



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

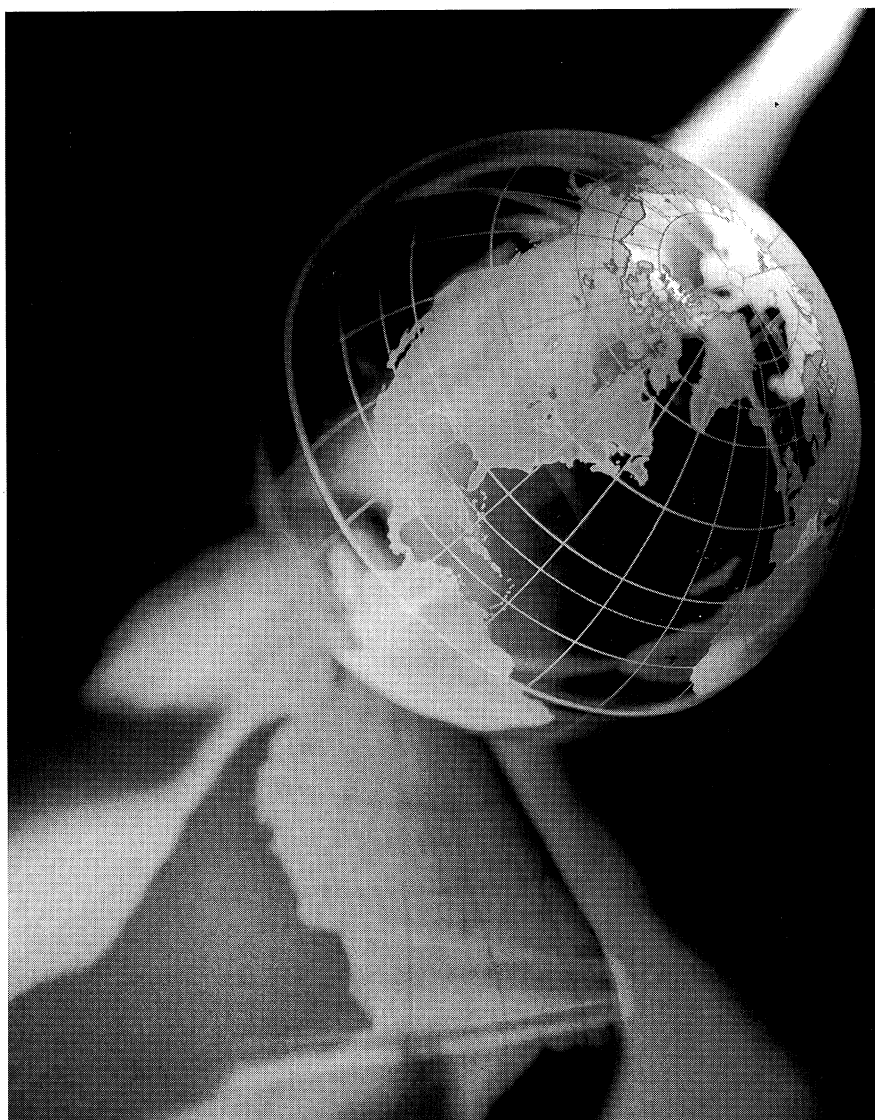
AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

ECONOMIC INTEGRATION IN THE WESTERN HEMISPHERE

Edited by Constanza Valdés and Terry Roe

April 1997



**PROCEEDINGS OF A SYMPOSIUM SPONSORED BY THE
INTERNATIONAL AGRICULTURAL TRADE RESEARCH CONSORTIUM
AND THE INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE
JUNE 7-9, 1995 SAN JOSÉ, COSTA RICA**

Economic Integration In The Western Hemisphere

**Proceedings of a Symposium Sponsored by the
International Agricultural Trade Research Consortium
and the Inter-American Institute for Cooperation on Agriculture
June 7-9, 1995 San José, Costa Rica**

Edited by Constanza Valdés and Terry Roe

April 1997

Valdés, Constanza and Terry Roe, editors (1997). Economic Integration in the Western Hemisphere. St. Paul, Minnesota: University of Minnesota, Department of Applied Economics, International Agricultural Trade Research Consortium.

Additional copies available from the
International Agricultural Trade Research Consortium

PREFACE

The International Agricultural Trade Research Consortium [IATRC] is a group of 160 economists from 16 countries who are interested in fostering research related to international trade of agricultural products and commodities and providing a forum for the exchange of ideas. The Consortium holds two conferences per year, one in December and another in June. The December conferences have a theme day related to trade and trade policy, or occasionally to new developments in trade theory or research methods. The June conference typically focuses on broader issues of trade policy and trade research, as exemplified by this conference on *Economic Integration in the Western Hemisphere* held in San Jose, Costa Rica in June 1995.

The activities of the IATRC are made possible by financial support from the Economic Research Service and the Foreign Agricultural Service of the US Department of Agriculture [USDA], and from Agriculture and Agri-Food Canada. This conference, was also supported by the Inter-American Institute for Cooperation on Agriculture (IICA). IICA, founded in 1942, is the specialized agency for agriculture of the Inter-American System. It is composed of 33 Member States of the Western Hemisphere, creating a link among North, Central, and South America and the Caribbean. Its mission is to encourage, facilitate, and support cooperation to promote agricultural development and rural well-being. IICA provide financial and logistical support for the conference, as well as helping in the development of the program and the identification of speakers.

Over 100 individuals attended this conference, with approximately 30 percent from Latin America, 50 percent from the United States, and the remainder from other locations, including Canada, Europe and Africa. The conference entailed over 15 papers, and several panel discussions. The editors acknowledge the contributions of the discussants and other participants whose comments are reflected in the final versions of the papers included in this proceedings.

Organizing an international conference typically requires the sacrifices of a few individuals willing to produce such a "public good." Among the contributors to this conference were Laura Bipes, Administrative Director of the IATRC and of the Department of Applied Economics, University of Minnesota, and Sonia García, Administrative Assistant to the Director of Trade and Integration, IICA. Without their special efforts, the conference would not have been the success it was. Very sincere expressions of gratitude are also owed to Rodolfo Quirós Guardia, Director of Trade and Integration, IICA and to IICA more generally for helping to conceptualize the conference, for encouraging participation from economists and policy analysts from throughout Latin America, and for making available the facilities and the pleasing environment within which the conference was held. Special thanks goes to Susan Pohlod, University of Minnesota, for preparation of this manuscript for publication. We hope that this conference helps to establish a precedent leading to more cooperation and integration of skills and ideas in the future.

IATRC membership information, and a complete list of past IATRC conferences and related publications, including proceedings, commissioned papers and working papers, is available from Laura Bipes, Administrative Director, Department of Applied Economics, University of Minnesota, St. Paul, MN 55108. Information about the IATRC is also available at <http://www.umn.edu/iatrc>.

IATRC Conference Proceedings

Economic Integration in the Western Hemisphere

TABLE OF CONTENTS

Preface	i
List of Contributors	v
Forward	
<i>Constanza Valdés and Terry L. Roe</i>	vii
SESSION 1. EVOLUTION TOWARDS REGIONAL INTEGRATION	1
Joining an Existing Regional Trade Agreement: Issues and Policies from the Perspective of a Small Open Economy in Latin America (<i>Alberto Valdés, World Bank</i>)	1
Learning to Make Markets Work in a Newly Opened Economy: The Mexican Experience (<i>Andrés Casco, Mexican Secretariat of Agriculture</i>)	9
SESSION 2. WESTERN HEMISPHERIC INTEGRATION AND THE WORLD TRADING SYSTEM	17
Regionalism versus Multilateralism in the World Trading System (<i>David Blandford, Organization for Economic Cooperation and Development</i>)	17
SESSION 3. INTEGRATION, ECONOMIC DEVELOPMENT, AND AGRICULTURAL POLICY REFORM	25
Structural Adjustment, Integration and Agricultural Policy Reform: Lessons from Jamaica's Agricultural Sector (<i>J. R. Deep Ford, University of Vermont and Timothy Josling, Stanford University</i>)	25
SESSION 4. LESSONS FROM TRADE NEGOTIATIONS IN THE WESTERN HEMISPHERE	47
Lessons Learned From the NAFTA: A U.S. Perspective (<i>Carol Goodloe, Foreign Agricultural Service, U.S. Department of Agriculture</i>)	47
SESSION 5A. PATTERNS OF TRADE FOR AGRICULTURAL PRODUCTS IN THE WESTERN HEMISPHERE	55
Patterns of Chilean Agricultural Trade in the Context of NAFTA and MERCOSUR (<i>Eugenia Muchnik, Universidad Católica de Chile</i>)	55
Agricultural Trade and Economic Integration in the Western Hemisphere: Current Status (<i>Constanza Valdés, John Wainio and Mark Gehlhar, Economic Research Service, U.S. Department of Agriculture</i>)	87
SESSION 5B. INTEGRATION, TRADE AND ENVIRONMENTAL POLICY	115
Agricultural, Environmental and Health Research in a Global Environment (<i>Vernon W. Ruttan, University of Minnesota</i>)	115

TABLE OF CONTENTS (continued)

Western Hemisphere Integration: Trade Policy Reform and Environmental Policy Harmonization (<i>Denice Gray, Barry Krissoff, and Marinos Tsigas, Economic Research Service, U.S. Department of Agriculture</i>)	131
SESSION 6A. STRUCTURAL MODELS OF WESTERN HEMISPHERE TRADE	151
The Impacts of MERCOSUR on Brazil (<i>Antonio Salazar Brandão, Mauro de Rezende Lopes and Lia Valls Pereira, Fundación Getulio Vargas, Brazil</i>)	151
SESSION 6B. LAC TRADE AND INVESTMENT RELATIONS WITH THE U.S. AND CANADA	183
The Andean System of Price Bands (<i>Yesid Castro, Cartagena Board Agreement, Perú</i>) . . .	183
SESSION 7. MACROECONOMIC AND LABOR MARKET ADJUSTMENTS AND HEMISPHERIC FREE TRADE	199
The Social Challenge of the New Economic Era in Latin America (<i>Albert Berry, University of Toronto, Canada</i>)	199
SESSION 8. EMERGING POLICY ISSUES AND RESEARCH PRIORITIES ON WESTERN HEMISPHERE INTEGRATION	265
Analysis for Western Hemisphere Integration (<i>Lorna M. Aldrich, Economic Research Service, U.S. Department of Agriculture</i>)	265
Emerging Policy Issues and Research Priorities on Western Hemisphere Integration (<i>Douglas D. Hedley, Agriculture and Agri-Food Canada</i>)	269

LIST OF CONTRIBUTORS

1. Lorna Aldrich
USDA/ERS
Commercial Agriculture Division
1301 New York Ave., NW, Rm 732
Washington, DC 20005-4788
2. Albert Berry
University of Toronto
Department of Economics
150 St. George Street
Toronto, Ontario M5S 1S1
CANADA
3. David Blandford
Head of the Quantitative Analysis
and Special Studies Division
Directorate for Food, Agriculture
and Fisheries
OECD 2, Rue André Pascal
75775 PARIS Cedex 16
4. Antonio Salazar Brandão
Economist, Instituto Brasileiro
de Economia
Fundacion Getulio Vargas
Praia de Botafogo 190, Sala 929
22253-900 Rio De Janeiro/
RJ, BRAZIL
5. Andrés Casco
Undersecretariat of Planning
Secretary of Agriculture
Nuevo Leon 210
Col. Hipodromo Condesa
C.P. 06100
MEXICO, D.F.
6. Yesid Castro
Cartagena Board
PERU
7. J.R. Deep Ford
Dept. of Agricultural & Resource Econ.
601 Main Street
University of Vermont
Burlington, VT 05401
8. Mark Gehlhar
Economist, ERS/USDA
1301 New York Ave., NW
Washington, DC 20005
9. Carol Goodloe
Inter-America Team Leader
Foreign Agricultural Service/USDA
14th & Independence Ave., SW-Rm 5506
Washington, DC 20250
10. Denice Gray
Economic Research Service
1301 New York Ave.
Washington, DC 20005-4788
11. Douglas Hedley
Agriculture and Agri-Food Canada
Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario K1A 0C5
CANADA
12. Timothy E. Josling
Food Research Institute
Stanford University
Stanford, CA 94305

13. Barry Krissoff
Economist, ERS/USDA
1301 New York Ave., NW
Washington, DC 20005
14. Mauro de Rezende Lopes
Economist, Instituto Brasileiro
de Economia
Fundacion Getulio Vargas
Praia de Botafogo 190, Sala 929
22253-900 Rio De Janeiro/RJ, BRAZIL
15. Eugenia Muchnik de R.
Graduate Program Director
Department of Agricultural Economics
Pontificia Universidad Católica de Chile
Vic. Mackenna 4860
Santiago, CHILE
16. Lia Valls Pereira
Economist, Instituto Brasileiro
de Economia
Fundacion Getulio Vargas
Praia de Botafogo 190, Sala 929
22253-900 Rio De Janeiro/RJ, BRAZIL
17. Vernon W. Ruttan
Department of Applied Economics
1994 Buford Avenue
University of Minnesota
St. Paul, MN 55108
18. Marinos E. Tsigas
Researcher, Purdue University
RTD, ERS, USDA
1301 New York Ave., NW
Washington, DC 20005
19. Alberto Valdés
Senior Economist, World Bank
1818 H Street, NW
Washington, DC 20433
20. Constanza M. Valdés
Economist, ERS/USDA
1301 New York Ave., NW
Washington, DC 20005
21. John Wainio
Economist, ERS/USDA
1301 New York Ave., NW
Washington, DC 20005

FORWARD

The purpose of the conference was to provide a better understanding of the hurdles to and likely impacts of trade agreements among Western Hemisphere countries. From a historical perspective, countries in the hemisphere are engaging in massive realignments of their trade regimes as evidenced by the Uruguay Round Agreement, the conclusion of the North American Free Trade Agreement and, importantly, the fundamental economic reforms undertaken by many Latin American countries. Many countries in the region view economic integration as an important step towards global competition, and a priority within the framework of market-oriented reforms. Most of the conference papers focus on agriculture since it is an imported traded goods sector in most of these economies, and since agriculture was a major hurdle to concluding the Uruguay Round and NAFTA. The proceedings are timely as they respond to the December 1994 Summit of the Americas with its commitment to construct the "Free Trade Area of the Americas" by the year 2005, and to the creation of the World Trade Organization which will play an important role in trade negotiations and disputes.

The papers presented range from the broad implications of Western Hemisphere trade liberalization on trade diversion, expansion and resource adjustments, to the specific issues faced by particular countries. These include lessons learned in the case of Mexico's policy reforms, the anticipated benefits to Chile from joining NAFTA, and the problems that arise in the details of trade negotiations. Concluding papers tend to focus on future concerns and contingencies in sustaining growth and development. An example of the former are the papers by Alberto Valdés, David Blandford, and Constanza Valdés, et al. A. Valdés concludes that although Europe and Asia are important markets for Latin American exports, they cannot escape the fact that a large segment of the regional economy is now part of a regional trade agreement. Efforts to preclude trade barriers associated with tariff escalation, sanitary and phytosanitary restrictions, and seasonal surcharges will induce these countries to become part of a broader regional trade agreement. Problems will arise with countries that struggle with internal and external imbalances, and adjustments in agriculture will be substantial for some countries. Blandford concludes there is little evidence that regional trading agreements have contributed to protectionism; regional agreements have often liberalized trade faster and deeper than would have been possible at the multilateral level. The C. Valdés, et al. paper notes that liberalization will have strong effects on income, which will foster growth in both agricultural and non-agricultural trade. They note that the US may experience significant gains from trade in high value processed agricultural goods.

Papers addressing the country level report on the results from joining a larger regional trading block, and the likely outcomes from countries that are either in the process of, or anticipate, enlarging their respective trading block. Andrés Casco's paper reports on the experience of Mexico, and Carol Goodloe's paper discusses the lessons learned from the perspective of individuals helping US negotiators to conclude the NAFTA with Mexico and Canada. Drawing on Mexico's experience, Casco focuses on four basic "axioms" in market formation: (1) free markets are no panacea for economic ills since agents must learn how to adapt to the opportunities markets make available and how to live with market risks; (2) markets do not emerge like mushrooms once the State has decided to reduce interventions; instead conditions must be created to encourage agents to freely interact and to accept and manage market risks; (3) the transition to a free market should be gradual, but not so gradual as to allow the formation of "antibodies" to the process; and (4) once reforms are initiated, policy must be consistent with efforts directed to liberalize all of the economy.

Goodloe argues that the lessons gleamed from NAFTA can be best analyzed if a treaty is viewed as a process divided into three phases, negotiation, legislation and implementation. She discusses the negotiation phase by focusing on the substantive issues, and then the practical. She notes that part of the contentiousness between Canada and the US resulted from the lack of consistency between the tariffs created in the Uruguay Round to replace nontariff barriers and the obligations stated in the NAFTA to not impose new tariffs or raise existing ones. In contrast, once Mexico and the US agreed on the ultimate goal of complete elimination of tariff and nontariff barriers on agricultural trade, only six months were required to work out the transition arrangements and to address questions of access and other sensitive issues. As an economist responding to the questions and data needs of negotiators, she is able to provide a unique perspective into the problems of handling the extremely detailed, commodity specific and product sensitivities that are common to carrying out negotiations. Finalizing agreements requires more detailed information. For example, economists may simply analyze production and trade of poultry and eggs as an aggregate. In the case of poultry and eggs, it was necessary to examine 20 to 30 different tariff lines to determine what level of trade is occurring at what rate of duty for which type of poultry. Assembling these data, determining rules of origin when additional countries join the agreement and several other factors necessary to for implementation present almost insurmountable difficulties.

An example of a paper focusing on the potential benefits to joining the NAFTA is that of Eugenia Muchnik. She suggests that Chile's fresh fruits and vegetable exports to the US already face low tariffs, so gains to these sectors might be rather small, while gains to the agroindustrial sector might be relatively large since it now faces relatively high tariffs in the US market. At the same time, farmers are exerting pressure to minimize the exposure of the sector to potential low cost imports that could originate from other countries.

The importance of integration and environmental policy were also discussed. The Richard Gray, et al. paper suggests that potential sources of conflict in negotiations are likely to arise from the divergent national environmental standards. Divergent standards may become non-tariff barriers to trade, and the consequent need to seek some level of harmonization, especially for phytosanitary and sanitary standards. Vernon Ruttan's paper emphasizes the need to build global research systems that integrate agricultural, health and environmental standards as a way to arrive at a more uniform consensus on how to support sustainable development and to contribute to the harmonization of standards among countries. Other papers considered the broader implications of Western Hemisphere integration on labor market adjustments, capital flows and the implications of integration to emerging policy issues and research priorities.

The tone of most papers was that the removal of trade barriers would tend to benefit all even though fairly large sectoral adjustments would be required in some countries. Given the shocks of the 1970s, the debt crises of the 1980s, the adjustment and reform problems of the 1990s, open discussion among participants left some room for concern. Should we really be that optimistic about the future? Concern was expressed as to whether capital flows might be destabilizing and thus threaten reform and trade arrangements. What are the ancillary policies to make trade liberalization and the opening of economies to world capital markets yield real per capita welfare gains to all? What can be done to ensure that the poor gain from openness without undue loss of economic efficiency? What are we overlooking that may give rise to outcomes as deleterious to welfare as were the experiences of the last two decades? For these reasons, a felt need was expressed to further linkages among participants and to pursue joint efforts to explore these questions.

Constanza Valdés and Terry L. Roe