Preferential Trading Arrangements in the Western Hemisphere

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The first half of this decade has witnessed an explosion in the creation and rejuvenation of preferential trading arrangements. Indeed, since 1990, 33 regional agreements have been notified to the GATT. An understanding of the basic structure of these agreements within the Western Hemisphere is critical to the ex ante assessment of the potential impacts of a Western Hemisphere Free Trade Agreement (WHFTA) on individual countries and groups, as well as specific sectors such as agriculture and food processing.

Internationalization of the production and marketing of agricultural and food products has become the modus operandi for U.S. agribusinesses. This is especially true in the Western Hemisphere where the United States sells more than one-fourth of its agricultural exports (by value) and purchases about one-half of the total value of its agricultural imports (Valdes, et al.). Additionally, U.S. agricultural trade in the hemisphere is accompanied by an increased importance of high-value agricultural product (HVP) trade in both the Western Hemisphere, and globally (Disney and House). These trends are expected to strengthen due to continuing economic and trade policy liberalization in Latin America and the Caribbean combined with the emergence of new and revitalized preferential trading agreements.

The first half of this decade has witnessed an explosion in the creation and rejuvenation of preferential trading arrangements throughout the western hemisphere. There have been thirty-three regional agreements registered with the GATT since 1990 (Blandford). The most notable and widely debated of these arrangements have been the Canada-United States Free Trade Agreement (CUSTA) and the North American Free Trade Agreement (NAFTA).[1] Less visible, but equally important, was the Enterprise for the Americas Initiative (EAI) put forth by President Bush in 1990. The EAI was intended to help developing countries in Latin America reduce debt, attract foreign investment, and encourage trade liberalization in the western hemisphere. The goal of trade liberalization was given additional impetus at the December 1994 Summit of the Americas in Miami, Florida where 34 countries agreed to set 2005 as the target date for creation of a western hemispheric free trade area (WHFTA). One of the first tangible post-Summit steps towards achieving this goal has been the opening of negotiations with Chile on accession to NAFTA.

Though CUSTA and NAFTA have attracted the most attention, there are numerous other regional trade agreements that define the economic and political landscapes that must be traversed if a WHFTA is to become a reality. These agreements are extremely important as they will likely play a major role in stimulating trade within the hemisphere, and also influence the negotiation of hemispheric trade agreements.

An understanding of the basic structure of existing preferential trading arrangements within the western hemisphere is critical to the ex ante assessment of the potential impacts of a WHFTA on national economies, as well as specific sectors such as agriculture and agribusiness. Development and growth in preferential trading arrangements may well determine the economic viability and competitiveness of individual firms and entire industries. These agreements define the status quo of the existing trade and investment policy framework in the hemisphere, and therefore provide the basis from which change must be measured. Only when this complex policy environ-

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[1] The Uruguay Round of GATT also occupied considerable world attention during this period. However, these negotiations concerned the global trading system as opposed to regional preferential trading arrangements.

ment is understood, can comprehensive assessments of policy alternatives be developed. This is especially critical with regards to agricultural trade policies.

Given the relatively slow growth of demand for agricultural and food products in the domestic market, success for U.S. agribusiness firms will increasingly be measured in export markets with strong population growth and increasing household incomes. As such, Latin America and the Caribbean represent opportunities for U.S. firms. Since preferential trading arrangements will increasingly shape export markets for U.S. agricultural and food products in the hemisphere, and will influence the form and substance of any hemisphere-wide free trade area, it is critical that U.S. agribusiness firms understand these preferential trading arrangements and their potential impacts on competition in both domestic and export markets.

The purpose of this paper is to identify and provide an overview of the current structure of preferential trading arrangements in the western hemisphere. The discussion will attempt to provide an understanding of the tangled web of current and emerging trade agreements which will influence agricultural-sector trade and thus the actions and decisions of agribusiness firms in the coming years.

The Structure of Regional Trade Agreements

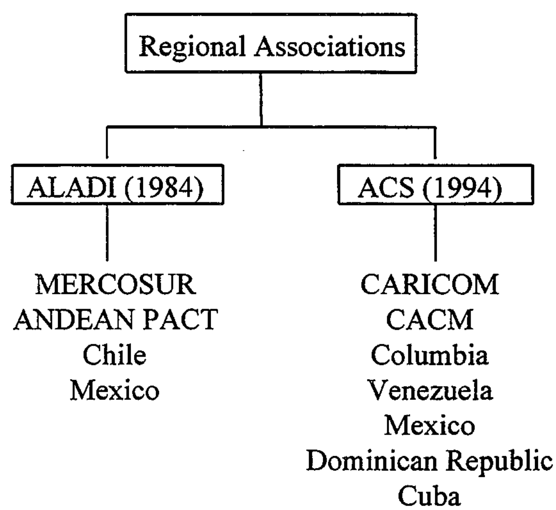
The structure of preferential trading arrangements in the western hemisphere is varied and complex. Existing agreements fall into all of the textbook typologies including preferential trading clubs, free-trade areas, customs unions, common markets and economic unions (Chacholiades). Additionally, several non-reciprocal agreements and regional associations created to foster the process of economic integration also exist. Given this policy web, there is, perhaps, no best way to disentangle existing preferential trade arrangements. For purposes of exposition, however, a hierarchy based on distinctions traditionally made in international trade theory appears best suited to the task at hand.

Regional Associations

Regional associations are generally political in nature, formed to facilitate the attainment of general policy goals agreed upon by member countries. As shown in Figure 1, there are two major regional associations in the western hemisphere, the Latin American Integration Association (ALADI) and the Association of Caribbean States (ACS). ALADI, came into existence with the signing of the Montevideo treaty in 1980. The current member countries are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela (Forsythe and Neff). The ultimate goal of ALADI is the establishment of a common market for its member countries, although there is no specific timetable for its accomplishment. ALADI is a successor to the Latin American Free Trade Association formed in 1961.

For the most part, ALADI provides a broad framework by which total integration of member countries can proceed incrementally through the creation of sub-regional agreements. As noted by Forsythe and Neff, this is accomplished primarily by requiring sub-regional agreements negotiated by member countries to contain accession clauses for other ALADI signatories. It should also be noted that ALADI also functions as a stimulus to broader economic integration by encouraging

Figure 1. Regional Associations in the Western Hemisphere.



linkages with other trading blocks in the hemisphere.

The Association of Caribbean States (ACS) was created with the signing of the founding Convention in Categena, Colombia in July, 1994. Impetus for the formation of the ACS came from Caribbean Community (CARICOM) in 1992 in response to recommendations in the Report of the West Indian Commission (Gill). Member countries include those in CARICOM, and the Central American Common Market (CACM)[2] Columbia, Cuba, the Dominican Republic, Venezuela, and Mexico.

As is the case with ALADI, the ACS is not a free trade area, but rather an association intended to foster economic integration through the promotion of trade liberalization and political consensus building. This type of arrangement is considered especially critical to CARICOM, which because of its small economic size (in terms of aggregate population and GDP), has fears of being marginalized as full hemispheric integration proceeds. Membership in the ACS enhances the chances that CARICOM will have a meaningful seat at the trade liberalization negotiating table.

The ACS has numerous goals as stated in Articles III.2 and II.3 of the ACS Convention. Of special significance is the promotion among member countries of: 1) economic integration including the liberalization of trade, investment and transportation; 2) formulation of policies and programs for functional cooperation; and 3) preservation of the environment and conservation of natural resources, especially the Caribbean Sea. While these goals are desirable, as are the other goals stated in the ACS Convention, there are no specific recommendations as to the mechanics by which they may be actively pursued.

As a new association, this is perhaps to be expected. However, as noted by Gill (p.15), the purpose of the ACS remains broadly defined and it seems that the Association may have put the "cart before the horse." Indeed, where as many, if not most such associations grow from a natural or common "felt need" among member countries, such does not appear to be the case with the ACS. As such, whether or not the ACS becomes an economically and politically significant actor in the move towards the establishment of a WHFTA remains to be seen.

It should also be noted that Cuba's membership in the ACS may represent a political liability to other member countries in terms of relations with the U.S. The recent attempt by Senator Helms to strengthen the U.S. embargo on Cuba by sanctioning U.S. trade with countries that continue to engage in trade and commerce with Cuba is evidence of this. Whether or not the U.S. will enact such sanctions, is unclear. However, it is clear that as long as U.S. - Cuban relations remain contentious, those countries engaging in agreements such as the ACS, increase their vulnerability to volatile political sentiments in the U.S. that are quite unrelated to the stated economic goals of such agreements.

Non-reciprocal Trade Preference Agreements

Non-reciprocal trade preference agreements (NRTPA) afford unilateral preferential treatment by one country (or group of countries in the case of the European Union) to one or more beneficiary countries. Though important determinants of the policy environment in terms of hemispheric integration, the primary motivation behind such agreements has been to foster economic development and perhaps more importantly, political stability. Within the western hemisphere, this is manifest in the fact that such agreements are generally characterized by developed countries offering preferential market access to groups of developing countries. A notable exception is the non-reciprocal agreement between Venezuela and CARICOM.

As illustrated in Figure 2, there are six NRTPA involving countries in the western hemisphere.[3] The Generalized System of Preferences (GSP) was established under Title V of the U.S. Trade Act of 1974 for a period of 10 years and was re-enacted in the Trade Act of 1984 (Peters and Taylor). The agreement extended duty-free

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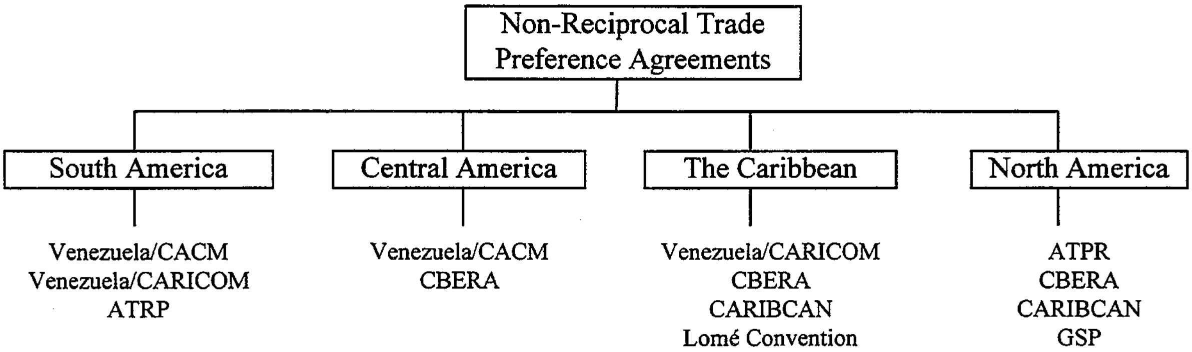
[2] The countries that comprise CARICOM and CACM, as well as these two common markets are discussed below.

[3] Though the EU is not formally a part of the western hemisphere, the preferential trade policies offered to members of the British Commonwealth through the Lomé Convention are economically important to many countries in the region.

Figure 2. Non-Reciprocal Trade Preference Agreements.



access to the U.S. market for about half of all U.S. tariff items to eligible less-developed countries (LDC) in the hemisphere. Eligibility was based on a number of economic, legal and political factors (see Peters and Taylor, p.14), and could be suspended at the discretion of the President. At present, the vast majority of developing countries in the western hemisphere are beneficiaries under the GSP.

The Caribbean Basin Economic Recovery Act (CBERA),[4] was originally enacted by Congress in 1983 for a period of 10 years, but was made permanent in 1990. Of the 28 Caribbean countries eligible for trade preferences under the agreement, 24 have become beneficiaries. The terms of, and criteria for eligibility under the CBERA are generally similar to those of the GSP. However, the number of tariff items granted duty free access was increased as emphasis was placed on helping beneficiary countries expand exports in non-traditional commodities.

While the CBERA received considerable attention when passed, in fact, the agreement functionally represented a relatively minor change from trade preferences already granted under the GSP. The primary reason being that those commodities in which Caribbean Basin countries had the greatest potential to expand (e.g. textiles and clothing, leather goods, petroleum etc.), as well as key investment provisions were excluded from the agreement (Fairchild, et al.).

With the passage of NAFTA, beneficiary countries expressed concern that the trade preferences granted under the CBERA had been substantially eroded. This resulted in discussion and debate over the need for new trade legislation aimed at regaining some parity with pre-NAFTA preferences, or pursuing accession to NAFTA. Legislation which would provide "NAFTA parity" to CBERA beneficiaries has been introduced in Congress (H.R. 1403 and S. 1155; Dominguez), but action has yet to be taken.

Similar in nature to the CBERA, the Caribbean and Canadian Trade Program (CARIBCAN) was enacted by the Canadian government in 1986. This agreement was directed toward the English-speaking Caribbean, and intended primarily as an economic development program. CARIBCAN provided duty free access for virtually all tariff items produced by beneficiary countries. However, as is the case with the CBERA, certain commodities including clothing, textiles, leather goods and garments were excluded (Forsythe and Neff).

The Andean Trade Preference Act (ATPA) was enacted by the U.S. in 1991. The terms of the Act permitted the elimination of tariffs on the majority of U.S. imports from Bolivia, Columbia, Ecuador and Peru for a period of 10 years. At present, only Bolivia and Columbia have been designated as beneficiaries (Forsythe and Neff).

The motivation for the ATPA was to provide economic incentives for Andean countries to strengthen and diversify their export bases, thereby reducing their dependence on coca and the drug trade. While well intentioned, the ATPA

[4] This Act is also commonly referred to as the Caribbean Basin Initiative (CBI).

provides rather modest economic incentives when compared with coca export revenues that are estimated to amount to around $5 billion annually.

Venezuela and CARICOM entered into a non-reciprocal trade agreement in 1993. Under the terms of the agreement, Venezuela granted some CARICOM products immediate tariff relief with tariffs on the remaining commodities scheduled for elimination by 1996. In return, CARICOM has agreed to allow Venezuelan products to enter under most favored nation (MFN) tariff schedules, which grant the lowest available tariff rate to all countries. The motivation behind this agreement appears to be Venezuela's desire to expand oil exports to CARICOM member countries.

Though technically not a NRTPA, nor confined to western hemispheric countries, the Lomé Conventions between the European Union (EU) and former European colonies in Africa, the Caribbean and Pacific (ACP) are of significance to hemispheric integration. The initial Convention (Lomé I) was signed in 1975 and the current Convention (Lomé IV) was signed in 1990 with scheduled expiration in 2000. The Lomé conventions involve a complex set of economic policies ranging from preferential access to EU markets for ACP countries, to development assistance and export stabilization programs (Gonzales).

Perhaps the most significant element of Lomé with respect to western hemispheric integration involves the special protocols granted rums, sugar and, most importantly, bananas. The banana protocol grants special access to EU markets for commonwealth Caribbean producers, and provides the basis for substantial foreign exchange earnings, especially in the Windward Islands. However, an alliance of "dollar" banana producers in Central and South America have vigorously challenged these policies under GATT. The fate of these challenges is unclear. But, as bananas represent the major source of foreign exchange earnings and significant employment in the Windward Islands, the negative economic consequences of the removal of the banana protocol on these islands are certain. How this would affect the integration process remains to be seen.

Common Markets and Customs Unions

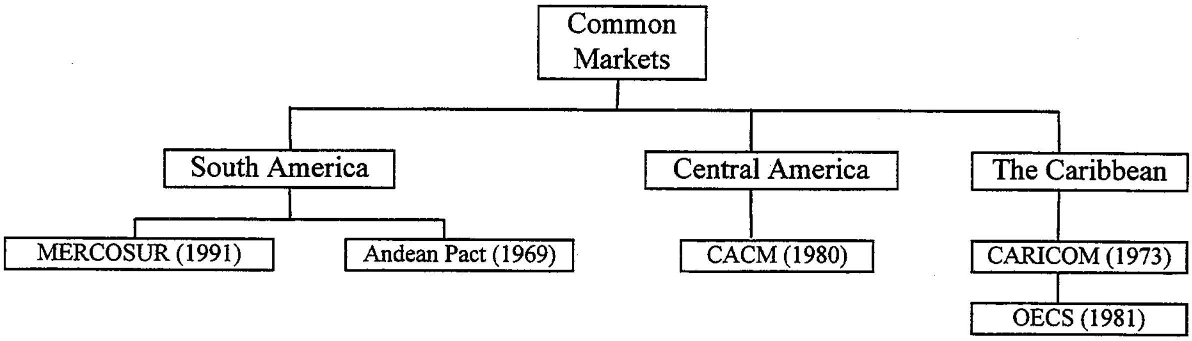
Two closely related types of preferential trade agreements, customs unions and common markets, are also the most important in Latin America and the Caribbean. A customs union exists when member countries eliminate all imports tariffs and set a common external tariff (Chacholiades). If in addition all factors of production are granted free movement among member countries, a common market is established. The current common markets and customs unions in the western hemisphere are illustrated in Figure 3.

The Mercado Comun del Sur (MERCOSUR) was created by the Treaty of Asuncion in March, 1991 with the objective of establishing a common market by December 31, 1994. Signatories to the agreement were Argentina, Brazil, Paraguay and Uruguay. These countries had a combined GDP of approximately $768 billion in 1993 (EIU), amounting to more than half of Latin American GDP. Argentina and Brazil dominate MERCOSUR economically, accounting for more than 98% of its GDP. MERCOSUR currently has a population of roughly 200 million people, of which 20% is indigent.

The creation of MERCOSUR had both political and an economic motivation. The political motivation originated with non-military rulers who wished to consolidate democracy and safeguard peace in the region in the belief that "integration can be seen as a guarantee against coups d'etat" (Manzetti, p. 110). Security was defined not in military terms, but rather in economic terms. MERCOSUR was also perceived as a way to improve the bargaining power of the individual countries in broader trade liberalization negotiations. The economic reasons for creating the pact included increased competitiveness and efficiency gains from trade liberalization and increased transfer of capital and technology.

Under the terms of MERCOSUR, signatories agreed to eliminate internal tariffs on approximately 90% of goods traded and establish common external tariffs ranging from 0-20%. The average common external tariff is 14% and covers 80% of all traded products. Internal tariffs on remaining products are to be eliminated by 2001.

Figure 3. Customs Unions.



The initial economic impact of MERCOSUR has been notable. Trade within the customs union has tripled since 1990 to over $18.5 billion. Additionally, direct investment and joint ventures have increased in response to the opportunities raised by an expanded market. It is interesting to note that many of the businesses that have flourished under MERCOSUR have traditionally been considered sensitive. For instance, Banco Itau from Brazil has opened its first branch in Argentina.

MERCOSUR has been seen as an extremely ambitious plan from its outset. However, some have argued that the agreement merely accelerated economic events that were inevitable (Foster). In spite of the progress made, however, the potential exists for disputes to arise over sectors vulnerable to competition such as sugar in Argentina or automobiles in Brazil. The resolution to such disputes may be difficult since no supranational dispute settlement mechanisms exist within MERCOSUR, and decisions must made by consensus among the four governments. It should be noted, though, that supranational institutions have been avoided because of the sovereignty issue and the example of the obstructing bureaucracy created by the Andean Pact (see discussion below).

In 1992, Bolivia requested membership in MERCOSUR. However the request was denied despite the fact that about 60% of all Bolivian trade occurs with MERCOSUR signatories. The denial was due to Bolivia's membership in the Andean Pact and Article 20 of the Asuncion Treaty which prohibits membership in another sub-regional alliance. A considerably different situation exists regarding Chile. MERCOSUR has actively sought Chile's membership because it provides a natural gateway to the Pacific nations, with whom it has established strong trade relations. Additionally, Chile would bring prestige to MERCOSUR because of its highly respected economic and trade polices. To date, Chile has refused membership because its tariffs are lower than the common external tariffs established by MERCOSUR. However, on June 2, 1995, Chile and Bolivia supported proposals for inclusion in MERCOSUR. Both are likely to become associate rather than full members.

The Andean Pact was created by the Cartagena Agreement in 1969. The original signatories were Bolivia, Chile, Colombia, Ecuador and Peru. However, Venezuela joined the pact in 1973 and Chile withdrew in 1976. The five current members of the Pact had a combined GDP of $176 billion in 1993 (EIU), accounting for just over 2 percent of total hemispheric GDP. Total trade between member countries was valued at $6 billion in 1993 and accounted for about 9.5% of total trade.

The goal of the Andean Pact is economic integration of the Andean region, with special attention given to the equitable distribution of benefits resulting from the process. The agreement provides for the harmonization of social and economic policies and pertinent legislation, the programming of industrial development, a program of trade liberalization and the establishment of a common external tariff. In addition, mechanisms to address infrastructure needs and to promote agriculture and cattle-raising were proposed and a rules-of-origin system and safeguard measures were included. Matters related to the PACT were to be addressed by the Commission, a high-level decision-making body, and the Board, technical body in charge of regular operations.

Though ambitious in its creation, until the 1990s the Andean Pact generally failed to make substantive progress towards regional integration. However, the 1991 Act of Barahona, and the creation of a free-trade zone between Bolivia, Colombia, Ecuador and Venezuela in 1993 have revitalized the integration efforts of member countries. In 1994, multi-level common external tariffs were adopted with certain exceptions being granted to Bolivia. The Act of Barahona also redefined the long-term goal of the Pact to be the creation of a common market similar in concept to the EU.

Significant progress has also been made in liberalizing investment regulations and increasing protection for trademarks and intellectual property. It is especially interesting to note that in the negotiation of other agreements dealing with investment in traditionally sensitive industries such as metallurgy, Colombia and Venezuela have delegated considerable responsibility to the private sector. This has resulted in increased cooperation and the establishment of joint ventures.

In spite of its recent progress, the Andean Pact still faces significant barriers to achieving its ultimate goals. Of most recent significance is the war between Ecuador and Peru over border territory thought to be rich in uranium and gold. There are also continuing differences of opinion among Andean Pact member countries as to the U.S. handling of the "War on Drugs." This latter obstacle will likely become more contentious as broader hemispheric trade liberalization negotiations proceed.

The Central American Common Market (CACM) was created in 1960 by El Salvador, Guatemala, Honduras and Nicaragua with the objective of establishing a common market by 1966. Costa Rica joined the common market in 1962 and Panama in 1991. In 1993, the combined GDP of the CACM was about $36.3 billion, amounting to less than one half of one percent of total hemispheric GDP (EIU). Total trade of member countries amounted to almost $20 billion in 1993. About 13% of this trade occurred among CACM member countries.

Because of past failures with attempts to achieve political integration, the main motivation for the creation of the CACM was a purely economic desire to capture efficiency benefits and economic growth through increased intra-regional trade. Intra-regional trade did increase from about 7% of total imports in 1960 to 24% in 1969 (Hufbauer and Schott). However, some studies suggest the region would have experienced economic growth in this period even if it the CACM would have had a negative impact on intra-regional trade (Mendez). Thus the efficacy of the CACM in achieving its goals are somewhat in doubt.

During the 1980s, the CACM fell into disarray as a result of internal political conflict in many member countries. Most notable were the Sandinista revolution in Nicaragua, the civil war in El Salvador, and the U.S. invasion of Panama to topple General Manuel Noriega. During these years, both regional economic growth and intra-regional trade declined sharply.

With the return of some degree of political stability to the region and the desire to increase Central America s leverage in hemispheric trade, the CACM was revived in 1990 when the Central American presidents agreed on establishing common custom and tariff policies. In October of 1993, El Salvador, Guatemala, Honduras and Nicaragua signed the General Treaty on Central American Integration which expanded the original goals of the CACM to that of achieving an economic union. The four countries became known as the 'Group of Four', when Costa Rica and Panama declined to sign the treaty due to differences in economic and policy structures (EIU 1994). The Treaty reaffirmed the original goals of the CACM which called for the establishment of a free-trade zone among the member countries and a common external tariff. Additional provisions included: the reduction of tariffs with a rules-of-origin clause, elimination of export subsidies and the resolution of "disloyal practices" (i.e. dumping), cooperation among the Central Banks to preserve currency convertibility, creation of the Banco Centroamericano de Integracion Economica, and the harmonization of legislation pertinent to fiscal incentives.

An administrative structure was also established including a Central American Economic Council to coordinate the economic policies of the member countries and an Executive Council designated as the decision-making body responsible for implementing the terms of the treaty. A Permanent Secretariat was also established to conduct day-to-day activities.

The Caribbean Community and Common Market (CARICOM) was formed in 1973 by the Treaty of Chaguaramas and its Common Market Annex. Signatories to the Treaty were: Jamaica, Trinidad and Tobago, Barbados, Guyana, St. Lucia, Dominica, St. Vincent and the Grenadines, Grenada, Antigua, Belize, Montserrat, and St. Kitts, and the Bahamas. It should be noted that the Bahamas belong only to the Caribbean Community , having declined membership in the Common Market. Though the largest of the hemispheric common markets in terms of country numbers, CARICOM is the smallest by standard economic measures. Over the 1991-1993 period, the total GDP of CARICOM averaged about $16.8 billion annually, amounting to 0.2% of total GDP in the western hemisphere. Total trade for CARICOM in 1993 was valued at slightly over $14 billion. Only about 7% of total trade occurred between CARICOM countries.

The original objectives of CARICOM were to: liberalize trade; establish a common external tariff, and cooperate in technical areas such as energy and transportation. As was the case with other hemispheric common markets, the primary motivation behind the creation of CARICOM was to promote economic growth. However there was also a desire to cushion the region against the uncertainties of the market (Black Enterprise) and a desire to overcome the "... insignificance to which miniaturization condemns them" (The Economist, p. 49).

As noted by Hufbauer and Schott, CARICOM languished for almost 15 years before attempting to rejuvenate the process of achieving its original goals. A System of Rules for Enterprises to promote investment in certain targeted sectors was agreed upon in 1988 and the 1989 Grand Anse Declaration proposed a new common external tariff. Several delays in the implementation of the external tariff followed this agreement. At present, the larger member countries have adopted the tariff, though the smaller Leeward and Windward islands have yet to do so.

Though the CARICOM countries share a common history of colonization and democracy, they vary significantly in terms of geographic size and strength of their economies. Barbados, Belize, Guyana, Jamaica and Trinidad and Tobago, are larger, more diversified economically, and generally more developed than the smaller Leeward and Windward islands. In 1981, these smaller islands agreed to from the Organization of Eastern Caribbean States (OECS) as a means of enhancing their economic and political position in regional matters. The OECS is considered as an associate institution within CARICOM.

In 1987, the OECS member countries agreed to pursue the formation of an economic union. To this end, the OECS has established a common currency (the Eastern Caribbean Dollar), and assumed responsibility for operation of the Eastern Caribbean Common Market, the Eastern Caribbean Currency Authority, the Eastern Caribbean Central Bank and the Eastern Caribbean States Supreme Court (Forsythe and Neff).

Free Trade Areas

Free trade areas eliminate all import duties between member countries, but have no impact on tariffs between member and non-member countries. As illustrated in Figure 4, there are four agreements in the western hemisphere that establish free trade areas. By far the most significant is the North American Free Trade Agreement (NAFTA) which created the framework for achieving a free trade area composed of Canada, Mexico and the U.S. within 15 years. The dominance of this free trade area in the western hemisphere is evidenced by the fact that its three member countries accounted for over 87% of total hemispheric GDP in 1993 (EIU). The NAFTA and Canada-U.S. Free Trade Agreement (CUSTA) have been widely discussed and hence are not summarized here.[5]

The Northern Economic Triangle (NET) was established with the signing of a free trade agreement by Guatemala, El Salvador and Honduras in 1992. Though entering its third year, the agreement has yet to be implemented. In spite of the lack of tangible progress, it appears likely that

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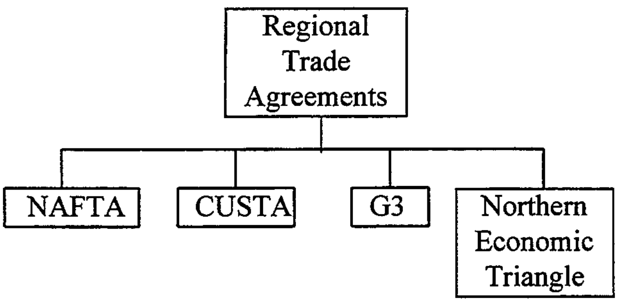
[5] Excellent discussions of both agreements can be found in Schott and Smith (CUSTA) and Hufbauer and Schott (NAFTA).

Nicaragua and Costa Rica will seek to join the agreement in the near future (Valdes, Wainio and Gehlhar).

In 1993, Colombia, Venezuela and Mexico completed negotiations to establish a free trade area that has subsequently been termed the Group of Three (G3). The agreement, which began implementation at the beginning of 1995, has the goal of eliminating tariffs on 60% of all traded products within 10 years. Most remaining products are considered "import-sensitive" and were excluded from the agreement.

Figure 4. Free Trade Areas



Bilateral Trade Agreements

In addition to the various forms of multilateral agreements already noted, Figure 5 illustrates that there are 10 bilateral trade agreements within the western hemisphere. The precise terms and motivations for such agreements are specific to participating countries. Venezuela, is the most active country, having entered into bilateral agreements with Chile, Colombia, Costa Rica, and El Salvador. Chile, the only major country in Latin America yet to join a major customs union or common market, has signed bilateral agreements with three countries: Colombia, Mexico and Venezuela.[6]

There is no general motivation that can be ascribed to all of the bilateral trade agreements in the western hemisphere. Chile has chosen to pursue the path of developing bilateral agreements, as opposed to entering into a trading block such as MERCOSUR, primarily because its liberal trade policy regime has made this its most attractive option. Furthermore, Chile desire to join NAFTA has been clear for some time, and membership in a trading block such as MERCOSUR could be detrimental to the achievement of this goal. Though Venezuela is a member of the Andean Pact, its pursuit of bilateral agreements seems consistent with its desire to develop stable and secure markets for its oil exports.

Figure 5. Bilateral Trade Agreements

Chile/Columbia	Guatemala/Honduras
Chile/Mexico	Guatemala/United States
Chile/Venezuela	Venezuela/Costa Rica
Costa Rica/Mexico	Venezuela/Columbia
Guatemala/El Salvador	Venezuela/El Salvador

Implications

As demonstrated by the foregoing discussion, the structure of preferential trade agreements in the western hemisphere is complex, ranging from bilateral trade arrangements, to customs unions such as MERCOSUR and the Andean Pact, to regional integration associations such as the ACS and ALADI. This tangled web of trade agreements will play a role not only in shaping a WHFTA, but also in determining market opportunities for U.S. agribusiness firms. How these trade arrangements will affect the formation of a WHFTA, and the implications in terms of competition and new market opportunities for U.S. agribusinesses, are difficult to gauge in great detail. However, there are some general inferences that can be made.

As regards the creation of a hemispheric free trade area, the process of trade liberalization is already well under way. Perhaps the most significant occurrence over the past 25 years has been the coalescence of economic viewpoints in terms of trade and investment policy. In contrast to the import substitution industrialization (ISI) model followed by most Latin American and Caribbean countries prior to 1970, these countries are now embracing export-led growth strategies predicated on the liberalization of trade and in-

6 Chile has, of course, begun negotiation with Canada, Mexico and the U.S. on possible accession to NAFTA, and as already noted is considering becoming at least an associate member of MERCOSUR.

vestment policies. The creation and rejuvenation of major regional trade agreements within the hemisphere are the outcomes of the move towards trade liberalization, rather than ex ante instruments of trade liberalization Furthermore, these trading blocks represent a natural stepping stones as countries form linkages with those trading partners with whom they are most familiar. Given this, it appears that the major trading blocks (e.g. MERCOSUR, CACM) will provide the building blocks from which a WHFTA will emerge.

In addition to providing a potential foundation for a WHFTA, regional and sub-regional trade agreements in the hemisphere also significantly impact agricultural trade and market opportunities though the creation of trade among member countries and the diversion of trade from non-member countries. As noted by Valdes, Wainio and Gehlhar, much of the growth in agricultural trade in the western hemisphere over the past 25 years has occurred within rather than between regional trade blocks. While this may be offered as evidence of trade diversion, a more plausible explanation is that this is a manifestation of trade creation associated with economic and trade policy liberalization throughout Latin America and the Caribbean.

The economic impacts of regional trading blocks are generally discussed in terms of trade creation and trade diversion. However, the most important impacts in terms of market opportunities for U.S. agribusinesses are the income growth and consumption effects resulting from trade liberalization. The effects of preferential trade arrangements on the demand for U.S. products varies by both trading block and product form. For example, members of MERCOSUR have significant competitive advantages in member-country markets over U.S. agribusinesses in bulk agricultural commodities. This is a manifestation of trade diversion, based partly on differential tariff rates. However, the income growth created by MERCOSUR is also creating new markets for high- valued products such as consumer-ready foods in which the U.S. is competitive.

In addition to opportunities for export market development for value-added food products, income growth associated with trade liberalization also creates opportunities for investment. United States agribusinesses can take advantage of the increasing demand for direct foreign investment throughout the hemisphere. Part of the motivation for more liberal trade policies is to compete favorably for foreign investment. Success in international markets is becoming more a function of investment and less of product exports from the home country. U.S. agribusiness firms are well positioned to profit from this investment demand. For example, while the demand for high-value food products is increasing in Latin America, there is also strong local brand identification and loyalty in many markets. However, local food processors and marketers need investment capital, creating investment opportunities in joint ventures for U.S. food firms.

Trade liberalization has changed the investment climate in much of Latin America and the Caribbean. Investment laws have been liberalized, as countries recognize the importance of foreign investment. Economics has replaced military considerations as the prime motivation for forming alliances. Looking beyond the hemisphere, a North Atlantic Free Trade Area is being touted as a replacement for NATO, replacing military objectives with economic ties. Trade liberalization, often manifested through preferential trading arrangements, is destined to create expanded export and investment opportunities for U.S. food and agribusiness firms in the future. Understanding the nature and implications of these trading arrangements will help convert opportunities into positive economic realities.

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