in the midst of changes in governments and public officials over the course of the extended negotiations of the FTAA. Indeed, construction of the FTAA is not unsimilar to the recent Uruguay Round; few would disagree that the GATT Secretariat played a very valuable role in assisting governments to reach agreement during these difficult negotiations.

In a later stage when the FTAA agreement is implemented there will be new institutional requirements for monitoring and assisting fulfillment of the commitments and disciplines. Given the heterogeneity of GDP in the hemisphere, an adjustment financing mechanism also will probably be a necessary institutional requirement for a successful FTAA. Dissemination of public information on developments in the FTAA will be another institutional requirement. Of course, the ultimate institutional architecture of the FTAA will depend on agreement on functional issues as well as the degree of sovereignty countries are willing to cede regarding policy making.

Notwithstanding the importance of progressively developing institutional arrangements as the FTAA process deepens, due attention must be paid to avoid past errors in Latin America that contributed to overdimensioned institutional architecture. Fortunately, the fact that NAFTA and the new free trade agreements in Latin America have simple institutional structures indicates that in the hemisphere there is full awareness of this issue.

4.6 Provision of technical assistance

Sustainable agreements are based on, among other things, good and well-informed negotiation. However, negotiation of a free trade area is burdensome and demanding, especially if it involves all the disciplines being discussed in the FTAA process. Indeed, to fully understand and skillfully negotiate a hemispheric trade agreement will prove very taxing for the vast majority of countries in Latin America and the Caribbean. In effect, no Latin American or Caribbean country has the depth of human resources available to the USTR and Canadian Foreign Affairs Ministry.

Up to now, the Tripartite Committee has provided some of the technical assistance needed for progress in the working groups. But as the process enters the negotiation stage, a more formal and systematic approach will be needed.

During the stage of diagnosis and preparation for the negotiations, systematic technical assistance should be provided for training negotiators and preparing negotiating teams; this is, of course, a necessary, though not sufficient, step for effective participation in the FTAA process. Of course, countries must have enough national self-interest to exploit the opportunities of negotiation.

In the stage of the implementation of an FTAA agreement, significant support will be needed for countries whose juridical and administrative structures are not sufficiently developed to implement rules-based agreements such as the FTAA. It must be remembered that until recently Latin American and the Caribbean integration schemes have been relatively “light” on operationally transparent rules and their implementation. These countries will eventually have to implement a more rigorous rule based system which is consistent with the WTO.

4.7 Identification and treatment of particularly sensitive topics

The four working groups launched in Cartagena involve relatively controversial topics. But the most controversial subjects have yet to be given special attention: agriculture, labor and the environment. While premature introduction of very sensitive topics could undermine the initial consensus building that is needed to move forward on the FTAA, it is also true that these topics will require attention as the FTAA starts moving forward.

While agricultural trade is only 12% of total intra-hemispheric trade, it constitutes a very sizeable part of the exports of more than half of the countries of the hemisphere. Moreover, it is a sector that often enjoys special treatment due to powerful domestic lobbies and non-economic considerations. In spite of its importance, there so far has been no explicit pronouncement by trade ministers in relation to treatment of the agriculture sector. Harmonization of agriculture trade policies in the hemisphere will probably run up against very special difficulties just as it did in the Uruguay Round.

Poor and rich countries have different social and economic valuations for the use of resources such as the environment and labor. Free trade and globalization of the world economy have become a conduit for a clash of valuations as commercial competition exposes productions processes to more scrutiny and raises concern about real or perceived negative social externalities from commercial interaction. Thus, what constitutes legitimate collective problems in labor and environment and what represents crude protectionism are issues that have to be clarified in the FTAA process. This will not be easy since there is no agreement globally or hemispherically on these topics. Moreover, there has still been no solid argument developed within the framework of the theory of international trade on the “merit” or “optimality” of the imposition of commercial measures to “correct” differences in labor or environmental standards.

4.8 Trade education and public participation

Technically competent agreements among governments are a necessary, but not sufficient condition for achieving the FTAA. The realization of the FTAA will also require acceptance by business, labor, NGOs and the general public. However, the FTAA process so far done a poor job at communication and the promotion of the understanding and participation of civil society. The average person on the street

does not even know what the FTAA is; business is frustrated that it systematically neither gives to, nor receives, information from the working groups; labor fears free trade and is clearly out of the loop; while NGOs do not have a clear vehicle to express their particular interests. An FTAA process that does not successfully incorporate those that are ultimately the protagonists of free trade risks faltering at the steps of the hemisphere's national legislative bodies and undermining the full potential of a hemispheric agreement.

Business succeeded in putting its foot in the door in Cartagena when Trade ministers agreed to listen to recommendations presented in the closing session of the Business Forum that preceded the Ministerial. But this was only a first step forward.

The objective of promoting the participation of the business, labor and non-government sectors in the processes of the FTAA requires the definition of more formal and stable institutional mechanisms for interaction, consultation and agreement between groups representing economic sectors and public opinion and the government authorities responsible for advancing the hemispheric negotiations. Channels of communication with all the players of an FTAA is necessary if the public is to perceive the benefits and prepare for the costs of the FTAA. The first order of priority is to improve channels of communication between governments and their national actors since negotiation of the FTAA is basically an intergovernmental exercise. This can be complemented by initiatives to enhance communication among representatives of the private sectors and civil societies in the hemisphere. This is an area that presents important challenges for many Latin American and Caribbean countries.

Indeed, the importance of achieving the highest possible participation of civil society over the entire process of the FTAA is highlighted by the experience of integration schemes in Latin America, where there has been an excessive, almost exclusive, participation of government authorities and staff of regional integration bodies with the consequent marginalization of other non-governmental sectors. In effect, the region has had a tendency of promoting the "bureaucratization" of the economic integration process. Meanwhile, shortcomings in communication have contributed to the domestic controversies surrounding NAFTA.

4.9 Deepening of regional integration processes in the context of economic openness and the observance of WTO commitments.

The search for the design and development of a free trade agreement in the Americas in the medium and long term will only be truly successful if the hemispheric process can help countries grapple with the globalization of competition. Indeed, the full realization of the benefits of the FTAA entails the satisfaction of requirements in other areas, including: consolidation of the process of economic opening and structural reform that began in Latin American countries during the 1980s; fulfillment of the multilateral commitments arising from the negotiations of the Uruguay Round; increasing the levels of integration among some countries of

the hemisphere in the context of their bilateral or subregional agreements (this will depend on the path chosen for the design of the FTAA as mentioned above under challenge n. 2); and preparing positions for an eventual new round of multilateral negotiations in the framework of WTO.

It can not be stressed too much that the construction of the FTAA depends very much on Latin American and the Caribbean consolidating their liberalization processes and Canada and U.S. maintaining their commitment to free markets in the context of “open regionalism”. At the time, it is also necessary that the FTAA project constitute a high priority political issue for United States and Canada as well as other decisive subregions in the hemisphere such as MERCOSUR.

5. CONCLUSION

The FTAA project represents a landmark in the economic and political relations within the hemisphere. The process has progressed well in its first stage of technical preparation; moreover, it has provided useful lessons for launching integration initiatives. Some observers have criticized the process for, among other things, the failure to announce a date for beginning negotiations. However, given that the Uruguay Round needed five years of preparation, it is probably unfair to expect that the almost equally complex FTAA project begin negotiations after only eighteen months (twelve months counting from Denver), of preparatory work. Indeed, the work so far has been low key but essential for eventual negotiations.

There are a number of crucial challenges that will have to be addressed both in the near term and also throughout an extended period of negotiations. As outlined, some of these are related to the mechanics of negotiations. But one must not lose sight of other major challenges which underpin the entire project: a commitment to “open regionalism” and keeping the FTAA process as a high priority issue among all the governments of the hemisphere. Fundamental challenges also go beyond trade issues *per se*; given the heterogenous levels of development in the hemisphere, the process will also have to have effective mechanisms of incorporation both of nations and their civil societies. Only this way will the FTAA allow trade to successfully combine with prosperity and democracy for all the countries in the hemisphere.

