

Asymmetries in Economic Integration: Major Issues and Policy Options for the Free Trade Area of the Americas (FTAA)

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1. Introduction

Countries differ in the quantity and quality of their resources, as well as in the characteristics of their social and economic institutions. Under the standard assumptions of competitive markets, inter-country immobility of factors, and full inter-sectoral mobility of factors within countries, the international trade theory predicts that integration through trade occurs because of countries' diversity in resource endowment. Although the empirical evidence contradicted the theory showing instead the intensity of trade flows between high-income and capital-abundant countries, this discussion is beyond the scope of these notes. Their focus is on the distributive aspects of economic integration, in the particular case of free trade areas (FTA) with countries at different levels of development. There is a continuing debate in the economic literature on the capacity of free market forces to promote convergence in income levels between countries. The long-run benefits of trade and, more generally, of economic integration, are not in dispute. Few economists, however, trust market mechanisms to promote a fair distribution of the costs and benefits of economic integration and to reduce the asymmetrical distribution in world resources. Others go much beyond in questioning the fairness of market mechanisms. They assert that unregulated markets are responsible for the creation and recreation of asymmetries in the distribution of wealth and income between and within countries.

In the course of the progressive implementation of the multilateral trading system subsumed in the rights and obligations of the General Agreement on Tariffs and Trade (GATT) emerged the need for a differential treatment to rich and poor countries. The scope for affirmative pro-development actions was however, considerably reduced after the Uruguay Round of trade negotiations that led to the creation of the World Trade Organization. The Uruguay Round represented a turning point in the operation of the principle of special and differential treatment, with developing countries being divided into middle-income developing countries and LDCs (the least developed countries), while new multilateral obligations were introduced. In parallel, similar rules and obligations were included in bilateral free trade agreements negotiated between industrial and developing countries. The North-South type of preferential trade agreements with the United States and the European Union as the major hubs, require full liberalisation of industrial goods, services, capital, and government procurement, with additional protection of investors' rights.

Concerns with the distribution of the costs and benefits of those FTAs are especially strong in the context of the negotiations aiming at the creation of a hemispheric free trade area, the Free Trade Area of the Americas

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(FTAA). The Western Hemisphere comprises 35 countries of various economic and geographic sizes, at different stages of economic and institutional development. The United States prevented Cuba to participate in the negotiations, therefore reducing the participating countries to 34.

In these notes, I will survey some empirical and policy-oriented issues related to the treatment of asymmetries in economic integration. Albeit the concept of asymmetries has no analytical content, its focus on the unbalanced distribution of capabilities among countries is useful to the discussion of some dynamic aspects of economic integration. The next section describes the highly asymmetrical economic situation of countries in the Americas. The internal asymmetries of Latin American societies are highlighted since they compound the difficulties for greater fairness in the distribution of costs and benefits of integration among unequal countries. Section 3 provides a succinct overview of the conceptual treatment of asymmetries in the trade literature. Section 4 summarises the concrete treatment of asymmetries in the multilateral trading system, which evolved from the inclusion of special and differential treatment in the GATT to a *de facto* graduation of middle-income developing countries. Section 5 presents a few information on the proliferation of bilateral FTAs. Section 6 concludes with some final considerations.

2. Asymmetries in the Americas: a few questions

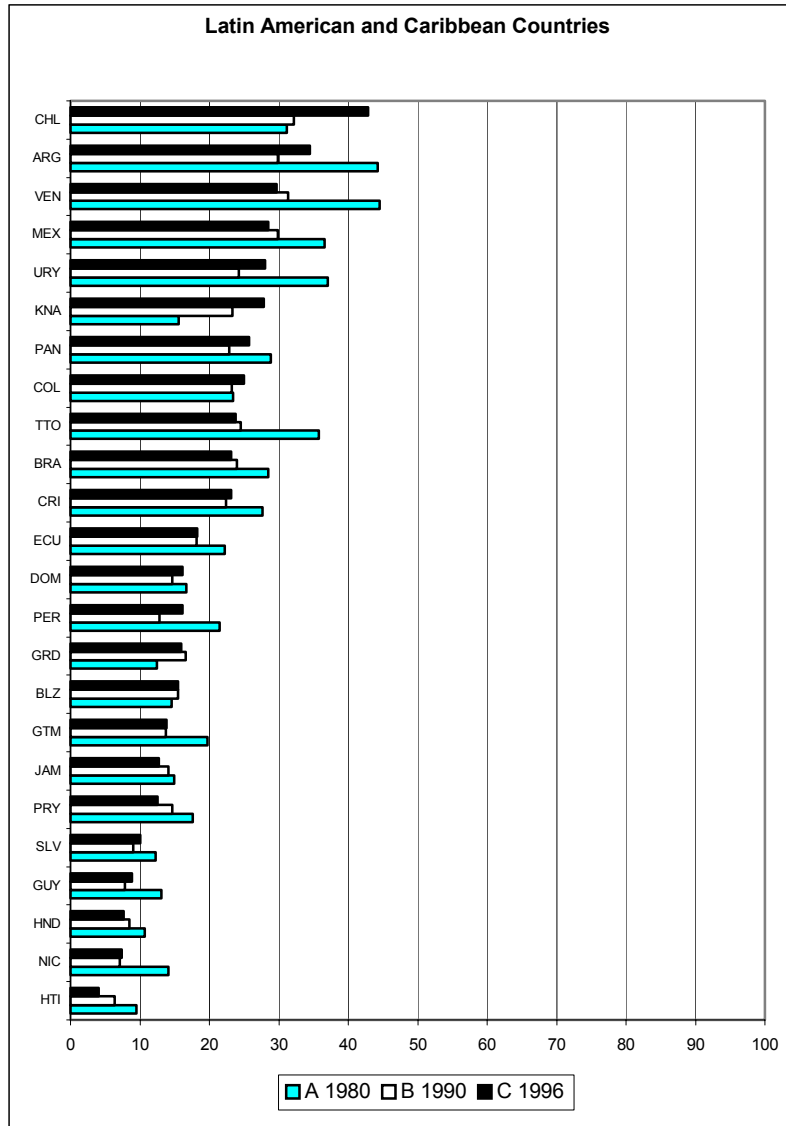
The notion of asymmetries conveys the idea of a high dispersion in the distribution of a given variable, be it information, income per capita, or any other measure of capability and individual assets. Latin America and the Caribbean constitute an aggregate of countries at different stages of economic and institutional development. According to the World Bank, in 2001, the mean GNP per capita level in the region, was 3,580 dollars, and the mean value in purchasing parity power (PPP) dollars was 6,900.² The deviation of individual values from these mean values is quite high. The highest value, in real dollars, (Barbados) was almost three times (2.7) the mean regional value, whereas the lowest (Haiti) was just 13 per cent of the mean value. In PPP dollars, the variance decreases but is still significant: Barbados' income per capita level is 2.2 times the average whereas Haiti's is 27 per cent of it. Moreover, in seven countries out of 30 countries with statistical information (Bolivia, Ecuador, Guatemala, Guyana, Haiti, Honduras, and Paraguay), GNP per capita fall below 50 per cent of the average value.³ In PPP terms, the income per capita of four countries (Bolivia, Ecuador, Haiti and Honduras) are equivalent to less than 50% the average regional value.

Regional income per capita levels are a small fraction of those of the two American developed countries, Canada and the United States. In PPP data, the regional mean value is barely 20% of that of the United States (see Appendix table 1).

² World Development Indicators 2003 (www.worldbank.org).

³ Although there was no 2001 data for Nicaragua, its income per capita is close to 1,000 dollars.

Figure 1
Latin American and the Caribbean
Growth of GNP per capita as compared to the United States GNP per capita
1980-1996



Source: World Bank 1999, *World Development Indicators on CD-ROM*. GNP per capita calculated on the basis of the Purchasing Power Parity in constant 1987 dollars.

Notes: CHI (Chile); ARG (Argentina); VEN (Venezuela); MEX (Mexico); URY (Uruguay); KNA (Kitts y Nevis); PAN (Panamá); COL (Colombia); TTO (Trinidad y Tabago); BRA (Brazil); CRI (Costa Rica); ECU (Ecuador); DOM (República Dominicana); PER (Perú); GRD (Grenada); BLZ (Belice); GTM (Guatemala); JAM (Jamaica); PRY (Paraguay); SLV (Santa Lucia y Vincent); GUY (Guyana); HND (Honduras); NIC (Nicaragua); HTI (Haiti).

Countries are ranked according to the proportion of GNP per capital of the United States in 1996 1996.

Moreover, as Figure 1 indicates, very few Latin American countries improved their situation over the past decades. Data in Figure 1 does not include the second half of the 1990s, when the United States economy increased at very high rates while Latin American countries were confronted with financial crises that ravaged their economies. In addition,

Although any set of countries displays idiosyncratic differences, high-income countries share similar levels of income per capita as well as equivalent social, political and economic institutions. Besides conspicuous cultural features, these countries differ mostly in terms of the size of their physical territory and of their population. The mean PPP GNP per capita of the fifteen countries of the European Union is 25,682 dollars. The PPP GNP per capita in the two countries with the lowest level (Greece and Portugal) is almost 70 per cent of the average. Setting apart Luxembourg, the highest level (Denmark) corresponds barely to 110 per cent of the mean value. Because of relative low rates of growth of Europe, the PPP GNP per capita of the United States was 30 per cent higher than the European mean value (see Appendix table 2).

The divergence in income per capita levels will become more pronounced with the enlargement of the European Union towards the Central and Eastern European (CEE) countries. Slovenia has a PPP GNP per capita similar to that of Portugal and Greece. In the Czech Republic, the PPP GNP per capita is equal to 56 per cent of the European mean value, very close to the level of income of Portugal and Spain when they entered the European Community in the 1980s. The levels of income per capital of the other eight countries are below 47 per cent of the European mean value, starting from just 22.5 per cent in the case of Romania. However, the European Community and the United States approaches to asymmetries in economic integration are not alike. The United States authorities repeat *ad nauseam* that trade and investment flows will promote convergence in income levels. In addition, it should be remarked that in Latin America and Caribbean there are fifteen countries with PPP GNP per capita inferior to the bottom of the ten CEE countries (see Appendix tables 1 and 2).

A point that is not always stressed in these inter-country comparisons is that high-income countries are also characterised by a better distribution of income, in relative terms, that determine homogenous consumption and production patterns across their territories.⁴

Latin American countries share, however, a common characteristic of having social systems that present pervasive social divisions, and the highest levels of inequality in the world. Deep internal asymmetries in terms of income, assets, educational opportunities, market access, among others, mean that the risks associated with economic integration will not be equally distributed in the society. As a recent World Bank report put forward, "Income and wealth - or 'economic power' - is closely linked to political power, influence, and voice" (De Ferranti, et al. 2003). A very asymmetrical distribution of income and economic opportunities implies that public resources will not be available to reduce the vulnerability of the most vulnerable groups.⁵

⁴ Raúl Prebisch (1949) classified the Centre and the Periphery as two sets with dual and opposite characteristics of their productive structures. The Periphery is heterogeneous and specialised whereas the Centre is homogeneous and diversified. The Periphery is heterogeneous because it is specialised. Technical knowledge is concentrated in export-oriented activities. The productive structure of industrial countries is diversified and technical knowledge is evenly distributed in the country. See also Ocampo (2001); Rodriguez (1980).

⁵ Cunningham and Maloney (2000, pp. 1-2) defined vulnerability as a function both of changes in economic status and the initial position in the income distribution. A higher variability in income of rich people does not make them more vulnerable than those with low caloric intake with lower variance. A family is classified as vulnerable according to some combination of both the probability of bad outcomes as well as some measure of 'badness' as given by a social welfare function.

All regions and individual countries are characterised by income inequalities as measured by the proportions of the internal income appropriated by the ten groups of income in the society. Latin American region has the unfortunate glory of showing the worst income distribution in the world. According to the World Bank report, in Latin America and the Caribbean, the poorest tenth earn only 1.6 per cent whereas the richest tenth of the people in the region earn 48 per cent of total income.⁶ In rich countries the top tenth receive 29.1 per cent of total income, more than ten times the 2.5 per cent grabbed by the bottom tenth. Inequality in Latin America has been greater than in the rest of the world since at least the World War II, with the possible exception of Sub-Saharan Africa.

Inequality pervades all social, economic and political spheres in Latin America. Reimers (2001) considered that educational opportunity had expanded during the 20th century in Latin America more than at any other time in the history of the region. It did not however expand enough to reduce significantly the unequal distribution of educational opportunity. In Mexico, the average person in the poorest fifth of the population has 3.5 years of schooling, as compared with 11.6 years for the average person in the richest fifth. Therefore, income inequality is also translated into unequal opportunities to individuals for building up their capabilities and moving up the social and economic ladder. Quoting the World Bank report:

Political power, or influence within a society, is also unequally distributed, and these 'inequalities of agency' are powerfully intertwined with economic inequality. ...differences in voice, influence, and power are both driven by economic differences and a key element in ensuring the resilience and adaptability of such differences (De Ferranti et al., 2003, p. 3).

There are no signs that the gap between the top and the bottom segments of the Latin American society has been narrowing over time. Székely and Hilgert (1999) concluded that there was no country in Latin America where they could say that income inequality had improved during the 1990s. There were five cases - El Salvador, Honduras, Nicaragua, Peru and Venezuela - where inequality had definitely increased sharply. Inequality preceded the adoption of extensive pro-market reforms but was reinforced by export-led growth strategies. Similarly, income inequality had also been reinforced by inward growth policies in the 1970s. In fact, (and it is one of the conclusions of the World Bank report), the inequality in Latin America does not seem to depend on particular types of economic policies although the latter do play an important role in shaping the specific pattern of a given income distribution.

It is important now to review what the economic literature suggests to the distribution of costs and benefits of economic integration.

3. Asymmetries, divergence and convergence in trade literature

There is a general agreement that trade policy is redistributive by nature. Trade liberalisation, in unilateral non-discriminatory or in preferential terms, will influence domestic production and consumption. Price changes will affect the incentives for enterprises to produce certain goods, to hire workers as well as to adopt specific

⁶ "Income inequality in the least unequal Latin American country (Uruguay) is higher than in the most unequal country in Eastern Europe and industrialised countries, and not too much different from the most unequal country in Asia." (De Ferranti et al., 2003. p. 56).

technologies. In other words, economic integration through trade generates adjustments in the economic structure of individual countries. Opening up the economy will promote a reallocation of domestic resources from less to more productive uses. Ultimately the outcomes of these changes will affect households in their dual role as wage earners and final consumers. Domestic production will face competition from imported goods that may drive prices down and eventually will benefit final consumers. In the process, less productive plants will discontinue production and workers will lose their jobs. The theory indicates that, at the end, gains in some sectors will offset losses in others.

The costs of adjustment are seldom clearly estimated when preferential or non-discriminatory trade liberalisation is advocated. In many cases, because it is difficult to estimate them. In others, because there are fears that losers will find a solid justification for opposing liberalisation. The most important adjustment lies in factor markets, and is translated in unemployment or underemployment. The severity and the duration of unemployment will depend on the speed and sequencing of trade reform that will have distinct effects across sectors and enterprise sizes. Inter-industry mobility will crucially rest on the skill structure of domestic workers and the flexibility of the labour market. Furthermore, it will depend mostly on the robustness and efficacy of domestic institutions and policies.⁷

The conventional view of dealing with asymmetries in economic integration, particularly in the most recent years, has been to look at ways and means of alleviating short-run adjustment costs in poor countries that will not distort international prices. Thereby the economies could enjoy the long-run benefits of trade liberalisation (Bacchetta and Jansen, 2003). However, the long-run benefits derived from trade liberalisation depend on the optimistic formulations of neo-classical trade and growth theory for income convergence within countries and income convergence between poor and rich regions.

Under the standard assumptions of trade theory, changes in prices of domestic goods that are traded internationally will affect the relative returns to national factors of production depending on their relative scarcity in the country and their role in the domestic production.⁸ The Stolper-Samuelson theorem is a basic analytical tool to assess the gains and losses from protection, or conversely from trade liberalisation. The theorem deals with the functional distribution of income in the economy before and after trade liberalisation. An increase in the price of labour-intensive goods will raise real wages and reduce real returns to capital. In a society endowed with labour and scarce in capital, protection benefits capital and harms labour. Therefore, liberalisation of trade benefits labour and harms capital. At the macro level, greater capital accumulation and faster growth should be observed in poor regions than in rich regions. The convergence between rich and poor regions should accelerate even further after the opening up of the country since capital will flow to capital-scarce countries to benefit from higher returns.⁹

⁷ Winter (2000) concluded that it is difficult to generalise about how deep and durable transition losses will be. He believes, however, that trade reform should not be delayed until the complementary policies are in place.

⁸ It should be kept in mind that international trade theory deals with the functional distribution of income and the relative share of the returns to factors of production in national income. The two concepts of distribution (functional and personal) are related by the ownership of the factors of production, especially land in a predominantly agrarian economy, capital in a modern economy. If ownership of land and capital were evenly distributed across a population, even significant changes in the functional distribution of income would have little impact on the size distribution of income (Cooper, 2001).

⁹ Burtless (1995) reviewed recent studies on the influence of international trade on the distribution of earnings.

There is little evidence to substantiate those propositions. Conversely, there is evidence that the gap in per capita income between the richest and the poorest countries increased significantly over the past two decades.¹⁰ Attention has been concentrated on the basic assumptions of the neo-classical model. As Winter (2000) argued, the Stolper-Samuelson theorem assumes *inter alia* perfect labour markets at the national level, homogeneous goods, and constant returns to scale. In the real world, economies operate with segmented labour markets, and differentiated goods are produced across foreign and domestic suppliers. Moreover, in the presence of economies of scale, the size of industries' responses to price shocks will tend to be larger than a constant returns to scale indicates.

In order to adequately interpret the dynamics of economic integration through trade it is necessary to move away from the competitive model of trade and the neo-classical growth theory. Endogenous growth theory and economic geography models looked at the dynamics of innovation, human capital and physical capital accumulation, raising further questions about a self-regulated market mechanism.

At the end of the 1980s and early 1990s, several economists became more interested by the role of external economies in the process of capital accumulation. Accordingly, the sources of endogenous growth were formally included in growth models, taking economics back to the classical tradition started by Adam Smith.¹¹ It is out of the scope of these brief notes to review this vast literature. Suffice is to say that the inclusion of technical knowledge in growth models provide ambiguous results from the integration of a country into world markets. On the one hand, an integrated country has a greater access to a larger technical knowledge base than when living in isolation. Trade helps the process of technological dissemination, and may result in greater research and development activities in the country. However, Grossman and Helpman (1991) showed that open trade will increase the profitability of research and development in a country or region only if domestic firms can *ex-ante* successfully compete with foreign firms. In addition, they argued that there are cases in which trade liberalisation might decrease a country's long-run growth rate. For instance, a country with a relative abundance of natural resources and unskilled labour (as all Latin American countries are), will be induced by trade to specialise in activities that make use of those resources, at the expense of human-capital intensive activities. In the end, industrial output would grow faster if these countries were forced to devote more of their resources to developing new technologies or producing innovative goods.

The formal models of the so-called "new" growth theory introduced mathematical rigour to intuitive affirmations in the development literature stressing that the normative results from economic integration depended on the quality of product that was traded. In other words, the welfare propositions to be derived from trade theory were not neutral to trade composition. Differently from the famous Ricardian example, wine production and textile production do not necessarily promote the same the effects in domestic employment and growth.¹²

Along the same lines, the "new" economic geography formalised by Paul Krugman (1991), in the tradition of classical development economists, such as Albert Hirschman, Gunnar Myrdal and Raul Prebisch, stressed externalities and economies of agglomeration to explain why economic activities are unevenly distributed across

¹⁰ Ghose (2001) showed that inter-country inequality has increased while international inequality declined due to a rapid growth of per capita income in a few populous low-income economies of the Asia-Pacific region.

¹¹ See Grossman and Helpman, (1994); Romer (1990); Scott (1991), and the Special Issue of the Journal of Economic Perspectives, 1991, vol. 8, number 1.

¹² Baldwin (1963) argued that the types of commodities that proved most profitable as export lines in the poor nations were ones that technologically tended to be highly using of unskilled labour or a particular natural resource (tobacco, tea, rubber, coffee and sugar).

space. The propensity of firms and workers to cluster together explain why regions with similar aggregated characteristics ultimately end up with different production structures (Ottaviano and Puga, 1998). It also explains why trade integration may lead to the spatial concentration of increasing returns to scale industries in the core, whereas the periphery specialise in constant returns to scale industries (Martin, 1998: 760). The propensity to agglomerate will depend on the relative power of dispersal vis-à-vis agglomeration forces, centrifugal vis-à-vis centripetal forces. International labour mobility, transport costs, and trade in intermediate inputs are some of the forces pushing towards agglomeration (Neary, 2001). Increasing returns and path-dependence in the economy will determine results not foreseen by conventional economic theory (Arthur, 1988).

When sources of endogenous growth, increasing returns and external economies are taken into account, the integration between highly asymmetrical countries can increase the disparities in countries' capabilities. Therefore, countries require not just compensatory programmes to alleviate short-run adjustment difficulties, but assistance to diversify their exports away from primary commodities towards knowledge intensive manufactures and services

Some of these arguments have to be adapted to the discussion of preferential trade liberalisation in the context of Free Trade Areas (FTA) (Bhagwati and Panagariya, 1996). FTAs are different from non-discriminatory free trade because tariff and non-tariff barriers are lowered only to members of the agreement. Consequently, countries end up with trade barriers that discriminate between members and non-members.¹³ FTAs have proliferated since the early 1980s, partly because they have been enthusiastically endorsed by United States trade policy, but also due to the creation of a myriad of FTAs signed mostly between the European Community with non-member countries.¹⁴

Traditional welfare static analysis of FTAs is summed up in Jacob Viner's concepts of trade creation and trade diversion. Preferential trade agreements are considered to be harmful to member countries when trade diversion prevails to trade creation. Bhagwati and Panagariya (1996: 7) suggest that even when trade creation effects are larger than trade diversion effects so that the FTA as a whole benefits, an individual member can lose due to adverse income distribution effects arising from tariff revenue distribution. The authors stressed the redistributive effects of discriminatory trade liberalisation. The degree of preferential access the country gives to the partner country as compared to the preferential access it receives from the latter will define the extent of the unfavourable redistributive effect on the member country. Therefore, when a country with a high degree of protection forms a FTA with a country with relatively open markets, as it happened in the NAFTA, with Mexico and the United States, Mexico may face a net welfare loss. The effects of asymmetries between countries become even more diffuse when regulatory measures are included in the negotiations between countries with institutional asymmetries, and greater convergence in institutions is required.

¹³ Dam (1970:274) commented on the inconsistencies of the United States drafting position, during the GATT negotiations. Negotiators were opposed to trade preferences but they were not willing to eliminate customs unions or free-trade areas. Dam replied: "What could be more of a preference than lowering a tariff to zero for certain countries while leaving it at its original level for other countries?"

¹⁴ The United States signed the first FTA with Israel in 1985 and it entered into force in August 19 of the same year. In January 1st, 1988, the Canada-United States Free Trade Agreement was operational. At the end of 1992, the North American Free Trade Agreement (NAFTA) was signed between Canada, Mexico, and the United States. After being ratified by the Parliament of each country, the NAFTA entered into force January 1st of 1994.

4. Asymmetries in the multilateral trading system

In the aftermath of the Second World War, the few developing countries that were among the founding fathers of the GATT confronted the same obligations towards the gradual and non-discriminatory lowering of tariffs and other barriers to trade.¹⁵ There was no recognition of asymmetries in resources and capabilities to comply with international rules. Latin American diplomats recalled that there was no awareness in the international community to development problems with international co-operation totally focused on war reconstruction.¹⁶ It was due to developing countries' diplomatic efforts, that the GATT changed from being "a passive caretaker of a multilateral trade instrument to an international body affirmatively, ..., attempting to promote the exports of less-developed countries" (Dam, 1970:225).¹⁷ Going beyond the request for special treatment, however, developing countries urged industrial countries to reduce their own barriers in agricultural and labour-intensive sectors, therefore reducing the asymmetries in rights and obligations. Indeed, while trade liberalisation proceeded gradually in areas of interest to industrial countries, in parallel, they removed from GATT obligations, agricultural products and labour-intensive manufactured products.

The accommodating nature of the GATT, with its passive legislative approach to trade problems, permitted the occasional use of quantitative and other restrictions by developing countries in order to protect their industries and to solve balance-of-payments problems (Article XVIII). At the same time, industrial countries kept high tariffs in a wide range of products exported by developing countries. In addition, in the European Community and the United States discriminatory tariff rates on the basis of the degree of processing and on the basis of origin were unrestrained. Latin American countries were in disadvantage vis-à-vis other countries that received preferential treatment in the markets of the European Community, and their exports were discriminated in these markets.

The inclusion of Part IV (Trade and Development) in the GATT at the May 1963 ministerial meeting provided the legal framework for the work of the Trade and Development Committee. It contained a statement in paragraph 8 about non-reciprocity from developing countries in the reduction of barriers to exports that summarises the "special and differential treatment" granted to them.¹⁸ However, at a closer inspection, the language in the Part IV made the dispositions that set the substantive commitments of the industrial countries carefully qualified and non-mandatory.¹⁹ The non-binding character of these provisions has been a constant complaint of developing countries

¹⁵ Only Brazil, Chile, and Cuba were among the 23 countries that signed the GATT in 1947. Peru and Uruguay joined the GATT a few years later (together with Dominican Republic, Haiti, and Nicaragua), whereas Argentina waited almost two decades to join, acceding to the GATT in 1967, at the end of the Kennedy Round (together with Barbados, Guyana, Jamaica, and Trinidad and Tobago). Colombia became a Contracting Party in 1981 but Mexico and Venezuela were not sufficiently convinced until the launching of the Uruguay Round in the middle of the 1980s. Between 1985 and 1994 several Latin American and Caribbean countries acceded to the GATT: Antigua and Barbuda, Bolivia, Costa Rica, Dominica, El Salvador, Grenada, Guatemala, Honduras, Paraguay, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines.

¹⁶ See Santa Cruz (19xx) for a dramatic chronicle of the birth of the Economic Commission for Latin America and the Caribbean (ECLAC) in the United Nations. See also Ventura-Dias (1998).

¹⁷ Dam (1970:225-226) mentions that in the drafting negotiations of the Havana Charter, developing countries required affirmative commitments by all member countries to further the economic development process. They also succeeded in having specific exceptions to many of the prohibitions of the Charter that would allow them to formulate and implement an independent trade policy. The United States position then as now, was that developing countries could best develop by participating fully in multilateral non-discriminatory system with the lowest possible levels of tariffs and no quantitative restrictions.

¹⁸ "The developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of the less-developed contracting parties."

¹⁹ See Dam (1970), pp. 236-242.

over the past forty years of existence of the Part IV.²⁰ These complaints were formally included in the current Doha negotiations at the World Trade Organization (WTO) as part of the Doha Development Programme.

The first United Nations Conference on Trade and Development (UNCTAD I) held in Geneva in 1964, advocated the creation of special rules for the trade of developing countries. In special, industrial countries should grant preferential access for imports from developing countries. It was legitimised in 1971 in the GATT through a waiver that authorised each industrial country to establish its own general system of preferences (GSP). Hence, a great deal of individual discretion was left to each industrial country to formulate and implement its GSP programme. There was no detailed requirements as to what should be the shape and framework of GSP (Jackson, 1989: 278-279). A comprehensive approach to special and differential treatment reached the highest degree a little later, during the Tokyo Round. A package of four agreements was incorporated into the GATT. On the one hand, preferential treatment was built into the legal structure of the GATT. On the other hand, it did not create an obligation to industrial countries to extend preferences to developing countries. Moreover, the price of the comprehensive approach was a graduation clause, by means of which industrial countries could unilaterally withdraw preferences from "graduated" developing countries.²¹ In any case, the results of the Tokyo Round were not implemented since barely three years after the negotiations had ended the United States started to push for new negotiations that eventually led to the Uruguay Round.

A defining characteristic of the multilateral trading system since the Tokyo Round has been the increasing "legalisation" of trade policy and the move from trade liberalisation to trade policy regulation. This gradual legalisation of the multilateral trading system was the response of the system of rules to the increase in the number of participants at various stages of economic and institutional development. It was also the reaction of interstate co-operation to changes in the nature of world trade, in which flows of services, technology, capital and, knowledge surpassed merchandise trade, and trade between related partners through multinational corporations became widespread. The WTO is an organisation of almost universal membership, in which the number of rich countries has not changed but that of non-rich countries tripled accounting nowadays for almost 90 per cent of its membership.

The long-lasting Uruguay Round vastly increased the scope of the original GATT system. New negotiating topics such as trade in services and trade-related investment measures have significant regulatory components. With the implementation of the Agreement on trade-related aspects of intellectual property rights (TRIPS), intellectual property rights were included among the obligations of trade policy of WTO member states. New agreements on technical barriers to trade and on sanitary and phytosanitary measures also expanded the obligations in the WTO regarding regulatory standards thereby extending the policy convergence requirements. The WTO was also equipped with a more effective dispute settlement mechanism, with a system of notifications on changes in domestic policies, and a trade policy review mechanism that increased the transparency of domestic trade policy in member countries, therefore reducing the costs of monitoring the compliance of international obligations.

It was evident that a skewed world distribution of power and wealth had been translated into an asymmetric recognition of and respect for domestic interests in individual countries. Industrial countries benefited from very long

²⁰ As Jackson (1989:275) commented: "Indeed, the GATT system 'legal rules' concerning developing countries are remarkably vague and 'aspirational' in approach."

periods for the adjustment of their agriculture and traditional industries to new competitive conditions in their domestic markets. Furthermore, the beneficial conditions went beyond long periods for complying with industrial country commitments. The nature of these commitments was carefully defined. Concepts were defined and obligations were drafted in very advantageous terms in agreements covering multilateral disciplines on trade in agricultural, textile and apparel goods. Textiles and apparel will not be fully integrated into WTO disciplines until the very last minute of the last day of 2004. The liberalisation of agriculture is still a major topic of the Doha round that started in 2001. Negotiations have been virtually stalled since the failed 1999 Seattle Ministerial Conference, and little surprise was expected in the 2003 Cancun Conference. Likewise, new rules were drafted in areas in which OECD countries held a considerable competitive advantage, such as trade in services, knowledge asset creation, and multinational corporation operations. New disciplines and additional protection to intellectual property rights helped to restrain competition from newcomers in high-value markets.

On their side, middle-income developing countries were forced to accept a *de facto* graduation concerning their development needs.²² After the Uruguay Round, only the least-developed among them (LDCs) would qualify for preferential treatment.²³ In other words, the Uruguay Round reduced the reach for affirmative action in market access and international co-operation. The special and differential treatment was reduced in breadth to cover just longer periods to implement the agreements. As part of the Uruguay Round negotiations, the principle of non-discrimination and reciprocity in trade concessions was extended to all WTO members, regardless of their level of economic and institutional development. Likewise, Latin American countries, as middle-income developing countries, assumed binding obligations to eliminate several policy instruments including production subsidies, national content requirements, and other export promoting tools.

5. Asymmetries in bilateral and plurilateral trade agreements

The rapid proliferation of preferential trade agreements in the 1980s and 1990s was triggered by the evolution of regional integration in the European Community, as well as by the lack of progress of the negotiations in the GATT with great feeding-back effects (Baldwin, 1997). During the Uruguay Round, and more recently, after the failed Cancun WTO Ministerial Conference, United States threatened to pursue its trade agenda through bilateral and plurilateral trade agreements with "like-minded" partners.²⁴ Until the end of the 1990s, just three countries had signed FTAs with the United States (Canada, Israel, and Mexico). Since 2000, the current United States Administration has signed another eight FTAs: with Chile, a Central American Free Trade Agreement (CAFTA) with five Central American countries - Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua)²⁵, with Jordan

²¹ See Winham (1986) for a detailed account of the Tolyo Round negotiations.

²² In the GATT as in WTO there is no precise definition of what makes a country a developing country. It is a voluntary self-assessment.

²³ In Latin America and the Caribbean, only Haiti, and sometimes Bolivia and Nicaragua, measured by income per capita, falls in the category of LDC.

²⁴ This is not really new. Baldwin (1997:869) remarked that the Trade Agreement Act of 1979, section 1104, required the President to study 'the desirability of entering into trade agreements with countries in the northern portion of the western hemisphere', as the Tokyo Round was reaching its final stages.

²⁵ CAFTA negotiations began in January 2003, and took place in nine rounds of negotiations. Agreement with El Salvador, Guatemala, Honduras and Nicaragua was reached on December 17, 2003. Costa Rica required more time in order to undertake further consultations at home. The final agreement with Costa Rica was reached on January 25, 2004.

and Singapore). The United States Trade Representative will be negotiating another 14 FTAs in 2004.²⁶ While the negotiations aiming at the establishment of the FTAA are stalled, United States has operational FTAs with Mexico and Chile; has completed the negotiations for a FTA with the five Central American countries; and will be negotiating FTAs with Dominican Republic, Panama, Bolivia, Colombia, Ecuador and Peru. Therefore, the only countries that will not be giving preferential access to the United States will be Mercosur (Southern Cone Market) countries (Argentina, Brazil, Paraguay, Uruguay), Venezuela, and the countries of the Caribbean Community (CARICOM). The CARICOM are vehemently opposed to FTAs that do not take into account the small size and the vulnerability of their economies.

It is remarkable the gap in income per capital levels that separates the United States and their FTA partners, with the exception of Australia and Singapore. However, the agreements do not recognise differences in development levels between FTA signatories. In the announcement of the conclusion of the negotiations, the Office of the United States Trade Representative candidly acknowledged that the "CAFTA countries and many other developing countries already enjoy duty free access to the U.S. market for the majority of their exports through trade preference programs ... Yet these countries often have high tariff and non-tariff barriers for U.S exports and impose restrictions on U.S. businesses. State-of-the-art free trade agreements like the CAFTA not only reduce barriers on U.S. trade, but also require important reforms of the domestic legal and business environment ..."²⁷ In general, Chile, and the Central American countries consolidated the preferential access that they already had in the United States market for their goods. In exchange, they contracted new obligations in international property rights, government procurement, investment and market access in several services.

On the other side, in the 1990s, the European Community signed trade agreements with Central and Eastern European (CEE) countries, as part of the process of full integration of CEE countries into the European Community. Comprehensive trade and political agreements are operational with Chile and Mexico, while negotiations an interregional agreement with the Southern Cone Market (Mercosur) have gradually progressed, in spite of great differences regarding the liberalisation of agricultural markets and the elimination of domestic subsidies. Between 1995 and 2002 new trade agreements were also signed with North African countries (Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia).²⁸

In both cases, in part to fulfil their obligations vis-à-vis WTO, the United States and the European Community replaced preferential non-reciprocal relations by new trade agreements that require full reciprocity from their partners. In general, when countries gained greater periods for the elimination of tariffs, and an extended list of exceptions, they are not evidencing that development and institutional asymmetries were acknowledged in the negotiations. In effect, any advantage results from the negotiating skills of developing countries diplomats who were backed up by significant domestic support. The particular case of Costa Rica en the CAFTA and of Brazil in the

²⁶ The United States is negotiating with eight countries: Australia, Dominican Republic, Morocco and five southern African countries (Botswana, Lesotho, Namibia, South Africa and Swaziland. The United States has also announced its intention to begin negotiations with Bolivia, Colombia, Ecuador, Panama, and Peru, in South America, as well as with Bahrain and Thailand.

²⁷ "U.S. & Central American Countries Conclude Historic Free Trade Agreement", December 17, 2003. USTR Press Release (<http://www.ustr.gov>).

²⁸ See Regnault (2003a) for more details on Euro-Mediterranean relations.

FTAA showed that national states still have some manoeuvring space to bargain, when moving ahead a negotiating agenda that has domestic support.²⁹

The European Community will transfer resources in favour of Mediterranean countries. Clearly, the financial contribution will be modest when compared with the structural funds that helped Greece, Ireland, Portugal and Spain during the process of integration and also to the funds that have been available to CEE countries, (Regnault, 2003b). Nevertheless, there is an explicit recognition that asymmetries between trade partners will not go away just by trade and investment liberalisation measures. Technical assistance is also provided in trade agreements with Chile, Mexico and the Mercosur.

In the context of FTAA negotiations, a Hemispheric Co-operation Programme was included in the Quito Ministerial Declaration of November 2002, as a central element of support for the FTAA, although no details were provided on specific financial sources.³⁰ Nevertheless, as Kari Levitt stated so persuasively, the disproportional differences in income and wealth between countries of the region and the United States would result in funds totally dependent from the United States. Hence, even imagining that a compensatory or structural funding would be available at some point, the same power relations would be reproduced, with the dominating country dictating the terms through which the funds could be made available.

6. Final considerations

In these notes, I attempted to show that the asymmetries that exist in the Western Hemisphere will not be eliminated by market mechanisms. Asymmetries between countries are further compounded by the segmentation of Latin American societies. Latin American countries share the awful glory of having the worst income and wealth distribution in the world, with the exception of Sub-Saharan Africa. Unequal income and wealth distribution means unequal distribution of political power, and difficulties in having a voice in the political system. Public resources will not be available to protect the most vulnerable social groups in a given country from the adverse, even if temporary, consequences of trade and investment liberalisation. Income differentials between the region and the two industrial countries, Canada and the United States, are disproportionate.

Trade asymmetries that exist between the region and the United States should also be stressed. For instance, in 2002 Mexico was the second trade partner of the United States and accounted for 11.6 per cent of the United States imports whereas the United States accounted for roughly 90 per cent of Mexican exports. By contrast, the rest of Latin America (excluding Mexico) exported less than 70 billion dollars to the United States. That amount was inferior to six per cent to total United States imports. The share of the United States in total exports of Latin

²⁹ Costa Rica gained more time to open its insurance market, in order to develop a regulatory framework, than it originally offered when it suspended talks with the United States in December. Costa Rica also appeared to gain more favourable treatment in agriculture than the other four Central American countries as a result of not signing on to the December deal. Likewise, Costa Rica will delay opening the state telecom monopoly (in three sectors - private network services, Internet services and wireless services) until a regulatory framework is created in the country by 2006. Wireless services will then be liberalised the following year ("U.S., Costa Rica settle insurance, textile issues in FTA talks", *Inside U.S. Trade*, January 30, 2004, p. 15).

³⁰ "Sources of support, financial and non-financial, for the DCP could include, among other, the following: Countries participating in the FTAA and their cooperation agencies; academic institutions; private sector entities; foundations and other organizations, and regional and multilateral financial and development institutions." (Annex III, Hemispheric Cooperation Program (HCP), Ministerial Declaration, 1, November 2002 (<http://www.ftaa-alca.org>)).

American countries varied from less than 25 per cent in the case of Mercosur countries to more than 65 per cent in the case of Central American countries. The same can be said of investment and capital flows

Non-discriminatory or preferential trade liberalisation is not a solution to Latin American and Caribbean development needs. It can also be part of the problem.. Latin American countries require policies, financing and institutions to help them diversifying their exports from slowly growing primary products into knowledge-intensive products. Hence, it is not just short-run adjustment costs that should be addressed in preferential trade liberalisation, but physical and human infra-structural prerequisites for building up the transition from a specialisation based on static comparative advantage to one based in skill-intensive and innovation-intensive production.

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Table 1
GDP per capita (real dollars and purchasing power parity)
Western Hemisphere

Country	GNP per capita (real dollars)	PPP GNP per capita
United States	34,280	34,280
Canada	21,930	26,530
Barbados	9,750	15,110
Antigua and Barbuda	9,150	9,550
Argentina	6,940	10,980
St. Kitts and Nevis	6,630	10,190
Trinidad and Tobago	5,960	8,620
Uruguay	5,710	8,250
Mexico	5,530	8,240
Venezuela	4,760	5,590
Chile	4,590	8,840
Costa Rica	4,060	9,260
St. Lucia	3,950	4,960
Grenada	3,610	6,290
Panama	3,260	5,440
Dominica	3,200	4,920
Brazil	3,070	7,070
Belize	2,940	5,150
Jamaica	2,800	3,490
St. Vincent and the Grenadines	2,740	4,980
Dominican Republic	2,230	6,650
El Salvador	2,040	5,160
Peru	1,980	4,470
Colombia	1,890	6,790
Suriname	1,810	
Guatemala	1,680	4,380
Paraguay	1,350	5,180
Ecuador	1,080	2,960
Bolivia	950	2,240
Honduras	900	2,760
Guyana	840	4,280
Haiti	480	1,870

Table 2
GDP per capita (real dollars and purchasing power parity)
High-income countries and Central and Eastern European countries

Country	GNP per capita (real dollars)	PPP GNP per capita
Luxembourg	39,840	48,560
Denmark	30,600	28,490
Netherlands	24,330	27,390
Ireland	22,850	27,150
Austria	23,940	26,380
Belgium	23,850	26,150
Germany	23,560	25,240
Italy	19,390	24,530
United Kingdom	25,120	24,340
France	22,730	24,080
Finland	23,780	24,030
Sweden	25,400	23,800
Spain	14,300	19,860
Portugal	10,900	17,710
Greece	11,430	17,520
United States	34,280	34,280
Switzerland	38,330	30,970
Norway	35,630	29,340
Canada	21,930	26,530
Japan	35,610	25,550
Australia	19,900	24,630
New Zealand	13,350	18,250
Slovenia	9,760	17,060
Czech Republic	5,310	14,320
Hungary	4,830	11,990
Slovak Republic	3,760	11,780
Estonia	3,879	9,650
Poland	4,230	9,370
Lithuania	3,350	8,350
Latvia	3,230	7,760
Bulgaria	1,650	6,740
Romania	1,720	5,780

Source: (tables 1 and 2) World Bank, *2003 World Development Indicators* (www.worldbank.org). The values correspond to the year 2001.