FC1995-12

OBSTACLES AND BARRIERS
TO FREE TRADE AND
INTERNATIONAL INVESTMENT

by

Gustavo Indart

Centre for International Studies
170 Bloor Street West
Suite 500
Toronto, Ontario
M5S 1T9
(416) 978-3350

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I. INTRODUCTION

The situation of Latin America in the first half of the 1990s is quite different from that of the late 1970s and early 1980s. The explosion of the debt crisis in 1982 caused a strong recession followed by a long period of stagnation in the region as a whole. With the exception of Chile, Colombia, and to a certain extent Uruguay, at the end of the "lost decade" income per capita was in all countries lower in 1990 than in 1980.

The Latin American crisis of the early 1980s was interpreted by many as proof that the inward-oriented model of development had come to an end in the region as a whole. This interpretation, however, fails to take into account any differences between countries (e.g., between bigger and smaller countries), thus ignoring the fact that the strategy which allowed Latin American GDP to grow at a rate of 5% per annum during more than 30 years could still have a positive role to play in some countries of the region. Implicit in this view, therefore, is the failure to consider any alternative other than the complete dismantling of the protectionist apparatus. The latter is just another example of the methodological shortcoming of the neoclassical school --on which this conventional view is based-- of focusing the discussion exclusively on the analysis of extreme alternatives, e.g., arbitrary protectionism versus complete free trade (see Ffrench-Davis, 1990, 38).

The general recognition that import substitution was exhausted as a viable development strategy also led to another consensus, that the only possibility for recovery was through the promotion of exports. In parallel with this view, the governments of the region came to understand that a growth strategy based on the expansion of exports required a stable economic and political environment as well as

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1 A version of this paper was presented at the conference "Comercio sin Barreras" in Antigua de Guatemala on October 26, 1995. I would like to thank Albert Berry for his valuable comments on an earlier draft.

2 Coordinator of the Programme on Latin America and the Caribbean, Centre for International Studies, University of Toronto.

3 For a more balanced perspective, see Helleiner (1994).
economic liberalization to promote efficiency and greater international competitiveness.\textsuperscript{4} Hurrell (1994, 174), for instance, points out that the prevailing general perception since the mid-1980s appears to have been that dynamic economies are internationalized economies, that growth depends on the successful participation in the international economy, that foreign investment is necessary for technological transfers to take place, and that rapid technological change makes processes of autonomous technological improvement virtually impossible.\textsuperscript{5} Thus since the mid-1980s, and more clearly since the early 1990s, Latin American countries have been involved in a process of liberalization of their economies and seeking, at the same time, greater regional and subregional integration.

The purpose of this paper is to examine how this ongoing process of subregional integration could positively contribute towards an eventual hemispheric integration. Some of the possible effects of opening the economies and adopting, at the same time, the monetarist approach to the balance of payments are examined in the next section. Section III describes the main motives for seeking subregional integration, referring particularly to the motives of those countries in NAFTA and MERCOSUR. The possibilities of a hemispheric integration, as well as some of the costs and benefits implicit in such an integration, are analyzed in Section IV. Some possible obstacles facing the process of integration are described in Section V, while the always latent danger of reactivating protectionism through the arbitrary use of non-tariff barriers (NTBs) is dealt with in Section VI. A brief conclusion is presented in the last section.

II. THE OPENING OF THE ECONOMIES

The liberalization of the economy implied the opening up of economies until then very protected from international competition. This opening included the liberalization of international trade, the financial markets, and the regimes regulating foreign investment. Trade liberalization was carried out through two parallel and complementary processes: on the one hand, the countries of the region unilaterally reduced their tariffs, for instance, from an average of 26\% in 1991 to 12\% in 1993 (Hufbauer and Schott, 1994, 136); on the other, a great advance in the process of subregional integration took place mainly through the creation of the Common Market of the South (MERCOSUR) and the FTA between the United States, Canada, and Mexico (NAFTA), but also as a result of the revitalization of the Central American Common Market (CACM) and the Andean Pact. At the same time, several bilateral

\textsuperscript{4} The adoption of this set of policies --developed by the American government and the international financial institutions (IFIs) in what came to be known as the "Washington consensus" (see Williamson, 1990)-- was demanded by IFIs as condition for lending to developing countries' governments.

\textsuperscript{5} Until recently, only Brazil was still protecting some key sectors (e.g., electronics) in order to develop autonomous technology.
and trilateral free trade agreements were signed, many of which had Mexico or Chile as one of the partners.

As a result of the external opening of the economy, Latin American and Caribbean exports increased from $122.7 in 1990 to $158.2 billions in 1993 (an increment of 28.9 percent), while imports went from $118.3 to $177.6 billions during this same period (an increase of 50.1 percent). The percentage increase in intraregional trade was even more striking, 81.6 percent, going from $16.1 billions in 1990 to $29.2 in 1993. The greater increase in imports caused the trade account to change from a surplus of $4.4 billions in 1990 to a deficit of $19.4 billions in 1993 (ECLAC, 1995a). The current account also showed a deterioration and has recently increased its deficit from $37.2 billions in 1992 to $49.7 billions in 1994 (ECLAC, 1995b).  

In the case of Mexico, this country not only signed trade agreements with several countries of the region but it was also the first Latin American country signing and FTA with the two most developed countries of the Americas, the United States and Canada. The significant expansion of Mexico-United States trade caused total Mexican exports to increase from $32.8 billions in 1989 to $43.4 billions in 1993 (an increment of 32.1 percent), and total imports from $31.1 to $59.8 billions (an increase of 92.4%). Thus Mexican trade account went from a surplus of $1.7 billions to a deficit of $16.4 billions during this period (ECLAC, 1995a). The current account balance also went from a surplus of $3.7 billions in 1987 to a deficit of $22.4 billions in 1993 (ibid.). Given the dramatic increase in the size of the current account deficit since 1988, what really should be surprising about the peso crisis of December 1994 is that it had taken so many people by surprise.  

The Mexican experience, and the Latin American more generally, should be very instructive regarding the risk of liberalizing the economy at the same time of adopting the monetarist approach to the balance of payments. In particular, this experience

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6 All figures are in current US dollars.

7 The trade deficit with the United States was $8.0 billions in 1992 (Hufbauer and Schott, 1994, 36). Note that the Mexican trade deficit accounts for 85 percent of the region's total deficit in 1993.

8 All figures are in current US dollars.

9 It is adduced that the surprise was due to the Bank of Mexico's failure to provide adequate information about the rapid reduction in foreign reserves (from $29.0 billions in February 1994 to $16.4 billions in June to $6.0 billions on December 22, 1994 (Cline, 1995, 495-6)). It appears that international speculators (and many economists) thought possible to keep indefinitely a current account deficit of such magnitude.

10 Since only a few countries had learnt from a similar Chilean experience in the early 1980s, it might be too optimistic to expect that this time around lessons from the Mexican experience would last beyond the short-run.
should be a lesson about errors in economic policies that less developed countries should try to avoid when engaging in free trade agreements with much more developed countries.\textsuperscript{11} The negative aspects of the Mexican experience should not, however, serve as a pretext for protectionist forces to reverse the progress in the opening of the Latin American economies. Going back to the previous protectionist regime is clearly not the solution to the present crisis. Fortunately, the possibility of its occurrence is quite slim. What should be seriously considered is the possibility of adopting a freer regime without going to the extreme of having completely free trade.

III. THE MOTIVES FOR SUBREGIONAL INTEGRATION

A wave of regionalism has been growing since the late 1980s, both at the macro-regional and the micro-regional levels. As Bhagwati (1991, 73) points out, there appears to be a general sentiment that regionalism is the order of the day and that everyone must follow it. Thus, at the macro-regional level the discussion has centred on the creation of trading blocs, while at the micro-regional level the emphasis has increasingly been on cooperation and economic integration.

There exist different motives for seeking a greater subregional integration through bilateral or plurilateral trade agreements, and most are quite specific to each of the countries involved. The main general motive appears to be that subregional agreements were seen as a pragmatic alternative to the slow advance in multilateral negotiations within both the GATT and ALADI (Latin American Integration Association). However, it would be erroneous to consider regional and multilateral agreements as incompatible. Rather, regionalism should be seen as a process contributing towards the progressive unification of the world economy (see Bhagwati, 1991, 74).

The motives for the United States, Canada, and Mexico to create NAFTA appear to be different for each of the partners. Prior to NAFTA, the interest of the United States to negotiate in the late 1980s a FTA with Canada (CAFTA) could be interpreted as a reaction to the frustration of the Uruguay Round of multilateral negotiations and as a demonstration that there were attractive and viable alternatives (Ostry, 1992, 12). Another reason behind the signing of CAFTA would be the interest of the American government in reducing growing domestic protectionist pressures (ibid.). For the United States, the extension of this accord to include Mexico would serve as a means of expanding a market already quite important. Indeed, American exports to Mexico have been increasing since 1986 and in 1993 were about $42.0 billions

\textsuperscript{11} At first sight, NAFTA should not be held responsible for the Mexican crisis since, in principle, the choice of monetary and exchange policies is a national matter. Thus, it could be argued that the Mexican crisis might have taken place with or without NAFTA. However, it is quite symptomatic that both Mexico and Canada adopted the monetarist approach to the balance of payments, and had their currencies appreciated, at the time they started negotiating a FTA with the United States.
The United States also viewed NAFTA as an expedient mechanism to deal with the growing problem of illegal Mexican migration, the drug traffic, and the deterioration of the environment mainly along the US-Mexico border. The creation of NAFTA could also be interpreted as a strategic response by the US to the increasing economic threat of Japan and a unified Europe (Grinspun and Cameron, 1993, 16).

For Canada, CAFTA represented certain greater security of access to the American market given the growing protectionist wave in the US and, at the same time, an opportunity to improve its long-run competitiveness having now better access to a market ten times larger (Ostry, 1992, 13). CAFTA was also used as a device to advance the neoliberal agenda in Canada (Grinspun and Cameron, 1993, 11). NAFTA also guaranteed to a certain extent the access of Canadian products to the American market while improving at the same time their access to the Mexican market.  

For Mexico, in the first place, NAFTA would help to reinforce the economic reforms carried out since 1985, giving them a certain degree of irreversibility. Indeed, NAFTA would assure the permanence of a more liberal Mexico by increasing the economic and political costs of reversing to the former protectionist regime. It would also give Mexico greater assurance that it would keep the great access to the American market it had enjoyed for some time already, and that the remaining barriers would be soon liberalized as well (Hufbauer and Schott, 1993, 3-4). Indeed, Mexico started to seek a closer relationship with the United States due to the accumulation since 1980 of unilateral decisions by the American government negatively affecting bilateral trade between the two countries (Fishlow, 1994, 70). Thus, from the point of view of both Mexico and Canada, NAFTA would appear as a protection against American protectionism.

But NAFTA is not only an accord about the free movement of goods and services among the United States, Canada, and Mexico. The main interest in NAFTA, as in all trade agreements, is from the investment point of view. For Waverman (1994, 7), for instance, NAFTA is clearly an investment pact encompassing various basic principles: the equal treatment of foreign and domestic investment or under the most favoured nation (MFN) scheme; the free transfer of funds; protection against expropriation; and mechanisms of dispute resolution. However, though the stock of American direct investment in Latin America increased, for instance, from $44.0 billions in 1989 to $52.0 billions in 1992 (Hufbauer and Schott, 1994, 21), the greater increase has been in short term (portfolio) investment characterized by its great

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12 Bilateral trade between Canada and Mexico is relatively small (less than $2 billion in 1993). It must be noted that Brazil, and not Mexico, is Canada's main Latin American trading partner.

13 In relative terms, however, the stock of American direct investment in Latin America represented 11 percent of total American investment abroad in both years (Hufbauer and Schott, 1994, 21).
The main motives for the creation of MERCOSUR by the Southern Cone countries are several as well. For the smaller partners--Uruguay in particular--the main motive appears to have been to guarantee access to enormously larger--and still protected against international competition--markets, thus facilitating the realization of economies of scale as well as of greater productivity in those sectors enjoying comparative advantages. For Argentina and Brazil, MERCOSUR would allow the rationalization of inter- and intra-sectoral production, emphasizing particularly intra-industrial complementarity in important sectors such as the automobile industry. Brazil, more particularly, also appeared to have considered that the consolidation of MERCOSUR would translate into a more powerful position vis-a-vis the United States during negotiations towards a possible hemispheric integration, as well as during future discussions regarding the solution of the always latent problem of the external debt (Jaguaribe, 1994, 61). In this sense, the creation of MERCOSUR could be seen as a defensive reaction against the future creation of NAFTA, thus balancing the increasing American hegemonic power in the region (Hurrell, 1994, 172).15

IV. POSSIBILITY OF HEMISPHERIC INTEGRATION

The consolidation of any process of integration implies its deepening. The accumulated evidence shows that the deepening of subregional integration processes takes a long time. ALADI, for instance, has already been in existence for 15 years, and even more if we correctly consider it as the continuation of ALALC (Latin American Free Trade Association). At the more subregional level, though the Andean Group--particularly Colombia and Venezuela--has significantly advanced in its process of integration, we must not forget that this process started some 25 years ago. MERCOSUR could perhaps be considered an exception in this sense, but the lack of harmonization of economic policies among its members indicates the difficulties it must overcome before achieving its consolidation. This long process of consolidation could take even longer when there exist great structural and in levels of development differences among potential members. The process of reduction of tariffs in NAFTA embarks a period of 15 years, but structural differences between Mexico and its two partners of the north create doubts about the real length of the period of consolidation of this integration attempt.

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14 Between 1990 and 1992, total foreign investment in Argentina, Brazil, and Venezuela, for instance, was $58.8 billions of which 75 percent was portfolio investment (Hufbauer and Schott, 1994, 56).

15 It should be noted that the inclusion of Mexico in NAFTA directly affects Brazil since these two countries compete in the sale of several products in the American market. At the same time, NAFTA could also cause an important diversion of American investment towards Mexico (Hurrell, 1994, 172).
These long processes of subregional integration could be considered stages within a more long-run process of hemispheric integration. The ideal sequence in this process of hemispheric integration appears to be the following: to deepen the processes of subregional integration before widening them to include new members. If it is difficult to deepen these processes when just a few partners are involved, even more difficult will it be when a larger number of countries is considered and differences in levels of development become even greater. However, it appears that the course being followed goes in the opposite direction: widening before deepening (Waverman, 1994, 4). The future accession of Chile to NAFTA, as well as this country’s and Bolivia’s interest in eventually joining MERCOSUR, could be seen as steps in this direction.

According to Hufbauer and Schott (1994, 2), the consolidation of the process of hemispheric integration must go through three stages. In the first, all countries must satisfy certain pre-conditions regarding mainly macroeconomic stabilization; in the second, obstacles to trade and investment must be reduced; and in the last one, an institutional framework must be created and policies and standards must be harmonized among the different countries. At the present time, all countries have gone through the first stage --Brazil being the last one-- and find themselves at different levels of completion in the second. The third, however, is still quite far into the future. Therefore, there appear to be several positive factors indicating advances in the process towards an eventual hemispheric integration, to which we should add the fact that the worst phase of the debt crisis has already been overcome and private capitals are once again flowing into the region.16

When Bush announced the Enterprise for the Americas Initiative (EAI) in June 1990, the second stage in the process towards hemispheric integration had already started in several of the Latin American countries. Thus the EAI was not presented in a vacuum: independently of this proposal, important trends were already under way in the region. Hence, this initiative only served to reinforce trade and investment

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16 While direct foreign investment in the region has increased since the late 1980s, as indicated above, the greater inflow of capital is still of the short-run speculative sort. Though the flow of this type of capital may play an important positive role in certain short-run situations, it could contribute to the creation of important distortions in the long-run as the recent Mexican crisis has shown. It should be noted that this potential to create distortions is not limited to small and/or developing countries. Canada has constantly been the subject of speculative runs on its currency, and this situation has even been experienced by the American dollar. James Tobin proposal to restrict the free flow of financial capital has been rejected by developed countries governments as unfeasible, adducing that it would be difficult if not impossible to attain (and even more to enforce) an unanimous agreement among all countries. In my view, even if a country were to impose temporary controls to the flow of speculative capital, in many cases the benefits should largely exceed the costs. The recent Chilean and Colombian experiences appear as good examples of successful attempts to control the flow of speculative capital, while the recent Mexican experience also appears as a good example of the potential costs involved when such controls are not in place.
reforms already being carried out. In particular, the EAI addressed four specific concerns: 1) it recognized the need of Latin American countries to receive large flows of capital to solve the debt crisis without involving a long recession; 2) it gave support to reforms based on the liberalization of markets; 3) it emphasized the importance of Latin America to the United States when all the attention was being focused on eastern Europe; and 4) it demonstrated that the United States would not forget the rest of Latin America after the signing of NAFTA (Hufbauer and Schott, 1994, 15).

Bush also offered to sign bilateral frame accords that would allow future discussions on matters of specific relevance. Consequently, the United States signed such accords with Bolivia, Costa Rica, Chile, Colombia, Ecuador, Honduras, Mexico, MERCOSUR, and CARICOM. MERCOSUR was at that time in the dilemma of opening its economies to international competition and at the same time selectively protecting its industry and capacity for technological innovation. The frame accord signed between the United States and MERCOSUR in 1991 combined these two imperatives of opening and selective protection. It was expected that an external opening would increase exports, attract more foreign investment, promote technological change, and increase the level of domestic efficiency. At the same time, it was thought that protection of key sectors would allow the achievement of a proper level of industrial and technological development, which in turn would facilitate the obtention of satisfactory rates of endogenous growth and levels of activity closer to full employment (Jaguaribe, 1994, 63).

As it was the case with Mexico, the benefits to other Latin American countries accessing to NAFTA or signing an FTA with the United States would be: greater access to the American market and, more importantly, a possible increase in foreign direct investment to exploit static and dynamic domestic comparative advantages. The fact that Latin American countries offer lower costs (and have lower per capita incomes) would indicate (in principle) that they would have more to gain from the expansion of trade with the United States.\(^{17}\) But more important than the static effects are the dynamic ones. Though the initial increase in GDP in the year in which trade barriers are eliminated is important, the continuous future expansion of the product is even more so. For that reason, trade agreements are more about future investment decisions of the private sector than about trade, though there exists a complementarity between international trade and foreign investment. With the globalization of production and markets, the importance of direct foreign investment increases particularly in regard to the diffusion of technologies and managerial techniques. Hence, Latin American countries have today great interest in having open

\(^{17}\) The recent Mexican --and Latin American more generally-- experience might perhaps put this hypothesis in doubt (at least in the short-run).
investment regimes working properly.\textsuperscript{18} Instead of trying to control foreign investment, most governments are now-a-days just trying to attract it. In this regard, it was hoped that the Brady Plan would have brought greater foreign investment to Latin America. At the same time, it must be noted that the EAI would not only have served to attract new American investment to the region but also to protect the already existing investment stock (Hufbauer and Schott, 1994, 17).

An hemispheric FTA, however, would also bring along an important implicit cost: a constraint in the use of domestic economic policy. Indeed, the American agenda towards an eventual hemispheric FTA is intrusive and includes the liberalization of investment regimes, protection of intellectual property, liberalization of trade in services, and a greater liberalization of the economy in general. Brazil, however, would prefer a FTA that would guarantee access to the American market without restricting freedom of action at the national level. For the United States, however, this option is not on the table. According to Hurrell (1994, 179), it is quite illusory to expect that Brazil, despite its size and economic weight, could force this point during negotiations towards a future hemispheric integration. In my view, Hurrell’s interpretation would be correct if Brazil were to negotiate its access to NAFTA a la Chile. Brazil is quite aware of this situation and thus its strategy is quite different: to seek the widest possible subregional integration first, and then to negotiate in bloc with NAFTA. The creation of MERCOSUR and the Amazon initiative are, among others, important steps in this direction.

V. OBSTACLES TO HEMISPHERIC INTEGRATION

The major obstacle to the deepening or consolidation of subregional --and therefore, also of hemispheric-- integration processes is the real or potential use of NTBs as protectionist instruments. I will leave this topic for the next section. I will focus here on other factors that might interfere with both the widening and deepening of the hemispheric integration process.

1. The Need for Positive Results in the Short- or Medium-Run

Though the process of opening the economy is already quite under way in most countries of the region, there still exists strong pressure to move back towards more protectionist regimes. Given the successful conclusion of the Uruguay Round of negotiations and the current state of globalization of the economy, it would be rather difficult to return to former protectionist regimes based on high tariffs to imports and restrictions to foreign investment. However, there is always a latent risk of utilizing NTBs as protectionist measures.

\textsuperscript{18} In recent years, first Chile and then Argentina, Colombia, Venezuela, and many other countries of the region have radically reformed (liberalized) their investment regimes. Consistent with its more gradual approach to the opening of the economy, Brazil is moving more slowly in this direction.
In reference to NAFTA, Waverman (1994, 1) is also of the opinion that it is possible to go back and reintroduce protectionist practices. For him, NAFTA represents an unstable equilibrium and changes introduced in trade and investment regimes might generate protectionist pressure. He also considers that NAFTA is an incomplete agreement because it leaves untouched the domain of domestic policy that could be used as source of NTBs to international trade.

As Lowenthal (1994, 240) indicates, the adoption of neoliberal policies has been relatively easy even though many governments based their previous electoral campaigns on platforms contrary to such policies. The present convergence, however, is more the result of a lack of credible alternatives than of a great consensus (except in Chile). The maintenance of these policies, however, depends on the obtention of positive results in the short- or medium-run, and given the increase in income concentration in the region (except perhaps in Costa Rica), it appears that general support for these policies might be waning in many countries. Indeed, as Lowenthal (1994, 240) correctly points out, it is quite difficult to rally support for policies that favour higher income groups in the detriment of the poor.

Another reason for the perceived relative failure of the liberalization process might be that the initial expectations were too high to start with, and therefore they could not reasonably be met under normal circumstances. It could be argued that the initial excessive optimism was based more on ideological grounds than on serious scientific economic, social, and political work. Empirical work of the CGE type, for instance, leave so many relevant --but difficult to quantify-- variables out of the analysis that in many cases the forecasted outcomes might fall just short of wishful thinking.

From a strictly theoretical point of view, however, it is argued that simultaneous and complete price, trade, and investment liberalization might contribute towards a more efficient allocation of resources on a global scale. But more than serious theorizing, this appears to be a useless mental exercise void of any touch with reality, since this logical sequence of events would only apply under ideal conditions which cannot be met in general, and certainly not in developing countries. This is "blackboard economics" at its best and not serious economic analysis, and it is quite dangerous to take it as the basis for the design of economic policy. Moreover, even if the unrestricted working of the market mechanism were to produce a more efficient allocation of resources and (hopefully) greater product, it could not guarantee that the accompanied benefits would reach all segments of the population (particularly those most in need). Resorting to the "trickle down" effect is just a short-sighted excuse in defense of the status quo. Evidence have been accumulating that market forces do not generally contribute to a less unequal --difficult to say more equal-- distribution of income. Neither is growth per se sufficient as evidenced by the experience of Brazil -and Latin America in general-- who has the dubious distinction of being the country with the most unequal distribution of income despite impressive growth records during
most of the last 40 years.

2. Democratization and Human Rights

The movement towards free market economies, democracy, and inter-American cooperation is, in part, the result of the relative failure of the course followed during the 1970s and 1980s. Thus the crisis of the 1980s might partly be attributed to the failure of extremely interventionist States and authoritarian governments. More recently, the democratization of the region has emerged as an important element in the possible expansion of regional accords, and it could even become a condition to be met prior to the signing of FTAs. Nevertheless, it appears rather difficult that sufficient support could be obtained to establish the demand for democracy as a condition for FTAs in general, though it could always be applied selectively to satisfy particular economic and/or political domestic interest (as in the case of Cuba).

Even more than the exigency for democratization, the demand for the respect of human rights could be utilized as a condition for the signing of FTAs (Hurrell, 1994, 180-1). However, there exists a lack of credibility and consistency in the application of this principle by many governments, particularly the American and Canadian. Indeed, in many occasions --as with China, Indonesia, and Colombia-- this principle has been completely ignored by these two governments, while at the same time the Americans are adamant in the case of Cuba. More recently, the ignorance of this principle has become official policy. In May, 1995, the Canadian Foreign Affairs Minister André Ouellet said that "Canada has expressed, through this new government, our desire to vigorously pursue a series of (trade) initiatives in a number of countries, irrespective of their human rights records."\(^{19}\)

In any case, there is a real possibility that sincere and justified social actions in defence of human rights might be heard only in cases where political and/or economic benefits --and not the principle in itself-- justify it. Thus, the exigency for democracy and human rights could indirectly become a weapon to be used by protectionist interest groups.

An interesting point here is the analysis of the relationship between free market and democracy, and of why they have come to play so prominent a role in the neoliberal discourse. It could be argued that free market and democracy are respectively the economic and political arrangements best suited for the working, development, and reproduction of the capitalist system. But, of course, this might be true only when some ideal conditions are met. When competitive markets exist, this mechanism allows the best reading of individuals’ wants and needs as consumers. Indeed, competitive markets are better suited to read consumers’ demands than, say,

\(^{19}\) See two articles on human rights in Colombia written by Linda Diebel and published in The Toronto Star, November 5-6, 1995.
a bureaucrat sitting at her desk. Similarly, when civil society is highly developed, democracy also allows the best reading of individuals’ desires and aspirations as citizens. Indeed, local representatives are usually closer in touch with the demands of their constituency than a distant dictator for instance.

Hence, any form of arrangement other than free market and democracy would appear to be more costly and only give a partial and/or distorted reading of the relevant variables in the economic and political spheres. But this is only true under ideal conditions which, as such, are hardly ever met in reality. For instance, if markets do not exist or are imperfect, it does not make any sense to talk about the virtues of free market. In this case, some government intervention might help to achieve a more efficient long-run social (dynamic) allocation of resources without putting the capitalist system in peril. Similarly, if civil society is not sufficiently developed, neither does it make any sense to talk about the virtues of democracy. Here as well, political forms other than democracy might better contribute to the further development of the capitalist system. Moreover, in situations where social conflict might question the viability of the system, democracy is certainly not the best venue to protect the capitalist system and assure its reproduction. Thus, under ideal situations, it might hold that free market and democracy go hand in hand. And the neoliberal rhetoric breathes in this ideal world, which comes as no surprise since their thin theoretical underpinnings are based on neoclassical economics.

3. Protection to the Environment

The importance of the concept of sustainable development has been increasing during the last decade, and the problem of the environment has become a central topic in the inter-american agenda. At the present time there exists an important movement opposing unrestricted trade because of the negative effects it may have on the environment. The deterioration of the environment presents direct costs to Latin American countries due to deforestation, soil erosion, and deterioration of urban areas, and cost to the international community as well due, for instance, to the global consequence of deforestation in the Amazon (Hurrell, 1994, 182).

The use of environmental demands as condition for the signing of FTAs could be justified from a globalist point of view. However, here too there exists lack of consistency and credibility, and more so when industrialized countries have been, and still are, the main culprits in environmental deterioration. At the same time, it must be noted that the problem of the environment could also be used by Latin American countries as an important weapon in their negotiations of accords on cooperation and active participation in the global process of development (Hurrell, 1994, 182).

4. Labour Regulations and Working Conditions

Differences in labour regulation related to minimum wages, safety and health
standards, lack of social security systems, etc., could contribute towards the creation of political resistance in the United States and Canada to an eventual hemispheric FTA. Of course, as it was the case with democracy and human rights, this point could also be used in a selective manner according to the political power of the interest groups affected; or a parallel side agreement could be signed (as in NAFTA) to calm criticism but without much practical effect. The weight that these demands could play as obstacles to the signing of FTAs will depend on the capacity of the NGOs involved to rally support for their cause.

In Canada, however, there does not exist at the present time an important movement opposing, for instance, the access of Chile to NAFTA due to the appalling health and working conditions in the Chilean fruit producing sector. Moreover, it appears that the possibility of demanding better labour standards as condition for entering into FTAs with the US and/or Canada is rapidly losing grounds in the international stage. In this regard, the ILO has recently stated that, in the future, it will abstain from discussing any possible link between international trade and labour standards, indicating that differences in labour standards among countries are determined by their levels of development. The ILO also pointed out that "workers rights and labour relations are matters internal to each country" and that "this is a principle of national sovereignty which cannot be put into question" (ILO, 1995). Hence, it appears that "social dumping" is in the process of becoming an acceptable practice at the institutional level as well.

5. Structural Differences

Structural differences between Latin American countries and the US and Canada present a real difficulty for the creation of a hemispheric free trade area. Differences in levels of income could become a potential source of barriers to regional integration since they could place important American and Canadian sectors at a disadvantage and even cause their disappearance. Though it might be true that other sectors would experience an acceleration in their development process, the economic and social costs of those sectors negatively affected could come to have a more important political weight in the short-run. In such a situation, and given the lack of efficient retraining programmes and compensatory schemes, there exists a strong possibility that political resistance to regional integration might develop in the industrialized countries of North America. For this not to occur, a political will of "creative destruction" of local industries and employment should be required (Hufbauer and Schott, 1994, 69).

At the same time, the economic costs of accessing to NAFTA for those Latin American countries with diversified trade and investment structures (such as Argentina

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20 The Toronto Star (May 27-29, 1995) has recently published a series of articles describing the working conditions in the Chilean fruit and mining sectors.
and Brazil) have not been well studied (Hurrell, 1994, 178). It would appear that the immediate benefits would not be substantial for these countries, and thus that it would be more convenient for them to wait first until the consolidation of MERCOSUR.

6. Harmonization of Economic Policies

The deepening or consolidation of any integration process requires the harmonization of policies among the governments of the member countries. Without this convergence of fiscal, monetary, and exchange policies any integrationist attempt could only reach an unstable equilibrium (Waverman, 1994, 1). For instance, if there exists lack of coordination in exchange rate matters, sudden and radical alterations in the exchange rate could cause important short-run disturbances, favouring one partner and harming another.21

Up to now, little progress has been observed in the coordination of fiscal, monetary, and exchange rate policies in NAFTA. The Bank of Canada, however, has always paid great attention to maintaining the stability of the exchange rate vis-a-vis the American dollar. Given the monetarist approach to the balance of payments adopted by the Bank of Canada, its monetary policy is subject to its exchange rate policy. Since the crisis of the Mexican peso --and at least in the short- and medium-run-- it appears to be greater regional coordination in exchange matters --or rather a greater subordination of Mexican domestic policy to the American policy.

With respect to MERCOSUR, there has also been little success in the coordination of policies despite the constitution of a working group comprised of the ministers of finance. Indeed, exchange rate policies, rates of inflation, and the processes of liberalization have not been in line between the two main partners in MERCOSUR. Consequently, serious macroeconomic imbalances in Argentina and Brazil have created tensions in the group. This observed lack of policy coordination in MERCOSUR is consistent with the above indication about Brazil’s preoccupation of the limitation that a possible hemispheric integration (e.g., accession to NAFTA) could place on domestic economic policy.

Something similar could be observed in the Andean Group where the topic of policy coordination is only a consideration for the future. Despite some interesting efforts --interrupted by armed conflicts-- to create a monetary union, little concrete advance has been achieved in the CACM regarding these matters as well. The major success has taken place in the CARICOM where domestic currencies have been pegged to the American dollar and a common monetary policy has been implemented (Hufbauer and Schott, 1994, 10).

21 In the long-run, however, nominal exchange rate changes do not have a major impact on the level of trade.
Neither has the fiscal problem been resolved satisfactorily. In NAFTA, the fiscal deficit in 1992 was 5.7 percent and 4.0 percent of GDP in the US and Canada respectively; Mexico, however, did appear to experience an important improvement but still had a deficit of 1.5 percent of GDP in 1991 (Waverman, 1994, 39-41). Latin America as a whole also appeared to have accomplished some success: a fiscal deficit of 7.8 percent of GDP in 1987-89 became a surplus of 0.7 percent in 1992 for those countries with stabilization programmes, while the rest experienced a deficit reduction from 5.1 percent to 2.8 percent of GDP during the same period (Fishlow, 1994, 68). The apparent Latin American success, however, was mainly the result of an increase in revenue which is not stable. On the one hand, there has been a greater incidence of indirect consumption taxes in total tax revenue, and on the other, the privatization process has been considered part of the process of fiscal reform. In countries like Argentina and Mexico, the sale of State enterprises has contributed enormously towards the reduction of the fiscal deficit. In my view, this approach is incorrect and short-sighted since it does not solve the fiscal problem in the long-run. On the contrary, the privatization process should be selective and have the objective of increasing economic efficiency in the long-run and not of raising revenues in the short-run.

VI. THE DANGER OF ARBITRARY USE OF NON-TARIFF BARRIERS

As indicated above, the major obstacle to the deepening or consolidation of integration processes is the possibility of surrendering to the pressure of interest groups and reversing to arbitrary protectionist practices. given the present international conditions, it would seem rather difficult to return to traditional protectionist regimes of the past since tariffs are easy to spot and difficult to justify. Nevertheless, there exists a latent danger of increasingly using arbitrary non-tariff barriers for protectionist purposes.

The real danger is that trade practices considered unfair --such as subsidies and dumping-- could give rise to unjustified protectionist pressures. There is mounting evidence that both in the EC and the US, protectionist interests have abused traditional mechanisms against unfair trade practices related to import competition, subsidies, and dumping (Bhagwati, 1991, 19). An extension of this situation is perceived in cases of accusations of unfair practices in exports and in new areas such as distribution systems, saving rates, and workers rights.22 As Bhagwati points out, the major problem is that any policy could be alleged to be the source of unfair trade practices since practically any policy (or its absence) affects trade. Therefore, it could even be adduced, for instance, that comparative advantages based on low wages

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22 With respect to the notion of unfair trade in export markets, not only subsidies but also the matter of intrasectoral reciprocity of trade barriers are being considered (Bhagwati, 1991, 19). For instance, if the sale of automobiles has a tax of 20 percent in Sweden and none in Canada, this could be seen as an unfair practice in detriment of Canada.
represent an unfair trade practice (ibid., 21). Another extreme case would be to consider foreign investment a source of unfair practices since foreign firms might advantageously compete with national firms (ibid., 15).

In the mid-1980s, the American government started to implement an aggressive trade policy that Bhagwati (1991) coined "aggressive unilateralism". Aggressive unilateralism refers to any bilateral trade negotiation where unilateral demands for liberalization are made by one country under threats of retaliation (Bayard and Elliot, 1994, 19). The use of aggressive unilateralism implies to impose on others what one country considers to be unfair (or "unreasonable") practices even though they may not contravene the rules of GATT or of any other accord. The United States uses Section 301 and the "Super 301" of its trade legislation to promote aggressively its exports. The "Super 301" requires the preparation of an inventory of trade barriers, the establishment of a priority list of countries and their "unreasonable" practices, and the setting of deadlines for their abolition. Clinton proposed an even stronger "Super 301" indicating that "if nations refuse to accept our rules, we will play by theirs" (Waverman, 1994, 8). Waverman (ibid., 9) observes that Clinton’s policy really implies to blame others for the loss of competitiveness in the US.

The United States has used this policy of aggressive unilateralism mainly against Japan and EC, but also against Canada and various developing countries (including Argentina and Brazil). However, according to Bayard and Elliot (1994, 150), the main motive of accusing India and Brazil of utilizing unfair trade practices was to demonstrate that the attack was not directed against Japan exclusively. More recently, The US has been pressuring Latin American countries to sign agreements of protection of American patterns and "Intellectual property", including here all types of innovation in the field of applied sciences. Jaguberibe (1994, 61) observes that the signing of such agreements would translate into the perpetuation of technological dependency for the region.

It must be noted that FTAs do not eliminate the possibility of employing protectionist measures under the pretext of retaliating against the alleged use of unfair trade practices. NAFTA, therefore, though it limits the types of retaliation, it does not fully protect Canada and Mexico against arbitrary American measures (or, more precisely, it does not protect any of the three countries against arbitrary actions of any of them). Of course, the stronger partner always plays with certain advantage and, in this case, the stronger partner is the US: 70 percent of Canadian and Mexican exports have the US as destination, while combined US exports to these two countries represent only 30 percent of total American exports (Waverman, 1994, 10).

Waverman (1994, 1) points out that NAFTA is incomplete because it does not curb the area of action of those domestic policies which could be used as barrier to international trade. This author refers in particular to the notorious increase in the use of anti-dumping actions since 1992 (mainly by the US but also by Canada). In a free
trade area, he contends, there exists only one market, and thus the use of this sort of actions is discriminatory and, for all practical purposes, equivalent to the imposition of tariffs.\textsuperscript{23} For the same reason of not ceding sovereignty in certain areas of national policy, neither can NAFTA eliminate the potential peril of protectionist actions of technical origin such as customs controls, import regulations, rules of origin, and technical requirements.

Something of this sort has occurred in MERCOSUR as well where Brazil has recently introduced non-tariff protectionist measures against its partners. Brazil has not only raised (as did Argentina) its tariffs against products coming from outside MERCOSUR, but it has introduced a battery of administrative barriers to restrain the access of products from within the region.\textsuperscript{24}

\textbf{VII. CONCLUSIONS}

The Latin American economies have experienced radical structural changes during the last ten years. Most countries of the region have participated in a relatively rapid process of price liberalization and opening of their economies to international trade and investment. The confrontational nature that characterized in the past the relationships among the nations of the hemisphere appears to have been replaced by a general spirit of cooperation. At the same time, after many years of stagnation, the process of integration has received a great impulse with the creation of NAFTA and MERCOSUR, with the revitalization of the Andean Group, the CAMC, and the CARICOM, and with the signing of numerous bilateral and plurilateral trade agreements.

As a result of trade liberalization and integrationist movements, regional and intra-regional trade have significantly increased. The simultaneous unilateral reduction of barriers to imports and the liberalization of capital markets, as well as the adoption of the monetarist approach to the balance of payments, share responsibility in the emergence of external imbalances in the region. Even if the significance of these problems were to be limited to the short-run, they could nevertheless generate important protectionist pressures in those countries affected the most.

The process of opening the economies and the integrationist movement have

\textsuperscript{23} Anti-dumping actions not only create a potential cost (the possibility of imposing a tariff) to the affected party, but they also impose a real direct cost associated with the defence against the charges during a long legal process.

\textsuperscript{24} Last July, while visiting Uruguay, the Brazilian Minister of Industry explained that the imposition of protectionist measures against Uruguayan exports was necessary for the stabilization of Brazil, and therefore it was for the benefit of the region as a whole (including Uruguay) (\textit{Busqued\'a}, August 3, 1995).
deepened enough to make a return to past extreme protectionist regimes almost impossible. However, the results obtained up to now have not been too impressive and protectionist forces could create obstacles --at least in the short-run-- to the free circulation of products and capitals. Protectionist movements appear to be stronger in the most powerful countries of each main subregion (i.e., the United States and Brazil).

These protectionist movements could pressure national governments to impose NTBs to international trade. In the mid-1980s, the US adopted the so-called policy of "aggressive unilateralism" to promote its exports. This country has used this aggressive and arbitrary policy mainly against Japan and the EC, but also against developing nation such as Argentina and Brazil. Though NAFTA limits arbitrary protectionist actions of this sort, it proved unable to eliminate them completely.

The economic and social costs involved in the process of opening the economies have been quite significant in most countries of the region. They could thus come to question the viability of the process in the short-run. In the long-run, however, the export-led strategy of development continuous appearing the only viable alternative. The experience accumulated to date --and particularly the Mexican experience-- should teach important lessons as to the selection of the proper combination of fiscal, monetary, and exchange rate policies. It appears that some of the errors in the choice of economic policies committed in Chile in the early 1980s were recently repeated in Mexico. These same mistakes run the risk of being repeated in other countries of the region. If, as the neoliberal school contends, macroeconomic failure is the consequence of the wrong choice of economic policies, perhaps the time has come to question the policy of unrestricted opening of the economies that this school of thought so fervently proposes.

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