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Expanding the North American Free Trade Agreement

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This paper looks at the feasibility of enlarging the recent negotiated North American Free Trade Agreement (NAFTA) to cover other Central and Latin American countries, assuming it is finally ratified and implemented. The paper makes three arguments. The first is that the incentives on all sides to participate in an expanded NAFTA are surprisingly small, and almost certainly weaker than in the Mexican case. U.S. trade with all other Latin and Central American countries is smaller than U.S. trade with Mexico. These countries, in turn, have considerably smaller trade shares with the U.S. than Mexico (around 70 percent for Mexico, and at the other extreme a little over 10 percent of exports for Argentina and Uruguay).

The second is that if NAFTA itself is any guide, it will become progressively more difficult to expand country coverage as more countries become involved in the arrangement. Modifying existing agreements to accommodate new entrants will become increasingly difficult, if not virtually impossible. Rules of origin will be an especially difficult matter, with each successive entry into an existing network of complicated agreements exponentially compounding difficulties of administration.

The third argument is that the sequential entry of each country into NAFTA will tend to dilute the benefits which have been obtained by previous entrants.

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Executive Summary

This paper looks at the feasibility and implications of enlarging the North American Free Trade Agreement (NAFTA) to cover more countries, assuming it is finally ratified and implemented.[1] What are the difficulties and pitfalls; what are the potential benefits for other Latin and Central American countries; what could be the impacts on regional trade and investment flows?

In essence, the paper makes three arguments. The first is that the incentives on all sides to participate in an expanded NAFTA are surprisingly small, and almost certainly weaker than those for Mexico to participate in NAFTA. U.S. trade with all other Latin and Central American countries is smaller than U.S. trade with Mexico. These countries, in turn, have considerably smaller trade shares with the U.S. than Mexico (around 70 percent for Mexico, and at the other extreme a little over 10 percent of exports for Argentina and Uruguay). Also, outside of Brazil, exports to the U.S. from these countries are concentrated by product and are either largely free of barriers (bananas, fish, coffee, metallic ores), or products which are barrier-constrained with probably little likelihood of significant change in a negotiation (textiles and apparel).

The second is that if NAFTA itself is any guide, it will become progressively more difficult to expand country coverage as more countries become involved in the arrangement. Modifying existing agreements to accommodate new entrants will become increasingly difficult, if not virtually impossible. Rules of origin will be an especially difficult matter, with each successive entry into an existing network of complicated agreements exponentially

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[1] As such, it excludes possible U.S. bilateral agreements with Korea, Taiwan, The Philippines, Malaysia, ASEAN, and others which have been raised by some as possibilities.

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compounding difficulties of administration. In the case of NAFTA whether, and if so how, to modify existing prior bilateral agreements between Canada and the United States became central negotiating issues in autos, investment, textiles, and other areas. Some of the Latin American countries participate in pre-existing agreements such as Mercosur which involve stronger commitments than NAFTA because they go beyond conventional free trade agreements. Also, some have trade rules which are different from those in NAFTA (such as ALADI rules of origin) making country expansion of NAFTA that much more difficult. From both a negotiating and technical trade policy point of view, sequential expansion of NAFTA will likely prove progressively more difficult and will probably terminate at some point. Freezing NAFTA and inviting accession to the existing agreement, therefore, seems the simplest way to proceed.

The third argument concerns the size of the benefits Latin and other Central American countries may derive from an expansion of NAFTA. Under a series of trade agreements in which a large market is successively opened to a series of smaller countries, the initial benefits of the liberalization effort tend to go to the first smaller country who manages to penetrate the larger market. With successive country enlargement of the agreement, each new entrant takes away market share from previous entrants to the larger market. The sequential entry of each country into NAFTA will thus tend to dilute the benefits which have been obtained by previous entrants. While some of the key exports of the Latin American economies to North America tend to be country-specific (frozen orange juice for Brazil, tin for Bolivia), this effect is likely to dominate the effects on the Latin American countries now lining up to negotiate bilateral free trade arrangements with the United States. This point is also strongly emphasized in Wonnacott (1990) in his analysis of hub-and-spoke bilaterals. Moreover, because of the small size of the home country markets involved, the smaller developing countries in the region are likely to have limited leverage to exercise in such negotiations.

C

I. INTRODUCTION

Even before a North American Free Trade Agreement (NAFTA) had been concluded, extending the agreement to also cover other Central and Latin American countries through some form of hemispheric trade arrangement had become a topic of active discussion.[2] This paper looks at both the feasibility and implications of enlarging NAFTA in this way, assuming it is finally ratified and implemented.[3] What are the difficulties and pitfalls; what are the potential benefits for other Latin and Central American countries; what could be the impacts on regional trade and investment flows?

How such an enlargement might be achieved, for now, remains unclear. One method would be through a series of sequential bilateral agreements (with U.S. (and presumably Canadian) agreements with Chile, then Costa Rica, then Argentina, then Venezuela, then Brazil, ...) which would be subsequently minilateralized along with NAFTA into a hemispheric agreement. Another would be through a sequence of country expansions of NAFTA to include more and more partners, just as the U.S.-Canada agreement has effectively been enlarged with the inclusion of Mexico to yield NAFTA. Yet another would be through a new minilateral round of trade negotiations to establish a Western Hemisphere Free Trade Agreement (WHFTA) in place of sequential bilaterals. Some other alternative although it does suggest that the simplest route may be to invite other Latin and Central American countries to sign on to the NAFTA agreement as it stands, accepting its disciplines on domestic policies (e.g., a phase-out of tariffs against NAFTA partners) as well as its access benefits. The assumption is that Chile would have little difficulty acceding in this way, with other countries having progressively more difficulty.

In essence, the paper advances four arguments. The first is that the incentives on all sides to participate in an expanded NAFTA are surprisingly small, and almost certainly weaker than in the Mexican case. U.S. trade with all other Latin and Central American countries is smaller than U.S. trade with Mexico. These countries, in turn, have considerably smaller trade shares with the U.S. than Mexico (around 70 percent for Mexico, and at the other extreme a little over 10 percent of exports for Argentina and Uruguay). Also, outside of Brazil, exports to the U.S. from these countries are concentrated in products that are either largely free of barriers (bananas, fish, coffee, metallic ores), or in products which are barrier-constrained with limited probability of significant change through regional negotiations (textiles and apparel).

The second is that if NAFTA itself is any guide, it will also become progressively more difficult to expand country coverage as more countries become involved in the arrangement. Modifying existing agreements to accommodate new entrants will become increasingly problematic, the more countries are already covered. Rules of origin will be an especially difficult matter, with each successive entry into an existing network of complicated agreements exponentially compounding problems of administration. In the case of NAFTA whether, and if so how, to modify existing prior bilateral agreements between Canada and the United States became central negotiating issues in autos, investment, textiles, and other areas. Some of the Latin American countries also participate in pre-existing agreements such as Mercosur, which involve stronger commitments than NAFTA because they go beyond conventional free trade agreements. Also, some have trade rules which are different from those in NAFTA (such as ALADI rules of origin) making country expansion of NAFTA that much more difficult. From both a negotiating and technical trade policy point of view, sequential expansion of NAFTA will likely prove progressively more difficult and could even terminate at some point. Freezing the present NAFTA structure and inviting accession to the existing agreement, therefore, seems the simplest way to proceed.

The third argument concerns the size of the benefits Latin and other Central American countries may derive from an expansion of NAFTA. Under a series of trade agreements in which a large market is successively opened to a series of smaller countries, the initial benefits of the liberalization effort tend to go to the first smaller country that manages to penetrate the larger market. With successive country enlargement of the agreement, each new entrant takes away market share from previous entrants to the larger market. The sequential entry of each country into NAFTA will thus tend to dilute the benefits which have been obtained by previous entrants. While some of the key exports of the Latin American economies to North America tend to be country-specific (frozen orange juice for Brazil, tin for Bolivia), this effect is likely to dominate the effects on the Latin American countries now lining up to negotiate bilateral free trade arrangements with the United States. This point is also strongly emphasized in Wonnacott (1990) in his analysis of hub-and-spoke bilaterals. Moreover, because of the small size of the home country markets involved, the smaller developing countries in the region are likely to have limited leverage to exercise in such negotiations.

Finally, NAFTA does not really present countries contemplating participation in an ever enlarging hemispheric arrangement only improved access to the larger North American market. Part of the package involves accepting exclusionary trade and other arrangements designed to help reserve the smaller market for groups of producers in the larger country. This has clearly happened in NAFTA in autos, and to a lesser degree in apparel.[4] Thus along with country enlargement of NAFTA it is possible that in such areas as textiles and apparel, autos, computers, steel, and agriculture, we could see the emergence of a system of hemispheric trade rules which restrict trade and investment in a variety of ways as far as third (non-agreement) countries are concerned. While the Latin American countries may benefit from the access-improving components of NAFTA, they could be losers from these other elements.

There are, therefore, a number of reasons to question how significant the benefits to Latin American countries from an expanded NAFTA are likely to be, despite the intuition that smaller countries obtaining access to larger markets gain proportionately more than larger countries with access to smaller markets. The trade volumes and shares are smaller than many seem to suppose; sequential entry will dilute the benefits; and NAFTA, while it has major trade-liberalizing elements, also has significant non-partner elements which acceding countries would have to accept.

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[4]Also, under NAFTA the Mexican tariff on sugar will rise to equal the U.S. tariff; and all three countries will have rights to apply differential investment screening procedures against countries outside compared to inside the agreement.

If the benefits from improvements in access are as qualified as I suggest, the concluding section of the paper suggests that the major benefits of accession may be the added disciplines over domestic policy reforms (which the Mexicans sought), and a higher degree of security of existing access to the larger market; i.e., the insurance against future trade barrier increases embodied in the safe-haven agreements which Canada and Mexico now both have successfully concluded with the United States. As such, these domestic discipline and insurance benefits are less subject than the more traditional benefits from improved access, to the erosion from the sequential entry stressed above, and are less directly affected by the inclusion of third countries in such agreements. The issue for the Latin American countries in contemplating an expanded NAFTA may thus be whether the price they pay, as represented by potential exclusionary elements in these arrangements, is worthwhile in order to obtain whatever degree of lock-in for domestic policy reform they seek and the insurance benefits for external access that a safe-haven agreement may yield.

II. THE CONTENT OF THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)[5]

Achieving a three country North American Free Trade Agreement had been the objective of U.S., Canadian and Mexican trilateral trade negotiators from spring 1991 on when the Congress granted the Executive Branch negotiating authority for bilateral U.S. trade negotiations with Mexico.[6] Mexico was the main demander for these negotiations, which were rapidly trilateralized to also include Canada. Negotiations were concluded August 11, 1992 and the outcome now faces congressional ratification.

Table 1 sets out some of the main provisions of the draft Agreement in point form. Its heart is a 10-year trilateral tariff elimination commitment with accompanying rules of origin, including special rules in the key sensitive sectors of autos/parts and textiles/apparel.

A series of sectoral and instrument arrangements also appear in the agreement. In energy, differential domestic and foreign (export) prices are disallowed. In agriculture, the key Mexican commitment to phase out import restrictions for corn appears, but there are no significant changes in U.S. and Canadian seasonal restrictions in tomatoes, lettuce and other horticulture products. Procurement, land transportation, and financial services all see

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[5]Also see the recent volume by Hufbauer and Schott (1992), and the papers on NAFTA in a symposium issue in January 1991 of the journal, *The World Economy*. These are by Bueno (1991), Hart (1991), Weintraub (1991), Vega (1991), and Wonnacott (1991a,b).

[6]An existing 1987 U.S.-Mexico framework understanding and other subsequent accords had already approximately doubled some (but not all) Mexican textile quotas and achieved a degree of bilateral liberalization in steel. See the discussion of these in Trela and Whalley (1991).

relatively modest change from the present regulatory environment. No special arrangements appear in the agreement for steel.

The NAFTA provisions covering services, investment, and temporary entry of business persons are much as in the earlier Canada-U.S. agreement; a statement of principles for service trade restrictions with greatly restricted scope due to a grandfathering of existing measures and sectoral exceptions from the principles, thresholds below which investment screening will not apply, and expedited entry procedures for short-term business visitors. Unlike the Canada-U.S. agreement, intellectual property provisions appear, but these largely restate what is already in portions of the Dunkel and Uruguay Round decisions (the text). Dispute settlement (whether for anti-dumping/countervail or for the Agreement as a whole) is also much as it was in the Canada-U.S. Agreement with provisions covering disputes about the agreement itself and panel procedures covering anti-dumping and countervailing duty issues. The new area of trade and environment linkages is addressed in the agreement, and seemingly has more substance on this score than other trade agreements. One substantive provision listed in Table 1, involves a commitment not to lower environmental standards to attract inward investment but is of uncertain meaning and seemingly difficult to enforce since any action would have to demonstrate intent. An important innovation in the negotiations was that a two-track procedure was used in the negotiations, separating out wider social issues such as environment and workers' rights from more traditional trade issues.[7]

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[7]In order to gain Congressional approval for fast-track negotiating authority for the talks with Mexico, President Bush submitted an 'action plan' to Congress in May 1991. According to this plan, the Administration stated the Labor Department would sign an agreement with Mexico providing for co-operation on working conditions and child labour. Environmental issues would be negotiated on a parallel track and would deal with air and water pollution, hazardous wastes and spills, pesticides and enforcement. An environmental assessment of the agreement would also be completed. See *Congressional Quarterly* (1991b), p.1121.

Table 1

Main Provisions of the NAFTA Agreement[8]

1. *Tariff Elimination:*
Phase-out of tariffs against partner products with 3 main categories (immediate, 5-year phase, 10-year phase). Special sensitive tariff category with 15-year phase-out.

2. *Textiles and Apparel:*
10-year phase-out of tariffs against partner products, and removal of MFA quotas against Mexico provided special rules of origin provisions are met ("yard forward" rules specify all processing from yard onward must be in one of the three countries). Special tariff quotas apply for non-qualifying trade, as do phase-out commitments for quotas on non-qualifying trade, and special safeguard rules for importers.

3. *Autos and Parts:*
Mexico to cut tariffs on autos by 50 percent over 10 years, and eliminate other tariffs (parts, trucks) in 10 years. Special rules of origin apply in this sector, requiring eventually 62.5 percent North American content, to be calculated by tracing import content from outside NAFTA through the production chain.

4. *Energy:*
No differential domestic and export (or import) pricing of energy and petrochemical products.

5. *Agriculture:*
10-year phased elimination of tariffs and quotas, except in dairy, poultry, eggs, and sugar. Fifteen-year phase for sensitive products (corn, dry beans in Mexico; orange juice, sugar in U.S.). U.S. sugar will continue to be protected by global quotas; increases in imports from Mexico will be at the expense of non-NAFTA suppliers (Philippines, Brazil, Caribbean).

6. *Anti-dumping/Countervail:*
Disputes over the use of these instruments in either country are to be resolved by a panel system which reviews whether actions by countries are consistent with domestic laws (the same as the Canada-U.S. agreement).

7. *Government Procurement:*
Coverage of open bidding on federal contracts open to competitive bidding from each country increased.

8. *Services:*
National treatment enshrined as an obligation, but most existing service regulation grandfathered in, and exceptions specified to the obligation.

9. *Land Transport:*
Increased cross-border bus and trucking activity authorized.

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[8]As concluded on August 11, 1992; the draft agreement still has to go through a ratification process in all three countries.

Table 1 (Continued)

10. *Investment:*
Performance requirements are banned for NAFTA investment transactions. Screening procedures only permitted above specified limits ($150 million after 10 years for Mexico).

11. *Financial Services:*
National treatment and right-to-establish granted in financial services.

12. *Intellectual Property:*
Commitments set out in a number of categories (copyrights, patents, trademarks, designs, trade secrets, integrated circuits, and others). Similar to commitments tentatively agreed multilaterally in GATT Uruguay Round Dunkel text.

13. *Temporary Entry:*
New rules to facilitate easier cross-border business travel.

14. *Environment:*
No country to lower standards to attract investment; affirms countries' rights to set own environmental standards.

15. *Trade Commission:*
Trilateral commission (much as in the Canada-U.S. Agreement) to take up disputes over the agreement itself.

Source:

Various summaries of the agreement published immediately following August 11 (*Wall Street Journal, Globe and Mail, Financial Post*, and others).

Table 2 lists the working groups used in the negotiations. These were structured differently from the Canada-U.S. negotiation, with eighteen groups classified under six topic headings. In the conventional trade areas (such as tariffs, agriculture, autos, textiles, anti-dumping and countervail), negotiations took similar directions to the Canada-U.S. negotiations, with bilateral tariff liberalization[9], and separate sectoral, instrument, and institutional chapters. Autos, textiles, agriculture and petrochemicals were the sectors where negotiations were the most intense. U.S. textiles and apparel producers and labour groups all voiced concerns over threats to their domestic market share from low-wage imports, and fears of Japanese transplant auto production also penetrating U.S. markets from Mexico pervaded the U.S. autos sector.

In the tariff and sector negotiations, rules of origin took on high profile. In the autos area, requests were made by the U.S. auto manufacturers for even higher content provisions than in the Canada-U.S. agreement, which aimed to exclude much of the U.S. transplant and Canadian-based production from the Mexican market, and effectively place restrictions on trans-shipment through Mexico.[10] U.S. auto makers also endorsed the maintenance of strong domestic content rules in Mexico against third countries, which would effectively limit intercontinental auto trade from Mexico, especially from any new Asian transplant operations in Mexico using parts produced outside Mexico. In the textile area, there were early U.S.

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[9]Weintraub (1991) reports the average Mexican tariff at 9 percent, suggesting that the further reduction of tariffs to zero will not be traumatic because the more major liberalization measures were taken between 1985 and 1990. Hart (1991) reports a trade-weighted average Mexican tariff of 8 percent as against current GATT-bound rates for Mexico of 50 percent.

[10]See "Carmakers may face pact changes," *Financial Post*, September 27, 1991, p.3.

Table 2

Negotiating Groups in the NAFTA Negotiations

1) ***Market Access***

   - i) tariffs/non-tariff barriers
   - ii) rules of origin
   - iii) government procurement
   - iv) agriculture
   - v) autos
   - vi) other industries: textiles, energy

2) ***Trade Rules***

   - i) safeguards
   - ii) subsidies/trade remedies
   - iii) standards - industrial
     - food safety

3) ***Services***

   - i) principles
   - ii) financial
   - iii) insurance
   - iv) land transportation
   - v) telecommunications
   - vi) other services

4) ***Investment***

5) ***Intellectual Property***

6) ***Dispute Settlement***

Source: Conversations with Department of External Affairs, Government of Canada, Ottawa. September 1991.

industry proposals that any bilateral tariff and/or quota liberalization should be subject to stringent rules of origin, with a 100 percent NAFTA content rule applying for each of the fibres, the fabric containing the fibres, and the location of production of garments[11], subsequently replaced by content rules on a "yarn forward" basis which restricts tariff and quota liberalization at the border to garments to that meeting the test of local content for all processing from yarns up through spinning, weaving, cutting, sewing, and packaging.

In agriculture, each country expressed concerns over liberalization in sensitive products; corn in Mexico, and fruit and vegetables in the U.S. The dilemma for Mexico was that to secure improved access for the modern horticulture sector, potentially large adjustments would need to be undertaken in the traditional component of the sector.[12] Two U.S. industry groups (citrus and tomatoes) went so far as to publicly state their position that these sectors should be off the negotiating table.[13]

Social and non-trade issues also entered the NAFTA negotiation, a major departure relative to the Canada-U.S. agreement. The key areas were environment, workers' rights, drug enforcement, and labour mobility. In the environment area[14], it was the concerns of environmental groups in the U.S. which propelled the process. They documented cross-

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[11]See the plan along these lines for the treatment of textiles and apparel in NAFTA proposed by the American Textile Manufacturers Institute (1991).

[12]See the discussion of the potential impacts of such liberalization in Levy and van Wijnbergen (1991).

[13]Failing which, increases in temporary entry arrangements which allow low-wage fruit pickers from Mexico to enter and work in parts of the United States on a seasonal basis were listed as likely to be requested by these industries.

[14]Also see the discussion in Kelly and Kamp (1991), Leonard and Christensen (1991), Low (1991), and National Wildlife Federation (1990).

border environmental problems associated with Maquiladora[15] production, such as ground water contamination, effluent discharge into border rivers, high incidence of hepatitis and other diseases in U.S. border towns, and other problems.[16]

Their fear was that increased U.S.-Mexico trade resulting from NAFTA would worsen these problems, and they sought strengthened Mexican environmental standards. But more than this, they sought stronger enforcement of Mexican environmental regulations, perhaps through some form of new trilateral environmental commission, and, if necessary, cross-border inspections. They feared that a cross-border trade agreement could result in a lowering of U.S. environmental standards in some areas, as some claim threatens to happen under the Canada-U.S. agreement notably in the areas of asbestos and pesticide use.[17] These groups also want environmental impact statements to be prepared in the U.S. to accompany any eventual NAFTA agreement.

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[15]Maquiladora operations are licensed establishments under which imported capital equipment and raw materials for export purposes enter Mexico in bond (effectively duty-free). Initially restricted to a 20 km zone along the U.S. border, since 1972 Maquiladora have been approved interior to Mexico, although about 80 percent of Maquiladora operations continue to operate within the zone. Exports to the U.S. qualify for special treatment under HTS subheadings 9802.00.60 and 9802.00.80, with duty being paid only on value added in Mexico. GSP treatment also applies to certain exports from Maquiladora. Much of the growth of Mexican manufactured exports in recent years has come from Maquiladora operations. See USITC (1990), p.5-15.

[16]See the discussion of these issues in Uimonen and Whalley (1991). In February 1992, USTR and EPA announced an "Integrated Border Plan" to provide $380 million over two years for environmental cleanup on the U.S.-Mexican border. Mexico reportedly has committed $460 million over three years. See "From Fast Track to Back Burners", *The Economist*, February 29, 1992, p.25.

[17]See Uimonen and Whalley (1991).

Environmental issues in NAFTA were further elevated by the U.S. use of trade restrictions against tuna imports from Mexico on environmental grounds. A 1991 GATT dispute panel ruled in favour of Mexico and against U.S. import bans required by the 1988 Marine Mammal Protection Act because of allegedly dolphin-unfriendly tuna fishing methods used by Mexican fishermen. While not formally a NAFTA issue, this made activist NAFTA negotiations in the environmental area seem even more important to those involved in the U.S. (especially in Congress), while on the other hand elevating concerns outside the U.S. (including in Mexico) over U.S. extra territoriality.

Discussion of linkage between workers' rights and trade in the NAFTA negotiations focused on alleged production for export in Mexico by child labour, long a concern of advocates of international labour standards in the U.S.[18,19] Drug enforcement issues came up in the context of proposals linking trade concessions by the U.S. to agreement by Mexico to allow stronger cross-border enforcement. Labour mobility has been an issue pressed strongly by Mexico, arguing for liberalization of immigration restrictions against both Mexican permanent and temporary residents in the U.S. Mexican negotiators posed the choice for the U.S. as being one of either taking more Mexican goods, or suffering more illegal Mexican immigration.

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[18]See discussion in Charnovitz (1986) for details.

[19]See *Congressional Quarterly* (1991), p.1121. In the 'action plan' submitted by President Bush to Congress in May 1991, the U.S. promised the Labor Department would sign an agreement with the Mexican government providing for co-operation in occupational health and safety, working conditions, child labour and even enforcement of labour standards.

Thus, while in some important ways different from the Canada-U.S. bilateral agreement, the outcome of NAFTA nonetheless has strong parallels to its predecessor. The agreement has much the same structure as the earlier Canada-U.S. agreement, and in a number of chapters virtually the same content, or similar content with relatively limited change. This observation thus emphasizes the difficulty of changing significantly an existing regional agreement upon enlargement to further countries, noted in the introduction.

Mexican objectives throughout the NAFTA process have seemed to reflect their desire to use a trade agreement to underpin domestic policy reform so as to attract inward foreign investment, and their aim of using international treaties as a way of locking in prior domestic policy reforms as much as their desire to achieve improved and more secure access to the U.S. market to spur growth. The Mexican desire for NAFTA negotiations thus follow their own unilateral liberalization begun in 1985, and their entry into GATT in 1986.

The three-country participation in the negotiations, and the prior existence of a bilateral trade agreement between two of the countries, both simultaneously complicated and speeded the negotiations. Canada seemingly participated with both the defensive intent of protecting and preserving what was seen as beneficial in the Canada-U.S. agreement, and the offensive intent of seeking to open up portions of the earlier agreement whose outcome was not thought satisfactory. Canada was also concerned to be at the table and be clearly informed of what was happening. But Canadian participation was politically important to Mexico, so that Mexican negotiators would not be seen to be alone at the table with a large assertive power who could be seen domestically as dictating the terms of an eventual NAFTA agreement.

Having a prior bilateral Canada-U.S. agreement thus gave initial focus to the trilateral NAFTA negotiations, since the natural early question was whether and how the bilateral agreement could be trilateralized. The discussion became how a NAFTA and the Canada-U.S. agreement would coexist; as a core three-way agreement with separate additional two-country agreements which replace the Canada-U.S. agreement; as a supplementary agreement beyond what is in the Canada-U.S. agreement, and with what institutional form (a trilateral trade commission, for instance). It quickly became apparent that some of the key chapters of the Canada-U.S. agreement were designed to deal with issues which had no Mexican analogue (the wine and spirits chapter, for instance). Equally, some of the key issues discussed with Mexico (environment, intellectual property, labour mobility) had no obvious analogues on which to draw from the Canada-U.S. negotiation.

Thus, while different from the earlier Canada-U.S. Free Trade Agreement in many respects, NAFTA reflects a similar structure of a bilateral tariff elimination, and accompanying sectoral and instrument arrangements. While containing liberalizing elements, in reality it is less a free trade agreement than a trade agreement; with key sectoral protection left in place or rearranged; and with supplementary agreements covering a range or non-trade and social issues (labour mobility, environment, transportation, investment).

III. THE POTENTIAL IMPACTS OF NAFTA EVEN BEFORE ENLARGEMENT

Assessing the likely effects of any enlargement of NAFTA is complicated. Even the effects of NAFTA itself on trade and investment flows are difficult to determine because U.S.-Mexican trade growth has been rapid even before the agreement was concluded. Other factors (further domestic policy reform in Mexico, and elevated Mexican growth rates) may thus dominate what the direct effects of the now-concluded agreement might be in the future. Supporters of the agreement can, however, plausibly argue that it has been the prospect of an Agreement and its impact on expectations that has helped propel sharp growth in inward investment that has occurred in Mexico, particularly that reflected in the sharp increase following the granting of negotiating authority by the U.S. Congress in 1991.

Data Analysis

Table 3 provides trade and other data for the three countries involved in NAFTA, also listing their most significant other trade partners in Latin and Central America. As these data emphasize, for both Canada and Mexico, the U.S. is their dominant trading partner and Brazil and Venezuela (largely due to oil) are their most important non-Mexican partners in the region.

But as Table 4 indicates, the dynamism of this trade differs by country. U.S.-Mexico trade has approximately doubled over the last five years. Thus while it is true that there have already been some key policy changes affecting trade between the U.S. and Mexico during these years, such as the effective doubling of major Mexican textile quotas, the fact remains

Table 3

U.S.-Canadian-Mexican Trade in 1991

		(millions of US $)
Mexico	Total Exports	38,966
	Exports to Canada	2,130
	% of Total Exports to Canada	5.5
	Exports to U.S.	28,969
	% of Total Exports to U.S.	74.3
	Total Imports	46,337
	Imports from Canada	386
	Imports from U.S.	33,276
	% of Total Imports from Canada	0.8
	% of Total Imports from U.S.	71.8
Canada	Total Exports	126,160
	Exports to Mexico	386
	Exports to U.S.	95,574
	% of Total Exports to Mexico	0.3
	% of Total Exports to U.S.	75.8
	Total Imports	120,410
	Imports from Mexico	2,130
	Imports from U.S.	75,025
	% of Total Imports from Mexico	1.8
	% of Total Imports from U.S.	62.3
U.S.	Total Exports	421,824
	Exports to Canada	85,146
	Exports to Mexico	33,276
	% of Total Exports to Canada	20.2
	% of Total Exports to Mexico	7.9
	Total Imports (cif)	509,351
	Imports from Canada (cif)	93,736
	Imports from Mexico (cif)	31,866
	% of Total Imports from Canada	18.4
	% of Total Imports from Mexico	6.3

Table 3 (Continued)

Most Important Non-Mexican Central and Latin American Countries in Trade for Each Country:

		Exports (US $mill.)		Imports (US $mill.)	
		Country	Amount	Country	Amount
Canada	1st	Brazil	501	Brazil	612
	2nd	Venezuela	355	Venezuela	363
Mexico	1st	Guatemala	184	Brazil	359
	2nd	Brazil	179	Argentina	226
U.S.	1st	Brazil	6,155	Venezuela	8,776
	2nd	Venezuela	4,668	Brazil	7,232

Source:

Direction of Trade Statistics, IMF, Washington, D.C., June 1992. All data are f.o.b. (both exports and imports) unless noted.

Table 4

Changes in U.S.-Mexico Trade Flows, 1980-1990
($bill, current prices)

	U.S. Imports from Mexico		U.S. Exports to Mexico	
	Total	of which Automotive Products	Total	of which Automotive Products
1980	12.8	0.3	15.1	1.5
1985	19.4	2.8	13.6	2.0
1990	30.2	3.3 (1989)	28.4	2.3 (1989)

Source: GATT (1990), Tables III.14, and III,15, p.13,
U.S. Department of Commerce (1988), Table 19, p.113, and
U.S. Department of Commerce (1991), p.S-17.

that U.S.-Mexico trade flows have been increasing sharply even before the conclusion of NAFTA.

Much of this growth in trade has come from the Maquiladoras,[20] driven in large part by sizeable differences in labour costs between the U.S. and Mexico, the new-found credibility associated with policy reform in Mexico, and the perceived stability of the wider policy environment. Growth in trade in autos and parts was seen first with engine and parts production and assembly plants locating in the Maquiladoras, and more recently with full production facilities locating there. This trade has continued to grow rapidly despite surging

[20]Excluding exports of the agricultural, petrochemical, and steel industries which do not qualify under the Maquiladora program, exports from the Maquiladoras in 1989 accounted for 78 percent of the remaining (non-agricultural, petrochemical, steel) Mexican export categories to the U.S. See USITC (1991), p.xi.

Japanese transplant production in the U.S., and also despite the Canada-U.S. agreement, and, until recently, the absence of a firm trade agreement with Mexico. Trade in consumer electronics from Maquiladora assembly operations has also begun to surge, as have exports of apparel (entering the U.S. under HTS item 9802.00.80[21]).

As with cross-border trade flows, U.S. inward foreign investment into Mexico have increased sharply, particularly in the last twelve months. Investment flows in 1992 into Mexico from the United States were approximately 50 percent higher than they were in 1990. In contrast, investment flows from the United States to Canada remain flat, and growth rates are down.

Thus any evaluation of the impact of NAFTA has to be from the perspective that even before the agreement was signed, U.S.-Mexican trade and investment flows were sharply elevated while across the Canada-U.S. border where a similar agreement had been signed little impact on trade or investment flows seemed to occur.

Model-Based Analyses

While relatively recent, there have also been a number of model based (primarily general equilibrium) studies of the potential impacts of NAFTA, which give an indication of what NAFTA might portend, and hence what any further extension might involve. Five of these are presented in a recent symposium issue of the journal, *The World Economy* (January 1992). Further analyses are presented in Watson (1992) summarizing the results of a conference on NAFTA which included model-based presentations, and in Francois and

[21]Under HTS item 9802.00.80, imported articles assembled wholly or partly with U.S. fabricated components are assessed duty at the U.S. border only on the value-added abroad.

Shiells (1992) which contains eleven model-based analyses of NAFTA presented to a technical conference on NAFTA at USITC.[22] The results of the first set of these studies are summarized in an editorial introduction by Waverman (1992).

These studies are largely single period general equilibrium models which capture various industry and product effects of NAFTA. Some, such as Hunter, Markusen and Rutherford (1992) and Sorbazo (1992) incorporate market structure and scale economy effects; the former focussing on NAFTA impacts on the North American autos sector. Others focus on transitional and migration issues surrounding liberalization in agriculture, such as Levy and Winbergen (1992) and Robinson et al (1992). An exception to the static single period analysis is Kehoe (1992), who stresses the growth effects of NAFTA.

a) Wage Effects

These studies generally show the wage rate as rising in all three countries under a NAFTA. Sobarzo (1992) shows large wage gains to Mexican labour, while, in Brown *et al.* (1992), the U.S. wage rate rises because the improvement in the United States' terms of trade increases the value of U.S. exports. In a subsequent piece, Brown (1992) shows NAFTA as raising wages in Mexico by as much as 9 percent under a NAFTA, Brown suggesting that this effect from NAFTA will reduce the incentive for illegal emigration from Mexico. Both U.S. and Canadian wages increase but by small amounts, by 1/10th of 1 percent. Brown suggests that this increase rather than fall is because Mexican tariffs before the agreement are substantially above those in U.S. and Canada, and access to Mexican

[22]Hufbauer and Schott (1992) also summarize a subset of these studies.

markets for both countries more than compensates for negative wage effects from removal of remaining domestic protection against Mexico. Harris (1992) suggests that in the short run, job losses and wage reductions in Canada and the U.S. will occur for the unskilled and the low-paid due to NAFTA, but with wage increases occurring in the long term.

b) Sectoral Effects

These studies also seem to suggest that in most sectors of the three economies the effects of NAFTA will be relatively small; and for Mexico and the U.S. mainly positive, with more negatives for Canada, but there are some spectacular outliers. Where large effects occur, it is due to the removal of narrowly concentrated trade barriers. Brown's results, reproduced here as Table 5, show these concentrated effects occurring in glass products, non-ferrous metals, and electrical machinery.

In the automotive sector, Sobarzo and Hunter *et al.* (1992) show large output gains for Mexico, while Brown *et al.* and Hunter *et al.* show a slight (0.2 to 0.5 of one percent) decline in U.S. output. Brown *et al.* show the Canadian transport equipment sector as gaining, while Hunter *et al.* find a small reduction in Canadian output. Trela and Whalley (1992) show large increases in both Mexican steel production, and Mexican textiles and apparel output and

Table 5

Brown's (1992) Results on Production and Employment Changes by Sector due to NAFTA[1]

All results in percentage change terms	United States Output	United States Labour	Canada Output	Canada Labour	Mexico Output	Mexico Labour
Tradables:						
1 Agriculture	0.4	0.4	-0.1	-0.1	-0.2	-2.1
310 Food	0.2	0.1	0.3	-0.2	1.1	-7.9
321 Textiles	1.5	1.0	-4.1	-4.6	2.3	-4.0
322 Clothing	1.0	0.4	0.6	0.1	6.4	-3.2
323 Leather products	0.6	0.4	3.5	2.8	2.7	-10.5
324 Footwear	0.6	0.3	2.9	1.9	1.5	-2.5
331 Wood products	0.4	0.2	0.3	-0.3	-1.3	-5.7
332 Furniture, fixtures	0.6	0.4	-0.5	-1.2	1.3	-26.8
341 Paper products	0.4	0.2	-0.6	-1.1	5.0	-7.2
342 Printing, publishing	0.2	0.1	-1.4	-1.5	3.1	-2.9
35A Chemicals	0.8	0.6	-3.8	-4.3	3.8	-2.8
35B Petroleum products	0.0	0.0	0.6	0.2	13.7	-17.8
355 Rubber products	1.0	0.8	0.5	0.0	-3.7	-8.5
36A Nonmetal min. products	0.2	0.1	1.1	0.5	3.1	-6.7
362 Glass products	-10.2	-10.3	146.8	145.8	9.4	2.9
371 Iron, steel	0.2	0.1	4.1	2.8	16.4	1.9
372 Nonferrous metals	-4.6	-4.2	12.7	10.5	233.3	209.3
381 Metal products	0.2	0.2	0.5	-1.0	15.8	5.1
382 Nonelectric machinery	0.7	0.6	-4.2	-5.0	5.3	-3.9
383 Electrical machinery	-1.8	-1.8	0.1	-1.1	180.2	167.5
384 Transport equipment	0.1	-0.1	4.8	3.5	1.2	-6.7
38A Misc. manufactures	1.2	1.1	-5.9	-6.8	-2.6	-12.5
2 Mining, quarrying	-0.3	-0.3	1.2	1.0	29.1	13.9
Nontradables:						
4 Utilities	0.0	0.0	0.2	0.2	12.1	11.1
5 Construction	0.0	0.1	0.2	0.2	3.9	2.8
6 Wholesale trade	0.0	0.0	-0.2	-0.2	3.9	-9.4
7 Transportation	0.0	0.0	0.1	0.1	4.0	-3.8
8 Financial services	0.0	0.0	-0.1	-0.1	2.6	-26.4
9 Personal services	0.0	0.0	-0.3	-0.3	0.0	-0.5

[1] See Brown (1992), p.8.

trade under bilateral liberalization. Trela and Whalley also highlight the potential for a rent transfer effect to occur in favour of the U.S. in this latter sector, with bilateral or trilateral liberalization of trade under NAFTA. With binding quotas against third countries, liberalization towards Mexico lowers prices in the U.S. market and reduces rent transfers to third countries which accompany MFA quotas.

c) *Trade Effects*

Generally, the studies show little evidence of significant trade diversion effects against third countries. Waverman concludes in his symposium summary that increased trade liberalization in North America would create some trade diversion against the ROW, although not large. Losers tend to be outside North America, and an agreement with Mexico, while increasing welfare in all three countries, is not a big source of overall gains (or losses) to the United States and Canada.

The bilateral trade flow effects are, as one might expect, more pronounced. Table 6 (also from Brown (1992b)) shows Mexican exports to the U.S. in a number of key product categories as increasing sharply (iron and steel (26.0 percent), non-ferrous metals (264.2 percent), metal products (27.2 percent), electrical machinery (194.5 percent), and mining and quarrying (24.5 percent)). U.S. imports from Mexico show significant, if less pronounced, increases (food (7.0 percent), textiles (10.8 percent), and clothing (10.8 percent)). Where quota and other restraints on U.S. imports remain, effects are very small (agriculture, food, textiles, clothing).

Table 6

Brown's (1992) Results on Percentage Change in Trade by Product Due to NAFTA

Importer From		United States Can.	United States Mex.	Canada U.S.	Canada Mex.	Mexico U.S.	Mexico Can.
1	Agriculture	4.2	1.8	5.1	-5.5	9.1	7.5
310	Food	9.6	7.0	12.8	9.1	28.2	11.6
321	Textiles	14.4	10.8	44.9	19.7	41.7	36.6
322	Clothing	45.7	24.8	57.7	25.4	55.3	53.0
323	Leather products	10.7	6.9	8.7	33.2	42.1	35.6
324	Footwear	28.3	-1.3	46.4	36.1	62.8	65.3
331	Wood products	0.6	-9.2	7.1	9.6	49.1	52.4
332	Furniture, fixtures	12.5	-4.3	36.4	26.1	54.4	52.7
341	Paper products	-1.0	6.9	19.2	27.0	14.2	12.8
342	Printing, publishing	-1.2	-1.5	4.0	9.8	28.9	21.8
35A	Chemicals	-2.4	3.8	22.2	23.5	23.6	25.8
35B	Petroleum products	0.8	22.3	1.0	21.7	-1.5	8.3
355	Rubber products	8.7	-13.1	19.8	-14.7	44.7	35.9
36A	Nonmetal min. products	2.2	0.9	12.1	2.7	43.6	45.1
362	Glass products	161.6	15.7	-1.2	4.8	33.6	202.3
371	Iron, steel	11.7	26.0	12.2	18.9	12.8	7.6
372	Nonferrous metals	18.9	264.2	-5.6	245.9	-64.5	-91.9
381	Metal products	14.2	27.2	19.3	44.2	19.2	19.0
382	Nonelectric machinery	2.2	11.2	10.7	10.5	27.8	22.5
383	Electrical machinery	14.2	194.5	15.5	203.6	-23.6	-20.9
384	Transport equipment	6.5	4.5	-2.3	0.6	22.3	22.4
38A	Misc. manufactures	-3.2	-0.9	12.6	16.5	32.2	20.9
2	Mining, quarrying	0.9	24.5	1.2	24.8	10.8	11.1

Source: Brown (1992), p.7.

d) Other Effects

A variety of other effects also emerge from these studies. Welfare gains for all three countries are typically generated by all the studies, with by far the largest gains occurring for Mexico. Brown (1992b) suggests these would be 0.1 percent of GDP for the U.S., 0.7 percent of GDP for Canada, and 1.6 percent of GDP for Mexico. But, at the same time in coming to this conclusion, many of the studies assume a more complete removal of border restraints between the three countries than will actually occur. Hence, a difficulty in interpreting them is that they all take free trade, rather than the negotiated outcome which will likely be reflected in NAFTA, as the reference point. Studies also show the return to capital as increasing in all three countries (Brown's results putting these effects at 0.2 percent increase in the U.S., 0.4 percent in Canada, and 0.6 percent in Mexico). Available studies seemingly do not adequately capture a range of other effects; capital relocation and impacts on inward foreign investment, adjustment costs, and others.

e) Overview

The conclusion from these studies seems to be that NAFTA will have positive effects, with the largest of these concentrated on Mexico. But, because these studies have a tendency to take complete free trade as the reference point, one perhaps might be safe in concluding that the effects of the actual NAFTA agreement will be even smaller than these studies show. As emphasized above, the possible exclusionary effects of such NAFTA provisions through high content rules in autos, textiles and apparel, and the effects of rules of origin need to be factored in. The prospect of only limited liberalization in agriculture on the U.S. side, and difficulties in evaluating any impacts which may follow from the social policy elements in an agreement (such as environment) also makes an evaluation of the actual impacts of the agreement that much harder.

IV. EXPANDING NAFTA

The expansion of the trade and other provisions of NAFTA to cover other Central and Latin American countries including the Caribbean countries, is now very much on the agenda of trade discussions. With the expiration of negotiating authority for NAFTA due in May 1993, it now looks increasingly likely that there will be a request to the Congress for authority to negotiate a series of bilateral agreements involving a number of Central and Latin American countries. The issues are with whom they would take place, how these may proceed, and what the pros, cons and benefits would be and to whom.

The Trade Significance of an Extended NAFTA

In considering some form of extended NAFTA, perhaps the first and most important issue is its trade significance relative to the potential negotiating complexities involved. As Table 7 shows, excluding Mexico, exports of all Latin and Central American countries to the United States are smaller than Mexico's exports to the U.S. ($26.8 billion of exports in 1991, as against Mexican exports to the U.S. of $28.9 billion in 1991). Also, Mexico sends the highest fraction of its total exports to the U.S. of any Latin or Central American economy.[23] Thus, in evaluating any regional extension of NAFTA, a starting point is that the NAFTA agreement with Mexico is of more trade significance to the U.S. than its extension (were it achievable) to cover all countries in the rest of Latin and Central America. Moreover, on the basis of its large export share going to U.S. markets, an agreement with the U.S. is seemingly more important to Mexico than to any other country in the region.

[23]74.4 percent against an average of 28.4 percent of non-Mexican countries in the region.

Table 7

Trade Linkages of Key Central and Latin American Economies

	1991 Exports to US in $bill.	1991 Total Exports in $bill.	Share of Exports Going to US
Argentina	1.3	13.1	9.8
Brazil	6.6	32.3	20.3
Chile	1.6	9.0	17.6
Peru	0.9	3.4	25.1
Venezuela	7.9	15.7	50.7
Colombia	2.7	6.6	40.6
Uruguay	0.2	1.6	10.5
Ecuador	1.4	3.3	41.8
Mexico	28.9	38.9	74.3
Honduras	0.6	1.0	54.4
Panama	0.2	0.5	29.7
Costa Rica	0.8	1.6	47.5
Guatemala	0.9	1.7	52.1
El Salvador	0.3	0.8	37.7
Jamaica	0.6	1.4	39.8
Trinidad and Tobago	1.0	1.9	50.1
All countries except Mexico	26.8	94.3	28.4

Source: *IMF Direction of Trade Statistics*

A similar picture of Mexico's special interests in U.S. markets also emerges from Table 8 which reports export growth rates for Latin and Central American economies through the 1980s and out into the early 1990s. Outside of Guatemala, Mexico has the highest growth rate of exports to the U.S.; with especially sharp differences from the Latin American economies (Brazil, especially). The data in this table also suggest a dichotomy between Central America and the Caribbean, on the one hand, who generally show dynamic trade growth with the U.S., and Latin America, on the other, where trade growth is sluggish to negative.

Table 9 presents data giving the major commodity categories of Latin American country exports to the U.S. market. In the Argentinean case, petroleum products and iron and steel are especially significant in U.S. trade. Argentinean exports in total are dominated by sales of grains and meats to non-U.S. markets, and while petroleum products face higher than average tariff barriers in the U.S. markets and so gains may occur here for Argentina in a NAFTA, iron and steel have been traditionally protected by VRAs or other instruments in U.S. markets, which may change little under an extended NAFTA. Brazil's exports to the U.S. are more varied, relying on machinery, footwear, orange juice, coffee, textiles, and other products. Improvements in access could come in some of these (footwear) under an extended NAFTA, although restrictions in others (textiles/apparel) would likely be little changed, and for some categories (coffee) few or no barriers apply.

Chile has trade in copper and agricultural products which, because they are shipped outside of the U.S. season face no significant barriers in U.S. markets. Trade-related phyto-sanitary issues (grapes) may be the most important issue for Chile. Peru has exports in

Table 8

Export Growth of Latin and Central American Economies

Exporting Country	Average Percentage Export Growth Rates from 1980-1988		Average Percentage Export Growth Rates from 1989-1991	
	To US	to World	To US	To World
Argentina	6.0	1.5	2.6	11.2
Brazil	-3.1	5.9	-6.5	-0.4
Chile	10.1	4.2	-0.4	3.4
Peru	-7.4	-3.3	3.9	-1.0
Venezuela	-1.2	-6.9	7.5	8.2
Colombia	10.3	5.5	2.9	5.0
Uruguay	7.3	3.1	-2.5	-0.5
Ecuador	3.8	-1.4	3.6	11.9
Mexico	4.6	3.4	21.6	19.3
Honduras	0.9	0.6	4.9	2.4
Panama	-2.1	-2.2	6.2	23.0
Costa Rica	5.9	2.7	6.0	4.4
Guatemala	-4.0	-4.3	22.8	9.5
El Salvador	-5.6	-5.5	13.1	11.8
Jamaica	-1.6	-1.3	16.3	12.9
Trinidad and Tobago	-11.3	-10.9	4.4	8.4

Source: *IMF, Direction of Trade Statistics*

Table 9

Commodity Composition of Latin and Central American Exports to the US ($ Thousand)

Country & Item (SITC Code)	Exports to US 1989	Exports to US 1990	2-Year Average Exports to US	Share of Item in Country Exports
Argentina				
Exports to US	1,539,156	1,664,110	1,601,633	
Meat (01)	140,994	163,566	152,280	9.5
Fish, etc. (03)	114,349	130,340	122,345	7.6
Vegetables and fruit (05)	97,800	103,608	100,704	6.3
Petroleum and products (33)	195,258	182,087	188,673	11.8
Chemicals (5)	128,409	106,623	117,516	7.3
Leather and goods (61)	64,871	66,209	65,540	4.1
Iron and steel (67)	202,381	386,871	294,626	18.4
Brazil				
Exports to US	9,000,878	8,585,692	8,793,285	
Fish, etc. (03)	110,674	91,774	101,224	1.2
Fruit and nuts (057)	83,625	102,591	93,108	1.1
Orange juice (059.1)	492,126	778,801	635,464	7.2
Coffee (071)	510,579	387,451	449,015	5.1
Cocoa and products (072 & 073)	181,426	194,616	188,021	2.1
Tobacco and products (12)	118,324	141,276	129,800	1.5
Pulp and waste paper (251)	233,965	208,826	221,396	2.5
Metal ores (28)	213,707	235,737	224,722	2.6
Petroleum and products (33)	758,259	569,526	663,893	7.5
Chemicals (5)	341,341	334,029	337,685	3.8
Rubber manufactures (62)	111,962	97,826	104,894	1.2
Cork and wood manufactures (63)	100,362	109,335	104,849	1.2
Textiles (65)	205,837	163,709	184,773	2.1
Iron and steel (67)	665,756	613,537	639,647	7.3
Non-ferrous metals (68)	295,744	235,492	265,618	3.0
Machinery (71-77)	1,339,023	1,278,745	1,308,884	14.9
Transport equipment (78+79)	883,773	758,022	820,898	9.3
Clothing (84)	179,810	144,154	161,982	1.8
Footwear (85)	1,096,213	1,090,783	1,093,498	12.4
Chile				
Exports to US	1,500,153	1,568,149	1,534,151	
Fish, etc. (03)	93,810	146,552	120,181	7.8
Grapes (057.5)	275,063	380,840	327,952	21.4
Fruits and nuts (057)	386,988	514,450	450,719	29.4
Copper (682)	435,741	334,889	385,315	25.1
Peru				
Exports to US	873,201	852,074	862,638	
Fish, etc. (03)	35,947	39,192	37,570	4.4
Coffee (071)	73,642	46,054	59,848	6.9

Table 9 (Continued)

Country & Item (SITC Code)	Exports to US 1989	Exports to US 1990	2-Year Average Exports to US	Share of Item in Country Exports
Base metal ores (287)	48,356	61,871	55,114	6.4
Petroleum and products (33)	206,013	172,978	189,496	22.0
Non-ferrous metals (68)	144,503	99,182	121,843	14.1
Copper (682)	60,313	17,105	38,709	4.5
Clothing (84)	45,245	60,349	52,797	6.1
Venezuela				
Exports to US	7,177,947	9,938,406	8,558,177	
Crude mineral fert. (27)	120,074	126,415	123,245	1.4
Iron ore (281)	125,775	123,645	124,710	1.5
Petroleum and products (33)	6,182,226	8,744,257	7,463,242	87.2
Iron and steel (67)	105,830	137,160	121,495	1.4
Aluminium (684)	155,244	182,281	168,763	2.0
Colombia				
Exports to US	2,760,460	3,408,719	3,084,590	
Bananas (057.3)	180,463	168,037	174,250	5.6
Sugar (061.1)	102,843	109,502	106,173	3.4
Coffee (071)	402,933	348,078	375,506	12.2
Cut flowers (292.7)	230,997	245,230	238,114	7.7
Petroleum and products (33)	1,167,228	1,737,861	1,452,545	47.1
Clothing (84)	135,330	162,690	149,010	4.8
Uruguay				
Exports to US	233,190	221,248	227,219	
Fish, etc. (03)	17,878	15,183	16,531	7.3
Wool (268)	11,771	7,334	9,553	4.2
Leather and goods (61)	28,968	26,677	27,823	12.2
Textiles (65)	11,099	10,732	10,916	4.8
Silver, platinum, etc. (681)	10,774	12,828	11,801	5.2
Clothing (84)	94,877	72,318	83,598	36.8
Footwear (85)	12,276	16,726	14,501	6.4
Ecuador				
Exports to US	1,646,163	1,546,664	1,596,414	
Fish, etc. (03)	371,609	364,587	368,098	23.1
Bananas (057.3)	275,473	391,146	333,310	20.9
Coffee (071)	120,879	72,027	96,453	6.0
Cocoa and products (072+073)	68,224	89,733	78,979	4.9
Petroleum and products (33)	727,336	538,661	632,999	39.7
Honduras				
Exports to US	534,385	561,410	547,898	
Fish, etc. (03)	60,471	63,508	61,990	11.3
Bananas (057.3)	227,352	184,128	205,740	37.6
Coffee (071)	31,528	49,961	40,745	7.4

Table 9 (Continued)

Country & Item (SITC Code)	Exports to US 1989	Exports to US 1990	2-Year Average Exports to US	Share of Item in Country Exports
Panama				
Exports to US	293,912	250,580	272,246	
Fish, etc. (03)	102,269	66,545	84,407	31.0
Bananas (057.3)	46,559	18,904	32,732	12.0
Costa Rica				
Exports to US	1,057,299	1,104,930	1,081,115	
Beef (011)	54,587	53,149	53,868	5.0
Fish, etc. (03)	50,487	48,664	49,576	4.6
Bananas (057.3)	238,412	215,835	227,149	21.0
Coffee (071)	52,662	48,189	50,426	4.7
Clothing (84)	337,875	397,396	367,636	34.0
Guatemala				
Exports to US	669,251	873,304	771,278	
Beef (011)	33,627	49,169	41,398	5.4
Fish, etc. (03)	22,078	19,341	20,710	2.7
Vegetables (054)	31,412	37,068	34,240	4.4
Bananas (057.3)	92,944	127,233	110,089	14.3
Sugar (06)	34,623	87,568	61,096	7.9
Coffee (071)	178,234	199,471	188,853	24.5
El Salvador				
Exports to US	258,380	254,978	256,679	
Fish, etc. (03)	20,377	12,756	16,567	6.5
Coffee (071)	109,737	92,438	101,088	39.4
Clothing (84)	43,814	56,195	50,005	19.5
Jamaica				
Exports to US	567,929	610,726	589,328	
Aluminium ore (285)	219,067	237,989	228,528	38.8
Chemicals (5)	30,896	34,412	32,654	5.5
Clothing (84)	234,461	242,896	238,679	40.5
Trinidad and Tobago				
Exports to US	820,316	1,076,271	948,294	
Petroleum and products (33)	620,116	845,815	732,966	77.3
Chemicals (5)	143,586	133,804	138,695	14.6
Mexico				
Exports to US	27,540,063	30,769,706	29,154,885	
Fish, etc. (03)	397,468	283,806	340,637	1.2
Vegetables (054)	703,877	977,969	840,923	2.9
Coffee (071)	512,966	351,080	432,023	1.5
Petroleum and products (33)	4,359,231	5,288,481	4,823,856	16.5
Chemicals (5)	600,026	697,646	648,836	2.2

Table 9 (Continued)

Country & Item (SITC Code)	Exports to US 1989	Exports to US 1990	2-Year Average Exports to US	Share of Item in Country Exports
Paper (64)	380,256	198,517	289,387	1.0
Iron and steel (67)	314,936	370,716	342,826	1.2
Non-ferrous metals (68)	710,078	507,009	608,544	2.1
Power-gener. machinery (071)	1,214,183	1,079,670	1,146,927	3.9
General ind. machinery (074)	728,159	743,397	735,778	2.5
Office machinery (75)	776,267	713,104	744,686	2.6
Telecommunication comps. (764)	1,007,807	1,096,904	1,052,356	3.6
Televisions (761)	854,721	917,640	886,181	3.0
Radios (762)	721,144	616,292	668,718	2.3
Electrical machinery (77)	4,210,958	4,589,111	4,400,035	15.1
Road vehicles (78)	2,450,230	3,678,482	3,064,356	10.5
Clothing (84)	595,612	717,122	656,367	2.3

Notes - all data are from the UN *Commodity Trade Statistics* for the relevant years
- bracketed numbers after the item names are SITC codes

petroleum and non-ferrous metals; the latter being little restricted in U.S. markets. Venezuela has trade almost exclusively in crude oil, which also faces no barriers, as does Colombia (also with trade in coffee which is also largely barrier-free in the U.S.). A more major area with trade irritants for Colombia has, over the years, been cut flowers, where there have been a series of anti-dumping cases (involving cumulation across countries) against Colombia and other countries. Since NAFTA does not substantively change U.S. anti-dumping statutes, an extended NAFTA might equally be expected to offer Colombia little relief here.

Uruguay has large shipments of clothing, which would be little affected under an extended NAFTA unless there were major change in arrangements under the MFA. Ecuador ships tropical products (largely duty-free) and crude oil (also barrier-free) and so little change would also result here. Honduras, Panama, Costa Rica, Guatemala and El Salvador rely on a combination of tropical products (bananas, fish, coffee) and restricted items such as textiles and apparel, and sugar. Some benefits comparable to those achieved by Mexico in sugar may be possible, but elsewhere trade benefits seem small. Jamaica relies on bauxite and clothing, and Trinidad, petroleum products. The composition of Mexico's trade with the U.S. is presented in the Table for comparative purposes.

Overall then the picture that emerges of what might be at stake for other central and Latin American countries under an extended NAFTA seems to be that

(i) the North American trade coverage of all other Latin and Central American countries is less in aggregate than that of U.S.-Mexico trade;

(ii) for all these countries, their trade shares with the U.S. are less than for Mexico and in some cases (such as Argentina and Uruguay) dramatically so;

(iii) for many of the countries, their main exports to the U.S. are either in categories which are largely already barrier-free (crude oil, tropical products) or barrier-constrained in ways which an extended NAFTA would likely not significantly change (textiles/apparel, cut flowers).

Thus the economic incentives to negotiate extended NAFTA-like arrangements seem to be weaker on all sides than in the Mexican case.

The Complications of Existing Agreements

A further issue confronting an extended NAFTA is the number of possible countries involved and the fact that any such negotiations would be complicated by existing trade agreements. As Table 10 suggests, these include not only the NAFTA arrangements themselves, but a series of bilateral and other agreements concluded between various Latin American countries and the United States and other countries in the region. There are regional trade arrangements between the United States and the Caribbean countries under the Caribbean Basin Initiatives (CBI), including preferential arrangements in textiles and other key products (such as sugar) which the CBI countries had wished to see protected in a NAFTA. New attempts in the Central American Common Market are also being made to both complete their trade arrangements by adding Panama, finalize their remaining GATT accessions, and for certain countries to speed negotiations (either individually or bloc-wise) with the United States.[24]

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[24]The President of Costa Rica, for instance, has recently publicly stated the Costa Rican desire to negotiate a bilateral FTA with the United States by 1992; see *Wall Street Journal*, October 11, 1991, p.1.

Table 10

Recent and Prospective Western Hemisphere Trade Arrangements

1. U.S.-Canada Free Trade Agreement

   The U.S.-Canada FTA was concluded in October 1987 and went into effect January 1, 1989. All tariffs are to be eliminated by January 1, 1998. Tariff cuts are to be phased in over the 10-year period according to three formulas. Some tariff reductions are being accelerated. Other provisions include a bilateral dispute settlement mechanism and cover a wide range of topics including investment, energy, agriculture, government procurement, autos, wine and spirits.

2. U.S.-Canada-Mexico (NAFTA)

   Negotiations were concluded in August 1992 for a North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico. Negotiations have been divided into six main groups: Market Access, Trade Rules, Services, Investment, Intellectual Property, and Dispute Settlement. A number of subgroups deal with specific topics including tariffs, rules of origin, agriculture, autos, textiles, energy, safeguards, standards, land transportation, and others. Discussions on labour and environmental issues were held on a parallel track.

3. Caribbean Basin Economic Recovery Act (CBERA)

   The CBERA has been in effect since 1984 and is part of the broader U.S. Caribbean Basin Initiative. CBERA is that part of the CBI which extends trade preferences to the region. CBERA extends duty-free entry to the U.S. market for eligible products, provided at least 35 percent of the value-added is from a designated Caribbean country (up to 15 percent of the value may be from the U.S.). There are 28 Caribbean and Central American countries participating in the program.

4. Central American Common Market (CACM)

   The CACM is a customs union between Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica. It was first established in 1960 and broke down during the 1970s. The treaty was due to expire in 1981, but the members agreed to continue operation until a new integration scheme could be negotiated. It has recently been resuscitated with plans to include Panama. In July 1991, the members agreed to liberalize the regional trade of most agricultural products by December 31, 1991, and of all agricultural products by June 1992. Free trade agreements have also recently been signed with Mexico and Venezuela.

5. Andean Pact

   This agreement was first signed in 1969 and now consists of Bolivia, Colombia, Ecuador, Peru and Venezuela. Their objective is free internal trade by 1992, a common external tariff among Colombia, Peru and Venezuela by the end of 1993 (Bolivia and Ecuador have until 1995), and a full common market by 1995.

6. Mercosur

   Treaty of Asuncion signed in March 1991 between Argentina, Brazil, Paraguay, and Uruguay to create a Southern Cone Common Market by 1995. Objectives include the free circulation of goods, services and factors of production. The treaty also provides for co-ordination of macroeconomic policies, a common policy towards third countries and the establishment of a

Table 10 (Continued)

common external tariff. A Council of Ministers and a full Secretariat have already been established in Montevideo.

7. Bilateral Trade Agreements

These are typically bilateral tariff elimination agreements with an reaffirmation of country GATT commitments. Concluded or pending agreements include Brazil-Argentina, Chile-Mexico, Mexico-Venezuela, Venezuela-Chile, Chile-Argentina, Mexico-Venezuela-Colombia (trilateral).

8. Enterprise for the Americas Initiative

Initiative announced by U.S. President Bush in 1990. The Initiative has three key pillars: trade, investment, and debt. As part of the trade pillar, the United States has negotiated a number of framework agreements with countries - including agreements with Chile, Venezuela, and the Mercosur group. These framework agreements identify areas of mutual interest and establish general negotiating principles. Topics include barriers to trade in goods and services, investment, and intellectual property.

9. Bilateral Negotiations with the U.S.

Besides the ongoing 5 to 7-year negotiation process covering subsidies, anti-dumping and standards set out in the U.S.-Canada agreement and the NAFTA negotiations involving Mexico, several countries have indicated their desire for direct bilateral negotiation with the U.S. These include Chile, Costa Rica, Venezuela and Ecuador.

10. Latin American Integration Association (ALADI)

This treaty dates from 1960 and contains a "Super MFN" provision which states that any benefits obtained by one Latin or Central American country in a bilateral or plurilateral negotiation must be extended to all Latin and Central American countries. This is a potential complication in the NAFTA negotiations with Mexico, although the ALADI treaty has no enforcement mechanism. ALADI consists of Argentina, Brazil, Chile, Mexico, Paraguay, Uruguay, and the Andean Pact members.

11. Caribbean Common Market (CARICOM)

CARICOM was established in 1973 and replaced the Caribbean Free Trade Association which dated from 1965. The agreement provides for the establishment of a common external tariff and a common policy for trade with third countries. Members include Antigua, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Trinidad, and Tobago. Venezuela recently requested membership to the organization.

Source: Whalley (1992b), who draws on

The Economist, August 24, 1991, pp.37-38.

UNCTAD (1991), *Trade and Development Report 1991*, New York.

Union of International Associations (ed.) (1991), *Yearbook of International Organizations.* K.G. Saur, New York

USITC (1991), Operation of the Trade Agreements Program, 41st Report 1989, Washington, D.C.

International Trade Reporter, July 8, 1991, p.1184.

Various issues of the *Financial Times*.

There are also a range of actual and possible trade negotiations either under consideration or underway which would complicate a negotiation aimed at extending NAFTA.[25] Brazil and Argentina signed a bilateral trade agreement in 1987, as a result of which their cross-border trade has increased by around 80 percent. There is the attempt by the four Mercosur countries (Argentina, Uruguay, Paraguay, and Brazil) to move towards full economic integration behind a common external tariff by 1995. These countries share a common interest in agricultural exports; and even though the Mercosur treaty was only signed in March 1990, there is already a fledgling institutional structure in place with a Council of Ministers and a Secretariat in Montevideo. There is also the Andean Pact (Peru, Bolivia, Ecuador, Colombia, and Venezuela) which has been in place since 1960, but only recently began substantive negotiation with commitments to move to a common external tariff by 1994, and achieve a full common market by 1995.

Pairwise, there is also a surprisingly wide range of trade policy activity now underway. Mexico and Chile have signed a bilateral free trade agreement, which includes a commitment to phased bilateral tariff elimination over five years, and a reaffirmation of their GATT commitments.[26] Chile and Venezuela are poised to sign a similar bilateral

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[25]Also see the discussion in *The Economist*, "The Business of the American Hemisphere," August 24, 1991, pp.37-38.

[26]de la Torre and Kelly (1992) report that the bilateral Chilean-Mexico agreement "involves the phased elimination of tariffs on 90 percent of goods traded by 1995; the phased elimination of tariffs on petrochemicals, synthetic textiles, glass meat, poultry, eggs, tobacco, and some timber products by 1998; the reduction of tariffs for motor vehicles from 1996; the creation of a list of exceptions, involving 46 Chilean products (including agricultural products receiving subsidies, such as sugar and wheat, as well as grapes and apples) and 59 Mexican products (including oil and oil derivatives); the immediate abolition of all non-tariff barriers; the establishment of an "open skies" and "open seas" policy for the transport of goods and

agreement, as is Mexico. The Chileans have also openly announced their desire to move towards a bilateral agreement with the United States, and to do this before the expiration of current Congressional negotiating authority for bilateral trade agreements under which NAFTA negotiations are taking place.[27] They, in turn, were apparently advised that they should perhaps first negotiate with Mexico prior to entering a U.S. negotiation, a precondition which they have now met. Costa Rica has similarly had to face the issue of whether Central American trade arrangements should be sorted out first, and then Central American arrangements with Mexico, prior to an eventual negotiation with the United States.

And if all of this were not enough, the Latin American economies are all signatories to the Latin American Integration Association (ALADI) treaty of the 1960s, whose provisions contain a super MFN provision, which requires that any bilateral arrangements entered into by any signatory countries be extended to other ALADI countries. Thus, what Mexico has achieved in the NAFTA negotiations should, under ALADI, be extended automatically to the other Latin and Central American countries, although ALADI provisions are not backed by an enforcement mechanism.

passengers; the introduction of new rules to avoid double taxation and to harmonize investment rules; and a safeguards provision allowing each country to increase tariffs temporarily for balance of payments reasons."

[27]This authority was granted to the U.S. President by the Congress this year for two years, along with an extension of Uruguay Round negotiating authority.

Country Sequencing in a Hemispheric Trade Negotiation

Yet another issue with an extended NAFTA is the sequencing of any eventual country accession. Are all countries to accede together? If not, who comes first, and on what basis?

It seems to be commonly agreed that the country most likely to next negotiate a bilateral agreement with the United States is Chile. Chile has been actively seeking such a negotiation and had tried to start these negotiations prior to the expiration of current U.S. negotiating authority in the hope that a further bilateral negotiation would be covered. The Chileans, for the same reason, have consciously stayed out of regional trade negotiations such as Mercosur on the grounds that these would complicate an eventual negotiation with the U.S. The Chilean case is especially interesting because the Chileans have no substantive trade issues with the United States, other than health and safety inspections for horticultural products following the ban on Chilean grapes and other produce two years ago. The absence of trade conflict is, in part, because the seasons in Chile are opposite to those of the United States so that when Chilean produce is in season, it is off-season in the United States, and vice versa. Also, the significant United States ownership of companies in Chile in such areas as copper and other metallic ores is another factor. It seems widely agreed that a Chilean negotiation should indeed be relatively straightforward, although the experience we have had in recent years with trade negotiations suggests that things are seldom as easy as they might appear.

Beyond Chile, a number of other countries have similarly indicated a desire for bilateral negotiations. One is Costa Rica who have clearly flagged their interest as noted earlier. The Venezuelans and the Colombians also showed substantial interest. Argentina is a country where a negotiation may be possible although thus far a formal request from the Argentineans has not been forthcoming. Further down the list would come Brazil, which in terms of quantitative importance is, after Mexico, the most important trading partner in the region for the United States. Brazil accounts for well over 50 percent of the GDP of Latin America (i.e., excluding Mexico and Central America), and hence trade issues for this country are the dominant ones in the region, although some of the smaller countries such as Chile have shown rapid growth in trade with the U.S. in recent years.

The questions then are the approach that might or might not be taken in such negotiations; what difficulties could be encountered; and what the impacts of any eventual agreement could be in terms of gains or losses both to the United States and to the participating countries. Would, for instance, the approach be a sequential country negotiating type of approach deemed by most people the most likely, or in turn would some comprehensive agreement aimed at an overall Latin American negotiation be attempted. Alternatively, would a series of product or sectoral deals be struck which would later be extended and then consolidated into a single overall agreement.

The thinking of people in the area seems to be that the most likely development would be for the existing NAFTA partners simply to invite countries in Latin and Central America to accede to NAFTA by taking on its obligations, including the tariff elimination commitments, as well as sharing in its benefits. For Chile this may be relatively easy since liberalization has proceeded so far. For some of the Caribbean countries, this would appear attractive if they received Mexican entry terms to the U.S. market for sugar. A series of country bilateral negotiations with the United States would seem the second most likely option, and a complete hemispheric negotiation the least likely, and as I note in the introduction, either of these options seem to face difficulties.

One is that the more pairwise arrangements are involved, the more complicated the rules of origin become for new entrants. In some of the countries in Latin America, there are existing rules of origin which will conflict with those which are currently embodied in the Canada-U.S. agreement, and in NAFTA. This is the case of all LAFTA rules of origin which (to the understanding of this author) are calculated on a different basis from the NAFTA arrangements.

There will also be difficulties in modifying existing agreements where significant numbers of countries are party to them. In the case of NAFTA, this became clear in the autos case, where the content rules between Canada and the United States needed to be changed to achieve an agreement, but change only occurred under substantial duress from the Canadian side which, in turn, restrained the ability of the Americans and the Mexicans to agree on the form that content rules should take. Prior agreements such as Mercosur, ALADI, LAFTA, and others also further complicate any extended NAFTA arrangement, because of the meshing difficulties of two different sets of trade disciplines.

Assessing the Potential Benefits of an Expanded NAFTA

The potential gains and losses from an expansion of NAFTA, especially to the developing countries in the region, are, as I suggest above, somewhat difficult to quantify. On the one hand there are the clear benefits of improved access to the large-country market, and there are further insurance benefits if this access is made more secure. On the other hand, any benefits obtained by one country risk being diluted as subsequent countries enter an extended NAFTA-type arrangement. Moreover, for a number of countries their key exports to U.S. markets are either free of barriers, or subject to barriers which seem likely to change little in an expanded NAFTA. Combined with the fact that for several countries in the region, their trade share with the U.S. is significantly below that of Mexico, the direct benefits from access improvements to U.S. markets to the Latin and Central Americans from an extended NAFTA do not, at first sight, seem that great. This all suggests that while not harmful the main access benefits to these countries might be more of the insurance type from improved security of access, rather than access improvement *per se*. There may be other benefits to acceding countries if their objective is, like Mexico's, in part to use trade agreements to lock in domestic policy reform.

This line of argument is consistent with the analysis presented in a recent paper by Erzan and Yeats (1992). They suggest that except for Brazil and Mexico, most Central and Latin American countries stand to gain relatively little from bilateral agreements with the U.S. compared to either what gains may accrue from such schemes to the U.S., or from regional agreements among themselves. It should be noted, however, that the Erzan-Yeats calculations have been viewed by some as somewhat counter-intuitive since for small countries the major benefit in trade liberalization should come from gaining access to the larger market. In part, the Erzan-Yeats calculations reflect the asymmetry in initial levels of barriers which are much lower in the larger market (the U.S.).

With the exception of Brazil, the markets in the Latin American countries are also relatively small and as a result the expectation would seem to be that the benefits to the United States from a process of enlarging NAFTA would also be small unless initial levels of barriers in some of the larger markets, such as Brazil, were high. In some countries this is still the situation[28], but in others most of the potential access benefits to the United States will already have been achieved through unilateral liberalizations initiated by these countries.

What does seem clear, however, is that as smaller countries first gain access to the larger country market through a negotiated agreement, many of their benefits of access will be transferred as other countries join later, giving an incentive to prevent other smaller countries gaining equal access and undermining their margin of preference. Thus if the United States market were sequentially opened up to a series of Central and Latin American suppliers through an expanded NAFTA-type process, to the extent that it genuinely provides improved access, this could have the effect of simply reallocating the benefits that initial entrants have received to subsequent entrants with little new global benefit and, in fact, a dilution of benefits for early entrants relative to their initial negotiation.

In short, the expansion of NAFTA, like the expansion of the Canada-U.S. agreement to the NAFTA, runs into the difficulties identified by Wonnacott (1990) of any hub-and-spoke system of bilateral trade agreements that benefits to early entrants are diluted through the trade diversion effects between them and later entrants to the agreement.

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[28]Nogués and Quintanilla (1992) report 1991 average tariff barriers for Central and Latin American countries as: Argentina, 10 percent; Brazil, 32 percent; Paraguay, 16 percent; Uruguay, 27 percent; Bolivia, 10 percent; Ecuador, 17 percent; Colombia, 24 percent; Peru, 17 percent; Venezuela, 17 percent; Costa Rica, 52 percent; El Salvador, 48 percent; Guatemala, 50 percent; Honduras, 41 percent, Nicaragua, 54 percent.

IV. CONCLUSION

This paper discusses the potential expansion of a North American Free Trade Agreement (NAFTA) to include Latin and Central American countries in a wider ranging system of hemispheric trade rules. The political momentum behind such a set of negotiations with this aim may indeed be strong, but there are difficulties in achieving such an arrangement. The trade involved, in aggregate, is relatively small (smaller than U.S.-Mexico trade); the countries involved have considerably lower trade shares with the U.S. than with Mexico; and substantial amounts of the trade at issue are either barrier-free or occur in products for which barriers will probably change little.

Moreover, the sequential entry of countries into such an arrangement would progressively dilute benefits which had been previously obtained by new entrants to the agreement. The complications associated with increasing numbers of existing parties to an ever expanding agreement is a further problem in such areas as rules of origin, the difficulties involved in modifying existing NAFTA arrangements, and accommodating prior agreements such as in Mercosur, ALADI, LAFTA, and other regional agreements in Latin America. The negotiating difficulties which country negotiations aimed at progressively enlarging NAFTA would face could well be such that the effort rapidly became overwhelmed or watered down to such a degree that the substantive result is of minimal consequence. Inviting countries in the region to sign on to NAFTA as it now stands seems a more workable arrangement.

There are also significant questions as to how large the benefits from such an arrangement would be and to whom they would accrue. The benefits to the developing countries entering such an agreement would become progressively smaller because of the dilution effect mentioned above, and the trade shares in some cases are small. On the other hand, if the benefits they seek are of the insurance variety (guarantees against future barrier increases) or locking in domestic policy reform, then these benefits may outweigh the more traditional access benefits stressed in negotiations of this kind. But the paper also identifies the risks of exclusionary deals emerging in some sectors of the type which have already been struck in NAFTA and in the Canada-U.S. agreement (autos, apparel), which need to be offset against costs.

Time will now only tell whether or not a substantive effort will be made to expand NAFTA in the ways I discuss here. In part, the idea of an expansion of NAFTA emerged as a negotiating tactic for a larger country (the U.S.) which had progressively become frustrated in dealing with fellow large partners in multilateral negotiations in the GATT. It is also something now actively sought by some of the smaller countries in the region (Chile, Costa Rica) who have changed their own domestic policy orientation towards more openness, are dubious of major forward progress multilaterally, and rejecting the North-South schisms of the past are now willing to move hemispherically.

It was seemingly no accident that the week of the supposed final Uruguay Round Ministerial in Brussels in December 1990 coincided with a week-long tour of Latin America by President Bush promoting the Enterprise for the Americas Initiative. A strong and successful conclusion to the Uruguay Round could perhaps undermine further attempts to achieve a substantive expansion of NAFTA. But a weak, indecisive or a nil conclusion to the Uruguay Round will almost certainly accelerate things the other way. From a developing country point of view the countries being invited to join have to ask themselves what the benefits are, whether they face any significant costs, and if they are proceeding on a realistic basis.

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