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**FREE TRADE IN AMERICAS: IS IT VIABLE?****Deba Banerjee****Consultant - Guest Relations at Space Center Houston (NASA),****ABSTRACT**

*In today's world of business, free trade appears to be an index of the economic well being of any country run by a democratic government. In order to overcome trade barriers and facilitate free trade amongst various democratic countries, trade agreements are planned, ratified and implemented. This paper discusses the possible formation of a free trade arrangement in the Americas with reference to the existing regional trade bloc arrangements like North American Free Trade Agreement (NAFTA), the South American Trade Bloc (MERCOSUR), etc. and it also recognizes the need of this trade arrangement.*

I would like to dedicate this my very first publication to my beloved uncle Late Dr. Asutosh Banerjee, PhD.

**INTRODUCTION**

The phrase "Free Trade in the Americas" has become more relevant in the light of the economic strength acquired by the European Union and its member countries. The most recent trends in the world economy indicate an increase in trade, both globally and as well as regionally. Recently, the countries in the Western Hemisphere have announced their plans to form a Free Trade Area of the Americas (FTAA). In 1994, the countries of the Western Hemisphere (except Cuba) met in Miami to create a blueprint for the Free Trade Area of the Americas. (Bernal,1994)

Though, in a subsequent meeting amongst the thirty-four countries of the Western Hemisphere, it had been decided that the formation of the Free Trade Area of the Americas (FTAA) would be completed by 2005, however, there are still uncertainties in the process of its formation. Some observe that the existing trade blocs like North American Free Trade Agreement (NAFTA), the South American Trade Bloc (MERCOSUR), and a host of other regional and bilateral trade arrangements in the American continent, could help or hinder the formation of the Free Trade Area of the Americas (FTAA). (Bernal,1996).

The indications to the possible hindrance of a Free Trade Area Agreement (FTAA) arrangement has been furnished by (Maniam,2001) wherein the author argues that the South American Trade Bloc, MERCOSUR has been functioning as a mere custom union <sup>1</sup> and there has been a disagreement between Brazil and Argentina to change MERCOSUR into a free trade area.

Some of the other hindrances in the formation of the Free Trade Area of the Americas are the "Fast Track Authority Legislation" and the "Anti Dumping Issue", and these issues will be discussed.

The next section of this paper will review the available literature on this issue, and it will be followed by a study of regional trade blocs like MERCOSUR, NAFTA etc. and their role in the formation of the Free Trade Area of the Americas (FTAA). This will be followed by some arguments favoring the formation of the FTAA and also some hindrances in its formation, and then it will be followed by conclusion. The conclusion will be followed by the citation of sources.

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<sup>1</sup> Custom Union is a regional trade bloc whose members enjoy liberalized trade options with one another while imposing a common external tariff for goods and services imported from non-member countries.

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LITERATURE REVIEW

Naik (2002) suggests that the regional trade blocs have been a key factor to the economic development of the countries in the Western Hemisphere. Some of these major regional trade blocs are: North American Free Trade Agreement (NAFTA) which was formed with Canada, Mexico, and the US, the Common Market of the Southern Cone (MERCOSUR) which was formed with Brazil, Argentina, Paraguay, and Uruguay, the Andean Group which was formed with Bolivia, Columbia, Ecuador, Peru, and Venezuela, and the Central American Common Market formed with Costa Rica, El Salvador, Honduras, Guatemala etc. Naik observes that after the implementation of NAFTA, Mexico seemed to have benefited significantly but at the same time US imports from the non-NAFTA Latin American countries have increased. In general NAFTA has been beneficial to Mexico and the non-NAFTA South American countries, in terms of trade.

Baldwin (1995) disagrees with Naik, and argues that the regional trade blocs are beneficial to the member countries only, however, the non – member countries are at a disadvantage because they lose competitiveness in the market they operate, and this forces the non member countries to seek membership thereby increasing the regional trade blocs in their size. Naik's observation about the increase in the US imports from non NAFTA Latin American countries (during the post NAFTA phase) appear to agree with Krishna (1998) who argues that when regional blocks foster trade diversions, each member of the block may undermine its incentive for trade liberalization with the rest of the world. In this context, trade diversions means that the member countries of the regional trade bloc may be tempted to replace efficiently produced goods from outside the bloc with inefficiently produced goods from inside the bloc. Salazar-Xirinachs (1999) suggests that an important component of the policy reform in Latin America has been the widening and deepening of the regional integration agreements and the negotiation of the bilateral ones. Regional trade blocs like MERCOSUR, the Andean Community, the Central American Common Market, the Caribbean Common Market, and countries like Mexico, Chile, and Canada have been particularly active in this regard. With the creation of NAFTA, North America as a region has also its trade presence in the Americas. As a result of the bilateral agreements negotiated by Mexico in particular, NAFTA rules and disciplines have been “exported” to other Latin American countries. Besides unilateral liberalization, the negotiation of bilateral and sub regional agreements has been the most decisive contribution to the economic integration in the hemisphere and the one area where the most tangible and concrete results can be seen. As for example, since the late 1980s, the average tariff in Latin America has fallen from forty percent to eleven percent, and this has resulted in the doubling of trade amongst the Latin American countries. Within the MERCOSUR, and also within the Andean Community, trade tripled during the first half of the nineties, growing at a rate around thirty percent per year. Intra-regional trade in Central America doubled in the same period from less than one billion to two billion dollars. Amongst the NAFTA members, intra regional trade doubled from US \$227 billion in 1990 to US \$475 billion in 1997. This expansion of the commercial network of the Americas has been based on the “new generation” agreements that modernize the old style integration agreements by expanding the reciprocal commitments into new areas and by deepening the level of the discipline. This expansion bode well for the transparency and predictability of trade relations within the Americas to the extent that these agreements are developed under consistent rules and procedures. In and by itself, this is a way of converging to the objective of creating a hemispheric Free Trade Area of the Americas (FTAA). “A free trade area is an agreement between participants who commit themselves to abolish all tariffs and quantitative import restrictions on members, while retaining tariffs and other barriers against non – members. “ (Wrobel, 1998)

**The Free Trade Areas have a very wide scope because they include diverse activities ranging from free flow of capital goods to anti – dumping issues. (Maniam, 2001)**

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### Historic Overview of the Trade in the Americas

The trading ties between South America and the North dates back to the 1800s and have a growing strategic importance. As for example the United States were trading with Latin America since the 1800s. The merchants from the United States were exporting items like shoes, boots, textiles, and furniture to the South American countries. And South American countries like Brazil and Argentina exported coffee and wool respectively, to their northern neighbors (Tilson,et.al.2001). Today Latin America is one of the fastest growing regions in the world for US exports, and it is expected to exceed Europe and Japan combined together.

### The Regional Trade Arrangements

#### MERCOSUR

In March 1991, four South American countries consisting of Brazil, Argentina, Uruguay and Paraguay formed a regional trade bloc arrangement known as the MERCOSUR. Initially, MERCOSUR hoped to create a regional market in South America. The member countries agreed to liberalize trade amongst them while imposing a Common External Tariff to non member countries on imported goods and services.

MERCOSUR is the fourth largest trade bloc in the world. It represents a market of two hundred million. The other top three trade arrangements are: NAFTA, the European Union, and Japan. Brazil has been arguably the most important player in this trade arrangement. One of the problems with Brazil is that it has been prioritizing its own interest ahead of its member countries, and this has created some amount of disagreement amongst the members. Furthermore, Argentina wants MERCOSUR to be a free trade area whereas Brazil wants it to be a customs union. (Maniam,2001) This may be a potential hindrance in the formation process of a larger Free Trade Area of the Americas.

#### NAFTA

The North American Free Trade Agreement (NAFTA) was first implemented in 1994. It allows the free flow of goods between Canada, Mexico, and the United States. It is the second largest free trade arrangement after the European Union. As of 1992, the members of the NAFTA consisting of the United States, Canada, and Mexico had a market of \$370 billion, and a combined economic capacity of six trillion dollars.

(Smith, 1999 ).

#### The Regional Trade Arrangements and FTAA

Bernal (1996) suggests that the regional trade arrangements like MERCOSUR and NAFTA have been acting as hubs to an increasing number of non member countries. These activities have led to a *hub and spoke arrangement* between the member countries of the regional trade blocs and their non member trading partners.

The United States is the largest economy in this hemisphere. It acts as a natural growth pole and it has the potential of being a core of hemispheric free trade area in the Americas. The United States is already acting as a hub to countries like Canada and Mexico. In addition, it is also acting as a hub to other regional trade blocs like the Caribbean Basin Initiative (which includes the Caribbean and Central American countries) and the Andean Trade Pact (consisting of Bolivia, Peru, Chile, and Columbia). So there has been a natural tendency for several countries and regional trade bloc arrangements to align themselves to the United States and NAFTA.

Brazil has proposed the creation of the South American Free Trade Area (SAFTA) which would be in a position to align itself with the NAFTA thereby creating the largest free trade area in the Americas.

An indication of the possible formation of a SAFTA was started as early as 1960 when Mexico and the South American countries joined together to form the Latin American Free Trade Association which was replaced by the Latin American Integration Association (ALADI) in 1980.

There has been a growing support for the formation of a SAFTA. Perhaps the catalyst for the possible formation of a SAFTA is the MERCOSUR. As already discussed MERCOSUR is the most dominant regional trade arrangement in South America. The partner countries of MERCOSUR comprise nearly one half of Latin America's GDP, and it represents more than forty percent of its total population and about one third of its trade. Brazil, which is the dominant member of the MERCOSUR, has launched an official proposal for the creation of the South American Free Trade Area (SAFTA) and there is also agreement in South America in this respect. (Smith,1999)

### **Hindrances in the formation of FTAA**

#### **The Fast Track Authority**

Perhaps one of the greatest obstacles to the formation of an FTAA is the so-called "lack of fast track authority in the US". Since the seventies, the President of the US has been granted a special authority by the Congress to negotiate trade agreements. Under this condition, the Congress can either approve or reject a trade agreement but cannot amend it. This legislation is known as the "fast track authority". The legislation granting this authority has expired. As a result of the expiration of this legislation, the US government does not possess the authority to enable new trade agreements to be negotiated. Efforts were made to gain the congressional approval for granting the fast track authority to the US government but the members of the US legislature defeated these efforts. The major reasons for the defeat of an enactment of this legislation were pressures created by the organized labor unions and environmental groups in the US, and the distrust for NAFTA despite the positive effects on employment levels and exports in the US, Mexico and Canada.(Wrobel,1998)

#### **Brazil and MERCOSUR**

Another possible threat to the FTAA is Brazil's leadership role in South America. Brazil has been exercising a growing assertiveness and influence in regional and global trade. To complicate the US – Brazilian relationship, Brazil has started to question some political activities of the US with other South American countries like Peru and Columbia. From the US trade perspective, Brazil is the eighth largest economy in the world with a per capita income of \$7037. The foreign trade of Brazil in 1990 was \$100 billion. The Brazilian exports to the US amounted to \$48 billion. (Jurn and Park, 2002) So the US cannot ignore Brazil entirely to pursue its policies towards certain Latin American countries and at the same time expect Brazil to fully cooperate on the issues of trade in the Americas. Despite some crises in the Brazilian economy in the recent past, it has remained the dominant player in MERCOSUR. Since its inception, MERCOSUR has claimed itself to be a customs union; however, there is an element of dissent between Brazil and Argentina. Argentina favors the abolition of the custom union and it wants MERCOSUR to be converted into a Free Trade Area but Brazil has been opposing it. (Maniam,2001). The conversion of MERCOSUR into a free trade area may be conducive towards the larger goal of achieving a free trade area for the Americas.

So it is important for regional trade blocs like MERCOSUR, NAFTA etc. to be more united in their view about a Free Trade Area.

#### **The Anti dumping Issue**

Basically, the anti dumping issue concerns tariffs imposed by a government on imported goods from selected countries if it determines that the imported goods are sold at a lesser price than the fair price or dumped in domestic markets, and that the price of this imports is harming or threatening to

harm, domestic producers of same goods. The prevalence of the anti – dumping tariffs have increased in the Americas and as well as world wide. During the early nineties, the US had 193 anti dumping orders and all the member countries belonging to the World Trade Organization had 212 orders. By the late nineties the respective figures were 294 and 538.2. In the light of the rapid spread of anti dumping tariffs and the prospect of the reduced sales for US exporters, some reassessment of this tariff is necessary. Critics of the anti dumping tariffs observe that these tariffs hurt the export oriented domestic firms. (Klitgaard and Schiele, 1998).

#### The Arguments Supporting the Free Trade Area in the Americas

##### Shortening the gap between the rich and poor countries

Some of the countries in South America like Bolivia, Peru, Columbia etc. are still lagging behind in terms of industrialization. The formation of a Free Trade Area in the Americas can bridge the gap between the rich industrialized countries like the US and Canada with the poorer countries like Bolivia and Peru. The creation of the FTAA may contribute to boost innovation and competitiveness rather than protectionism. At the negotiating phase of the FTAA there are mechanisms which discourage protectionism. The creation of FTAA as a policy objective, backed by political will and an active process of negotiations has created a sense of urgency towards the importance of deepening economic reforms and increase international competitiveness in terms of industrial infrastructure, modernization of state etc. Once the Free Trade Area Arrangement for the Americas is in place, new investments and creation of new jobs would discourage old ways of protectionism and non productive activities.(Salazar – Xirinachs, 1999)

##### The Need for FTAA

Despite the obstacles in the way towards the formation of a Free Trade Area Arrangement (FTAA) for the Americas, there is a definite need for this type of arrangement, not only from the perspective of modernization of poorer countries in the Americas but also from the point of view of certain common policies adopted by some countries in the Americas. The policy on international competition is a relevant issue for a lot of Latin American countries. Some of the South American countries like Argentina, Brazil, Columbia, Costa Rica, Jamaica, Mexico, Panama, Peru, and Venezuela have adopted an Antitrust Legislation policy. By adopting these policies, these Latin American countries have taken some initial steps towards the long run goal of promoting healthy competition, which would prevail under the umbrella of the FTAA.

##### Expansion of Trade and Growth

The regional trade arrangements have greatly contributed towards substantial liberalization of trade amongst the member countries and thereby created an expansion in trade. Between the years of 1991 and 1994, intra – hemispheric exports increased from 4.2% to 16.3%. The average growth rate was 11.1% during the four-year period, which exceeded the 7.2% growth in the world exports during the same time period. Economic growth in the Americas has become increasingly *export led*. Since 1986, exports have generated approximately forty percent of the US economic growth. The movement towards the Free Trade Area Arrangement for the Americas would intensify the impetus to trade expansion, as sub regional agreements would give way to a single hemispheric free trade area. (Bernal, 1996).

##### Conclusion

The viability of the Free Trade in the Americas can only be assessed after the full implementation of the Free Trade Area arrangement in the Americas. At this point of time the NAFTA and MERCOSUR represent two of the largest regional trading blocs in the Northern and Southern part of the Americas

respectively. The complex dynamics of the intra NAFTA and the intra MERCOSUR trade has revealed the need for Free Trade Area arrangements amongst the participating American nations.

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