

## AMERICAS CHOICE THE SLOW PATH TO GLOBAL TRADE COOPERATION

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SUMMARY: I. *Why trade regionalism in the Americas?* II. *Multilateralism in the Americas.* III. *Is hemispheric multilateralism — A precursor to global multilateralism?* IV. *Conclusions.*

Free trade agreements are blossoming throughout the Americas. Two principal agreements have been established, one in the north and the other in the south. Other agreements, some bi-lateral, others in country groupings, have been formed throughout the Western Hemisphere.

A reoccurring question casts a shadow over all these arrangements whether the Americas must choose between regionalism or multilateralism? Is there a choice, or will the answer to this question be determined by the way trade arrangements are falling into place, virtually without direction?

Often, the expected answer to a question can be foretold by the way in which it is phrased. For example, if the question posed in the previous paragraph had been, 'Must the Americas choose between regionalism, or are we faced by the *specter* of multilateralism?' The reader would have surmised, correctly, that the questioner was not that much in favor of multilateralism and expected a negative answer.

Similarly, and without being so obvious, words which should be neutral, in reality take on different meanings in different contexts. Such meaning may elude the reader, unaware of the 'twist' given to them by the questioner.

These two words, ‘regionalism’ and ‘multilateralism’, which are used repeatedly in this paper, are not neutral words, they carry the baggage of many generations. Their meaning tends to undergo a transformation, sometimes not so subtle, by the writer or speaker who employs them.

This paper seeks to avoid any such hidden agenda. Its purpose is to develop the theme that regional trade agreements are a pre-requisite to multilateralism. Even more, and this is where the true meaning of these two words takes on even greater importance, before hemispheric-wide arrangements are possible, sub-regional agreements will have to develop and then coalesce into regional groups.

These regional groups in turn and in time, may eventually become the global or multilateral trade arrangements sought by those who wish to remodel the General Agreement on Tariffs and Trade [GATT] and/or the World Trade Organization [WTO] into a true global free trade agreement.<sup>1</sup>

To avoid possible misunderstanding the definition of these two words must be clarified and refined in the context of this paper and properly understood in the development of free trade arrangements in the Americas.

Traditionally, when the word ‘regionalism’ is used, its meaning is intended to cover cooperative relationships between a group of neighboring, or closely identified nations, within a specific geographic area. Thus, regionalism when applied to the Americas, generally means hemisphere-wide cooperative activities. For example, the OAS is a regional organization and the Inter-American Development Bank is a regional development institution.

On the other hand, when the word ‘multilateralism’ is used, it normally means cooperation on a wider, global basis, not limited to any specific geographic area. If the Western Hemisphere was to join in activities together with Europe, Africa and Asia, the word, ‘multilateral’ could be properly be applied to such cooperative efforts. This would be an example of ‘mulilateralism.’ Thus, the United Nations

1 An interesting discussion of regional and multilateral trade agreements may be found in *Regionalism and the World Trading System*, WTO, 1995.

obviously is a multilateral organization, as is the World Trade Organization.

However, in the context of the Americas, and for the proper analysis of these trade issues, a narrower, more focused meaning is necessary. A meaning which can be used to distinguish between the activities of integral parts of the hemisphere without using the laborious expression, used elsewhere —‘sub-regional.’ Thus, when utilized in this paper, the term regionalism specifically refers to cooperative activities in a certain part of the hemisphere — North America, for example, or Central America or the Caribbean. While, when the term multilateralism is used, it is reserved for activities on a hemisphere-wide basis.

In this context, examples of trade regionalism in the Americas include the Andean Pact, CARICOM, MERCOSUR, and NAFTA, among others. However, as for multilateral or hemispheric trade cooperation, it is not possible to give any examples, as none presently exist!

## I. WHY TRADE REGIONALISM IN THE AMERICAS?

There is little doubt that regional trade agreements are on the rise in the Americas today. While, notwithstanding the efforts of the United States in sponsoring the Miami Summit of the Americas in 1994 and the subsequent discussions on the possible creation of a Free Trade Area of the Americas, an hemispheric trade alliance does not yet appear to be even on the horizon. Why one and not the other?

The answer would seem to be obvious. Trade alliances are created primarily to foster trade between the members of the group. Thus, on this level, economic motivation drive states to seek trade alliances. However, the urgency to seek such close trade alliances is not at all equal between all the countries of the Western Hemisphere. Nor are the economic considerations equally strong.

Canada, for example, was willing and even eager to negotiate a free trade agreement with the United States because it was deter-

mined to ensure continued access to the United States market for its exports. When Canada signed NAFTA, the U.S. was Canada's most significant trading partner with Canada exporting more than 75 percent of its goods to its southern neighbor.<sup>2</sup>

However, Canada does not have the same motivations to enter into a hemispheric alliance.<sup>3</sup> While there is little doubt that increased trade with its southern neighbors also would be attractive, the risks inherent in such an arrangement and the amount of possible increase in such trade is not so important to Canada to compel it to put aside the other considerations which enter into the equation for entry into a hemisphere-wide alliance.

Canada is more than willing to enter into trade arrangements with individual countries to the South but is reluctant to do more than that, at least for the present. A hemisphere-wide free trade area is not the foremost on Canada's political horizon.

The countries of the south are no different. MERCOSUR is a thriving free trade alliance consisting of Argentina, Brazil, Paraguay and Uruguay. When these countries created this trade bloc they anticipated that, by joining together in MERCOSUR, trade between these neighboring countries would be certain to increase. And in fact, the increase in the level of trade among MERCOSUR member states has exceeded expectations. Intra-MERCOSUR trades increased 200 percent in four years, from \$4 billion in 1990 to nearly \$12 billion in 1994.<sup>4</sup>

With the admission of Chile to MERCOSUR and the expectations that the ALADE group and other countries also will join, the trade alliance between these South American neighbors, broadly speaking, will envelope the entire southern part of the American Continent. Even taking into account Chile's past attempts to join NAFTA, which now, with Clinton's re-election, may be resurrected once again, it is far more interested in assuring itself a place at the MERCOSUR table.

2 1995 Fact Sheet, prepared by the Policy Staff of Department of Foreign Affairs and International Trade, Ottawa, Canada, p. B-4.

3 One only need to look at Canada's past relationships with the OAS to see how reticent this country has been to enter into hemispheric relationships, although this position has been ameliorated in the recent past.

4 Pea, Felix, *The Emerging Southern Cone*, 18 Wash. Q. 113 (1995).

What about the effect of these mega-alliances on trade with outside countries? An interesting phenomenon has developed. As the famed economist J. Viner claimed,<sup>5</sup> trade arrangements not only create trade between the partners they also divert trade from outside the partners which develops into additional intra-trade with trading partners. To those within, a good symptom, to those outside, a sign of possible sickness!

The recent outcry which accompanied the leak of an unpublished World Bank report indicating that least one of the MERCOSUR partners, Brazil, was distorting trade relations to protect its own automobile industry at the expense of non-MERCOSUR members, is but one sign that such diversion is hurting.<sup>6</sup>

Is there any doubt that Mexico was looking for increased investment when it changed the economic and foreign relations course it had taken for so many years? In fact, Article 102 of NAFTA<sup>7</sup> specifically sets out this motivation as one of the objectives for the formation of this regional trade pact.

Thus, these regional trade arrangements are primarily fostered by the urge to increase trade, perhaps at the cost of others, to avoid being frozen out of trade arrangements, and to ensure continued markets, especially when other countries are seeking to join together in alliances that threaten such markets.

However, as noted, there is more than one level to the underlying rationale to develop trade alliances. Political considerations which are often difficult to separate out from economic interests are also part of the forces that moves countries to merge their trade interests.

The political directorate of the countries of the hemisphere, including the United States, had only to look over the Atlantic Ocean to see the rapid progress made by the EU in developing its trade alliances. Intra-trade in Europe has increased beyond belief since the creation of the Community and now the establishment of the Union.

5 Viner, J., *The Customs Union Issue*, Carnegie Endowment for International Peace (1950) cited on p. 43, *Regionalism and the World Trading System*, WTO (1995).

6 Unpublished information.

7 Art. 102 The North American Free Trade Agreement, Dec. 17, 1992, Can.-Mex.-U.S., 32 I.L.M. 289, 297 (1993).

While the obvious answer to such a powerful trading bloc would have been the creation of an American bloc, this was not to be. At least not yet. The forces that keep the countries of the Americas apart are still stronger than those that should have brought them together in a common trade pact. The obvious answer is not one which is presently politically palatable.

Not even in the United States. If the Congress of the United States hesitated to extend fast track authority for Chile's adherence to NAFTA is any example, the difficulties that would be faced by trying to obtain authority to fast track the entire Western Hemisphere would have been many-fold!

The Miami Summit and the excursion into a possible Free Trade Area of the America notwithstanding, there is little chance that a hemisphere-wide alliance realistically will be brought forward beyond the discussion and planning stages in the near future unless conditions, policies and politicians change radically.

However, that is not to say that nothing could or should be done in the meantime. If a hemispheric trade bloc was not possible, why not smaller, regional groupings? Certainly, some of countries of this hemisphere were not prepared to allow common external tariffs to be erected against their exports without taking protective measures. They believed the creation of a North American trade agreement would offset the impact of such trading blocs. Thus, first came the creation of the Canadian-US Free Trade Agreement [CFTA] and then NAFTA.

And with NAFTA, some of nations of the Southern Cone believed that the best trade defense would be the creation of a zone of their own. They feared they would become the outsiders in a world increasingly divided into regional trading blocs.

Dean Alexander of the NAFTA Research Institute gave voice to this perception when he stated that nations fear that they will be shut out unless they form trade alliances.<sup>8</sup> The choice for nations is either to form trading blocs or become left behind. Perhaps the so-called

8 Finley, Bruce, "Trade: A Global Perspective", *The Denver Post*, June 18, 1995.

fortress effect should be emphasized. Those behind the walls benefit while those on the outside are left to wander in the wilderness of protectionism. However, the question remains, how large a fortress?

Obviously as noted above, this question is not answerable solely in economic terms. Political realities play as large a role as economic considerations in the determination of which countries are acceptable partners in regional trade alliances.

Proximity certainly plays an important role. Neighbors, even of disparate size, know each other. Those distant are less known. The advantages of regional groupings can be demonstrated while the advantages of a hemisphere-wide group are yet unknown. There is still the fear, which undoubtedly is also present to a lesser degree in regional groups, that smaller countries may be overwhelmed by stronger members of an hemisphere-wide trade group.

Grouping together in a regional trade arrangement —MERCOSUR, for example— certainly gives a measure of comfort in dealing with NAFTA countries. Uruguay or Paraguay, to use two examples, have far more leverage as part of MERCOSUR, than they could possibly have by themselves. Thus, regional movements can strengthen the bargaining power of smaller states.

The formation of regional groupings permits easier and more manageable negotiations. Certainly it is a truism that the fewer negotiating parties there are, the more easily united fronts can be formed and common interests defined.

It is claimed that the so-called hub and spoke effect which is created by the formation of regional groupings is not as advantageous as the linear approach which would result from the creation of a hemisphere-wide free trade area. This is true. There is little doubt that this hub and spoke effect, produced by the multiplicity of regional trading groups, is not the most efficient way to develop trade arrangements. Perhaps not, but for the countries within the groups it is perceived as the safer way to proceed. The luxury of a more efficient or advantageous approach is simply not yet available.

Kolwalczyk and Wonnacutt in their 1992 paper, *Hubs and Spokes and Free Trade in the Americas*, National Bureau of Economic Re-

search,<sup>9</sup> speak of the crazy-quilt effect that would be produced by extending the hub and spoke arrangement throughout the hemisphere. Countries in one bloc would be faced with tariffs and trade restrictions in every direction by competing blocs. It would be far easier if every country in the hemisphere was able to trade on the same terms with each other.

But this is not to be, at least not in the short or medium term. Thus for the time-being the hub and spoke system is really the only game in town. There is a perceived need to go slow and the way regional trade agreements have developed acknowledge this need.

If the growth of the regional groupings is analyzed, we find that they have grown from smaller groups into larger ones. NAFTA grew out of the US-Canadian agreement while MERCOSUR is growing today into a far larger regional grouping than that formed by its original four member countries. Chile has joined,<sup>10</sup> and as noted below, Bolivia, Venezuela and Colombia are in membership discussions with MERCOSUR.

On another level, it is frequently claimed that regional trade liberalization schemes are a preparatory stage, a stepping stone for larger schemes; that they strengthen the multilateral trading system by enhancing trade liberalization and by accelerating implementation of multilateral commitments.

It is possible that as a result of existing regional agreements in the Americas - CARICOM, CACM, MERCOSUR, NAFTA and the others - a larger hemispheric free trade area in the Americas is more likely to come into existence one day.

However, there are still many obstacles to such an hemisphere-wide trade agreement. While the growing process from bilateral to regional groupings has been relatively free-flowing and the growth within regional groups is developing rapidly, will such growth lead the regional groups to coalesce into a single hemisphere-wide group,

9 *Hubs and Spokes and Free Trade in the Americas*, National Bureau of Economic Research, Working Paper No. 3476 [1992] cited on p. 52, *Regionalism and the World Trading System* (1995) WTO.

10 Adam, Patrick, *MERCOSUR Group Plans Pacts with Chile, Bolivia*, Reuters, June 23, 1996.



or will such a multilateral trade arrangement be created alongside existing groupings?

The U.S. Government's view, as expressed by Stuart E. Eizenstat, Undersecretary of Commerce for International Trade at the U.S. Commerce Department, seems to favor a little of both. He remarked that the U.S. for its part would like to begin exploring ways how MERCOSUR and NAFTA could converge or "...at least go on parallel tracks to achieve the end result,..." the creation of a free trade area in the Americas.<sup>11</sup>

It has been noted above that there is some indication of interest in an eventual hemispheric grouping. In December 1994, thirty-four nations of this hemisphere met at the Summit of the Americas and agreed to consider negotiating the creation of a Free Trade Area of the Americas by the year 2005.<sup>12</sup> Subsequently, working groups were created.<sup>13</sup>

However, is this timetable viable? Is the creation of a FTAA possible in the short run? And, will the the efforts to create it derail the movement to strengthen and enlarge regional groupings?

No! This timetable is unrealistic. The time is not opportune for the creation of a hemisphere-wide body that would supplant NAFTA and MERCOSUR. It may possible, however, for regional blocs eventually to coalesce and form into an hemisphere free trade area. But, the creation of a super-trade group alongside the existing regional groups is not likely.

11 U.S., Canada Will Talk with MERCOSUR with or without Mexico, Official Says, *International Trade Daily*, BNA, June 25, 1996.

12 Morton, Peter, "Americas Free Trade Push", *The Financial Post*, Nov. 29, 1991.

13 FTAA working groups were initially created to identify and examine existing trade-related measures in seven areas, with a view to identifying possible approaches to FTAA negotiations. The groups were as follows: market access, customs procedures and rules of origin, investment, standard and technical barriers to trade, sanitary and phytosanitary measures, subsidized and smaller economies. Additional FTAA working groups were established at the March 1996 FTAA meeting held in Cartagena, Colombia to address four controversial areas including: government procurement, intellectual property rights, services, and competition policy. FTAA Intellectual Property Group Agrees on Its Work Plan, Deadlines, *International Trade Daily*, BNA, July 2, 1996. The trade ministers also agreed to establish an additional working group on dispute resolution at the 1997 ministerial meeting. Rossella Brevetti, Ministers Agree to Establish a Dispute Settlement Working Group, *ibidem*, March 27, 1996.

The regional groups, especially MECOSUR<sup>14</sup> will continue to grow and strengthen. However, the perception remains that there is a need to go slow. Too fast is not good. Like the slogan on American highways, 'Speed kills!' This perception is still too strong to overcome any desire, if there is any, to form a super trade group along side the regional groupings.

The concerns and suspicions of generations are not to be overcome overnight, nor in ten years of nights. And such suspicions come not only from the South to the North but also are evident from recent actions in the United States, especially the failure of the US Congress to approve the fast-track Congressional process for the proposed NAFTA negotiations with Chile.<sup>15</sup>

How would Brazil, for example, view the formation of a super trading group along side of MERCOSUR? What would be its affect on that group's members? Would MERCOSUR vanish in a puff of smoke to be replaced by a 20 plus nation alliance? What would Brazil's comparative strength, not to speak of Paraguay's, be in such a super free trade group?

If GATT and the WTO have not been able to overcome the suspicions of the South towards the North,<sup>16</sup> how can the countries of MERCOSUR be expected to permit their envelopment within a US dominated trading bloc?

Today, it is more likely, as Brazil recently suggested, that a South American Free Trade Area, or SAFTA,<sup>17</sup> will be created. The evidence points that way. The interests of the southern states to join with friendly [and sometimes, not so friendly], neighbors into something else, is of long standing and, now, fueled in part by the need to compete with the colossus of the North and its trading bloc, NAFTA,

14 See, e.g. "Why Wait For NAFTA", *Business Week*, December 5, 1994.

15 Even if this is seen by some as a sign of U.S. internal political processes rather than to US foreign policy considerations.

16 See, "World's Best Hope for Global Trade Topples Few Barriers", *The Wall Street Journal*, December 3, 1996. Also, "Spoiling World Trade", *The Economist*, December 7, 1996.

17 Brazil formally proposed SAFTA in October 1993. Sands, David R., "South America May Set Up Trade Union Before U.S.", *Washington Times*, June 28, 1994. In March 1994 the MERCOSUR nations formally gave their backing to SAFTA. The aim is free trade for not less than 80% of goods by 2005, NAFTA Is Not Alone, *The Economist*, June 18, 1994.

the impetus is even greater. Perhaps the United States even helped push this effort in this direction by its failure to capitalize on Chile's interest, now waning, to become the fourth member of NAFTA.

Recent events, particularly, Chile's recent accession to associate membership<sup>18</sup> in MERCOSUR, the proposal by MERCOSUR and the acceptance by the Andean Community<sup>19</sup> to negotiate as a group with MERCOSUR and to initiate negotiations leading to a joint free trade area, and even the interests of Bolivia,<sup>20</sup> Venezuela<sup>21</sup> and Colombia,<sup>22</sup> individually, to join MERCOSUR, are certain signposts to the future with a united South American trade group. There is also talk of Mexico negotiating an agreement to join MERCOSUR.<sup>23</sup>

18 After meeting with some resistance, the accord was approved on September 10, 1996 by a broad majority in the Chilean Senate. González, Gustavo, "Economy-Chile: Integration With Latin America's Most Dynamic Bloc", *Inter Press Service*, September 30, 1996. On October 1, 1996, Chile officially joined MERCOSUR under an agreement signed on June 25, 1996. Chile Joins South American Common Market, *Agence France Presse*, October 2, 1996. As an associate member of MERCOSUR, Chile will participate only in MERCOSUR's intra-regional free trade scheme, and not the customs union part of the project. The Chileans have an 11 percent across-the-board external tariff and if they were to become a full member of MERCOSUR they would have to adopt MERCOSUR's common external tariff, which ranges from 0 to 20 percent. "The Chile-MERCOSUR Free Trade Agreement Effects on Foreign Direct Investment in The Southern Cone", *Latin American Law and Business Report*, August 31, 1996.

19 Colombia's foreign trade minister said that the five member nations of the Andean Community —previously known as the Andean Pact— will negotiate as a bloc to join MERCOSUR. Talks are to begin in January 1997. *Sun-Sentinel* Ft. Lauderdale, Sept. 9, 1996; Gutierrez, Estrella, "Andean Community: In Search of a Strong, United Image", *Inter Press Service*, July 2, 1996.

20 Bolivian President Gonzalo Sanchez de Lozada said that the most difficult parts of an agreement between Bolivia and MERCOSUR had been agreed upon and that the pact would be signed within 90 days. Pilling, David, "Bolivia to Sign Free Trade Pact with MERCOSUR", *The Financial Times*, June 26, 1996. Bolivian economic negotiator Víctor Rico meets with MERCOSUR representatives on October 9-10, 1996 to finalize details of an agreement to form a free trade zone between Bolivia and MERCOSUR in hope of signing an agreement by December 17, 1996. Bolivia To Hammer Out Details in MERCOSUR Accord, *Agence France-Presse*, October 8, 1996.

21 "Now is the time to bet on the expansion of MERCOSUR, so at the right time we will take new steps to reach an integration with Venezuela and other Latin American countries that want to join," said Brazilian President Fernando Henrique Cardoso. Recasts With Pact Signing, Hemispheric Significance, *Agence France Presse*, June 25, 1996.

22 Chile Joins South American Common Market, *Agence France Presse*, October 2, 1996. Mexican President, Fernando Cardoso and Argentinean President Menem To Discuss An Alliance Between Mexico and MERCOSUR, *Agence France Presse*, September 4, 1996.

23 Agustin Espinoza, Uruguay's principal representative to MERCOSUR, stated the agreement with Bolivia will be followed by negotiations with Venezuela, Colombia, Ecuador, and Peru. Chile Formalizes Agreement for Associate Membership in Southern Cone Common Market, *Latin American Institute*, July 19, 1996.

Perhaps U.S. interest in creating a hemisphere-wide trading group, the FTAA, will have to be put aside while it tackles the task of reconciling the competing interests of NAFTA with SAFTA.

Perhaps even Bolívar's dream of regional integration will be realized through the coalescing of these regional trading groups in South America. But on an hemisphere-wide basis, not even the most idealistic free trader can reasonably perceive this becoming a reality in the near future.

## II. MULTILATERALISM IN THE AMERICAS

Critics of regional trading groups argue that the formation of regional groups is not an advance towards the creation of a hemisphere-wide body but is an obstacle to it. This theory places its reliance on the fact that the development of regional groups is perceived as a substitute for a hemisphere free trade area. These groupings are an end in themselves. The argument is based on the premise that the conflicts between the groups will become so intense that reconciliation between them would not be possible.

Undoubtedly the existence of regional groups will give rise to issues which will have to be taken into consideration in negotiations for a hemispheric system. This, however, is different from saying that the formation of regional groups will stop the march towards such a system.

However, the problems raised by the naysayers are real. For example, there will be the need to reconcile the differences between the concepts and principles of the two major trading systems — NAFTA and MERCOSUR.

One of these issues is greater liberality of NAFTA treatment of its internal tariffs as compared with those of MERCOSUR, another, the common external tariff of MERCOSUR with the lack of such an external tariff in NAFTA. Both of these issues will engender major problems.

However, it is postulated that while difficult and troublesome to negotiate, even such issues will not stand in the way of a hemis-

phere-wide agreement when the time comes and when all parties see the necessity to merge the groups.

Another point worth mentioning in this context is the so-called the ‘floor versus the ceiling’ concept. It is likely that the ceiling, or the maximum concession, would become the floor or starting point in wider, hemispheric negotiations. For example, the labor and environmental side agreements to NAFTA are the “ceiling”, the most to which NAFTA members were willing to commit. However, in future negotiations, these agreements are likely to become the “floor”, the least that existing member states would accept as the price for joining in a wider bloc.

There are also hierarchical problems of scheduling, transitional stages, and implementation that would have to be overcome. None of these are make-or-break obstacles. Given time, even the most die-hard advocate of regional arrangements is likely to come around to see the inherent benefits of an hemispheric system.

It also has been claimed that the negotiation of reasonable tariff reductions and elimination of non-tariff barriers would be affected by the threat of future hemispheric trade arrangements. This theory would have us believe that a country would hesitate at granting concessions to a fellow member of a regional trading bloc if such concessions would subsequently have to be made to the members of another trading bloc when the trading groups coalesce.

While these are factors that may have to be taken into consideration when concessions are sought, it is doubtful that they would really become serious impediments to the willingness to grant concessions within an existing group. For the most part countries are more concerned with the reciprocal benefits to be gained and other immediate effects of reduced tariff and non-tariff barriers than possible future implications of such concessions on third parties.

Another theory holds that as regional trade arrangements become stronger, protectionism threatens the growth and progress of global trade. This also is another of these shibboleths which seem to be more true in the abstract than in reality. By itself, it is true that a single strong regional trading bloc, the EU, for example, may be able to

exert a protectionist mantle over its internal market. But this is not the way the system works. Competing blocs, the EU, NAFTA, MERCOSUR, etc., require a relatively free flow of trade among the blocs. Markets are needed from each other. Cooperation is required and of course, in the ultimate analysis, retaliation is a constant threat. In fact, the evidence is strong that these groups do cooperated with each other—for example, the recent moves of accommodation between the EU and MERCOSUR.

As noted, a more likely prospect is that regional arrangements will be seen as the pool from which an organized process of rationalization and simplification could be drawn to establish first, core hemispheric interest. Regional agreements could be seen as structures on which to build hemispheric multilateralism.

Hemisphere-wide arrangements will come about. The forces that bring about the regional groups will, in turn and with time, bring about the hemispheric trading bloc.

Several questions remain. How will the growing process be decided? Who will make the decisions be made as to which arrangements would be used as the starting point?

Jose Botafogo, Brazilian Under secretary has stated that, “The United States contends that all countries should join NAFTA.”<sup>24</sup> But, he claims, this is not acceptable to the MERCOSUR nations. The members of MERCOSUR believe this solution would not preserve their strategic advantages. These countries are very differently situated from those of the NAFTA countries. Of course, as noted above, his country, Brazil, is not likely to look with favor on a NAFTA solution for the Americas. Also, as noted above, if this strong antagonism towards NAFTA is maintained, then it is likely that there countries of the Western Hemisphere will look towards the south for their model.

However, notwithstanding the competing interests of the regional trade groups, given time, it is more likely than not that they will eventually coalesce into a single, hemisphere-wide free trade area. Given the right impetus, perceived and real obstacles will be overcome.

24 Brazilian Official Comments on Forthcoming Meeting on American Free Trade Area, BBC, March 18, 1996.

### III. IS HEMISPHERIC MULTILATERALISM — A PRECURSOR TO GLOBAL MULTILATERALISM?

Moving from the narrow meaning of multilateralism adopted for this paper back to the more traditional and wider meaning, it is very possible that the experience of member states in regional, that is hemispheric, groupings will make multilateral or global relationships, eventually more feasible and more desirable.

It is not possible to predict when this will come about, but it is doubtful that such a global trading group will be possible until a hemisphere-wide group will have been formed in the Americas which will be able to negotiate with the EU and the ASEAN and other groups from a position of trading strength. A strong hemisphere group will enable its members to more readily accept negotiations on a global basis.

The reluctance of smaller countries and even smaller group to negotiate globally will be overcome by the strength they would have obtained from their participation in the regional groupings.

The potential for expanded export markets will act as an overwhelming incentive to global multilateralism. The economics offered by global free trade will eventually overcome both perceived and real obstacles.

There are, of course, some very real impediments to multilateralism. While countries have shown a willingness to accept the framework of a World Trade Organization,<sup>25</sup> one should not forget the travail that was endured to bring this world-wide institution into being. It took almost 50 years from the aborted birth of the ITO and the formation of GATT, through the eight negotiating rounds, to come to a point where the creation of the WTO has become possible.

Yet, even with the advent of the WTO, there is still considerable resistance to a true world-wide trade system. For example, there are

<sup>25</sup> *General Agreement on Tariffs and Trade*, October 30, 1947, 61 Stat. (5) at A2051, 55 U.N.T.S. 194. The Uruguay Round concluded on December 15, 1993. The Agreement Establishing the World Trade Organization opened for signature on April 15, 1994, reprinted at 33 I.L.M. 1144. The H.R. Doc. No. 316, 103d Cong., 2d Sess., Vol. 1, 659-667, 669-678 (September 27, 1994).

perceived problems of sovereignty as evidenced by the the exchange of correspondence between President Clinton and the then Majority Leader of the US Senate, Robert Dole, in November 1994, when hearings were under way for legislation to implement the Uruguay Round. This correspondence tried to establish another escape clause, the infamous WTO Dispute Settlement Review Commission.<sup>26</sup> Which, in effect gave the United States the unilateral right to withdraw from the WTO if a number of disputes went against it!

If this type of arrangement was required to bring a long-overdue structural institution into being, how likely is the creation of a hemisphere-wide free trade area in the foreseeable future?

Then, as noted above, there are the considerable and substantive differences between the developing and developed nations. Can their different concepts of the speed with which global free trade should develop be reconciled? These are smoldering fires which are been kept from bursting out into flame up to now.

If the United States, which has been keenly involved in the formation of WTO, sees a vigorous trade dispute resolution mechanism as a potential threat to its sovereignty and if the specter of economic survival is raised by developing nations which see developed nations calling the shots in the workings of the WTO,<sup>27</sup> then such issues and others, would be raised in the context of the creation of a global free trade area.

It is not too difficult to extend these perceived fears onto a global-wide trading arrangement. These issues have to be resolved and it is believed that considerable time is needed for their resolution. Thus, the belief that a too sudden move toward global trading arrangements would impede further attempts to strengthen possible hemispheric trade arrangements. This would be tragic.

Global arrangements may ultimately and eventually, comfortably subsist with hemispheric arrangements. But there is potential for conflict. The moves must be slow and certain, not sudden and precipitous.

<sup>26</sup> Documents relating to the Clinton Administration's agreement with Sen. Dole (R-Kan) concerning the Uruguay Round Agreement, Issued by the White House, November 23, 1994.

<sup>27</sup> See, "Spoiling World Trade", *The Economist*, December 7, 1996.



#### IV. CONCLUSIONS

A number of conclusions may be drawn from the foregoing:

*First:* Regional trade arrangements in the Western Hemisphere will continue to develop and grow in the immediate future.

*Second:* Links between such regional groupings in the Americas will ultimately result in creating hemispheric multilateralism, the creation of a single-hemisphere-wide trading bloc.

*Third:* Global multilateralism is a desirable ultimate goal. Its achievement will be facilitated by regionalism and hemispheric multilateralism. This achievement, however, will be seriously impaired and delayed, unless countries are conscientious that timing is the key to success; that the many impediments to a successful system can only be overcome with an appreciable measure of time. Failure to recognize that the speed is not the essence to successful negotiation to a global free trade arrangement would be disastrous.

The future of free trade in the Americas is certain. NAFTA and MERCOSUR and the other smaller groupings are but signposts to an eventual Free Trade Area of the Americas. And with a Free Trade Area of the Americas, the door will have been opened to an eventual Global Free Trade Area.