SECTION B5
INTERNATIONAL TRADE AGREEMENTS AND BARRIERS

As noted in Section B2, the LATTS High Case forecast of international trade was based, in part; upon a scenario that assumes fully liberalized trade and investment flows in the Western Hemisphere. This report section provides a context for the scenario by:

- Examining the history of trade agreements and how they are evolving from being purely preferential toward being less restrictive;
- Discussing the different trade barriers which are used by countries to protect specific domestic sectors; and
- Identifying specific trade barriers across Latin American countries overall, and for specific commodity groups.

TRADE BARRIERS

A number of trade barriers have been employed in order to protect industries, to raise revenue, and to counter the barriers erected by other foreign countries. These barriers create a distortion of relative prices across countries and, consequently, distort individual consumption patterns and lower individual welfare. A general discussion of these barriers and their consequences is provided below.

Tariffs

Tariffs have been a means of protecting domestic industries and creating revenue for centuries. A tariff is really nothing more than a tax placed on goods imported into a country. In the early years of the U.S., tariffs were the main source of revenue for the Federal government and continued to be an important source of revenue up until the 1930's. Today, the average tariff rates across goods and across countries are between 10 and 15 percent and are not a significant source of revenue for most countries (Rajapatirana, 1994b). However, tariffs still present a significant barrier to trade among nations.

By placing a tax on imported goods, a tariff raises the price of goods and allows certain domestic producers to produce at higher levels. In doing so, resources may be diverted away from industries for which a country has a competitive advantage to industries for which the country does not have a competitive advantage. Diversion of resources creates higher prices and lower quality for goods that are produced domestically. Therefore, a tradeoff exists between saving jobs in specific industries versus the welfare of consumers.

Quotas

A quota, also referred to as a quantitative restriction, is a policy tool to restrict trade by placing a ceiling on the amount of a product that can be imported during a given period. As a result, the restriction will create artificially high prices on goods and reduce the amount of competition within that industry. A variation of the quota system is a voluntary export restrictions (VER). Under VER, an exporting country is asked to restrict their exports under the threat of explicit restrictions and trade barriers.

In general, the goods that have quotas placed against them are goods that the country does not have a competitive advantage in and yet they produce them. Because the country does not have a competitive advantage in the goods, the cost of producing the goods will be higher than the cost of other countries, and therefore, the selling price will be higher than the world price of the goods. In the end, consumers are the ones who suffer the consequences by paying higher prices for the goods that have restrictions placed on it.

Duties

A duty is a tax imposed on imported goods by the customs authority. It is often applied as an ad valorem tax and is either based upon the value of the good or the weight or quantity of the good. A duty has a similar effect as a tariff in that it raises the price of imports and distorts the relative price of goods and consumption patterns. Therefore, duties create a consumer welfare loss.

Exchange Rate Controls

Many third world countries try to be protective of their unstable and struggling economies. Therefore, they want to be self-reliant as much as possible to encourage their domestic industries. In an attempt to protect their domestic industries, third world countries will often create exchange rate barriers to reduce the influx of foreign currency, which reduces the ability of a country to purchase imports. Consequently, residents will be forced to purchase goods from domestic producers which creates an artificially diversified domestic economy that produces a number of goods for which the country does not have a competitive advantage. As a result, consumers will have to pay a higher price on goods and services and resources will be diverted away from industries for which they have a competitive advantage (Gwartney and Stroup, 1995).

Dumping Policy

Dumping occurs when a producer sells a product in a foreign market at prices below that of their own domestic market. Dumping could be just a strategy of a producer (predatory dumping practices), or it could be the result of foreign government subsidies. This will not only enable a domestic producer to crack the foreign market, it may, eventually, drive out competition in that foreign market.

Subsidies

Subsidies come in the form of grants, concessionary loans, loan guarantees, and tax credits that are provided by a government to provide financial benefits on the production, manufacturing, and distribution of goods or services to foreign markets. Once again, these subsidies distort the relative price of goods and distort individual consumption patterns. Furthermore, it is an anti-competitive practice that restricts the ability of foreign producers to compete in a worldwide market. Subsidies have been widely used in the agriculture industry.

Fair Trade Practices

Policies that are recognized as countervailing polices of trade can become protectionary policies as well. Trade policies such as anti-dumping, safeguards, and countervailing duties can be used to restrict trade and actually hurt free trade when these techniques are abused. When one country tries to retaliate against another country by using these policies, they can also create an escalating trading war that hurts consumers and producers of each country.

Price Bands

Many countries use what is referred to as "price bands" to restrict the importation of agriculture products. Price band is a policy instituted by the government that calculates the price range of a product from a time series analysis of international prices for that product. For example, a government may examine the prices of a product for a 60 month time period. Out of these prices, a portion of the highest and lowest prices will be eliminated. The remaining highs and lows establishes the price band. Imports entering within the price rage are assessed a standard tariff rate. Imports entering above that price range are assessed a lower tariff rate, while imports entering below that market rate are assessed a very high tariff rate. Therefore, if a particular country has low prices for a good because of excessive supply, their goods will have a higher tariff rate assessed to the product.

Other Barriers

While there has been a decline in tariff rates across countries, a number of other barriers have often taken the place of the tariff. These barriers include licensing requirements[1], government procurement practices[2], technical standards[3], and domestic-content rules[4]. In addition, a government can also

[1] Often, a country can require a license, which is a property right to export to a country. The country will only issue so many licenses and they are then bought and sold among producers who want to export to the country.
[2] For government contracts, domestic producers are often given preferential treatment.
[3] This could include pollution standards, safety standards, measurement standards, and health standards.

make the custom system complex and burdensome to hinder imports. Like any other barrier, these requirements reduce the level of competition within a market and artificially create higher prices that reduces the welfare of the consumers.

MOTIVATION FOR THE FREE TRADE MOVEMENT

This review does not argue either for or against free trade. Instead, the review attempts to identify whether the "free trade wheel" is indeed in motion, driven fundamentally by decades of trade negotiations and agreements which as a whole tend towards being freer and more open.

Supporters of freer trade argue that it allows individuals the liberty to buy and sell goods and services from a worldwide market, and that (most) all countries will improve their quality of life when participating in trade that is without restrictions. Free trade allows people to make consumption decisions that maximize their welfare: restricted trade does not allow that freedom. In other words, when there is free trade, individuals are free to choose the least cost alternative, and hence, improve individual welfare.

Free trade also enhances production efficiency by allowing countries, or sectors within, to specialize in the production of goods in which they have a comparative advantage. A comparative advantage results from different countries having different endowments in factors of production. For example, if a country has abundant supply of coal, while another country has a highly technical labor force, each country should specialize in the production of goods which matches their resource pool. So in this case, the first country ideally should specialize in the production of coal and energy, while the second country should specialize in goods that require a technical labor force.

By specializing in goods in which the country has a particularly competitive advantage, those goods can be produced at a lower cost than when the goods are produced by all countries. In doing so, all participants in trade can enjoy goods at a lower cost, higher quality, and increased quantity than if they were produced by all countries.

This is in line with the tendency for industries to increasingly rely on globally integrated supply chains, whereby the production and distribution of goods is done through a chain of suppliers located across several international borders. To remain competitive, parts and components are produced by suppliers which specialize in certain production factors. Moreover, these specialists tend to be located where their process receives the greatest comparative advantage. For example, labor-intensive processes (like simple assembly, or sewing) gravitate to areas where labor is relatively cost effective. On the other hand, capital-intensive processes tend to gravitate to areas where labor costs are relatively higher.

[4] A domestic content rule requires a certain portion of a product to be made domestically. This tactic is often used by the automobile industry within the U.S..

Naturally free trade also leads to industrial shifts whereby low wage jobs move to lower cost locations. Not everyone is convinced yet that all laid off employees can effectively improve their skills and move into sectors (processes) which have a comparative domestic advantage. However, a landmark study in 1984[5] showed that the cost of saving jobs by restricting trade (higher cost of goods) was greater than the income generated by the saved jobs. The study found that tariffs saved over 116,000 jobs in the apparel industry. However, the cost of saving each job was over $45,000 while the average earning of the jobs was just under $7,000.[6] Therefore, for every dollar saved in earnings, there was $6.80 lost in an increase the cost of goods. Other examples are provided in **Exhibit B5-1**. In **Exhibit B5-2**, the increase in prices of different goods is highlighted.

Exhibit B5-1
COST OF PROTECTING JOBS

Product	Number of Jobs Protected	Average Earnings	Cost Per Job	Ratio of Cost to Earnings
Citizen's band transceivers	587	$8,500	$85,539	10.1
Apparel	116,188	6,669	45,549	6.8
Footwear	21,000	8,340	77,714	9.3
Carbon Steel	20,000	24,329	85,272	3.5
Autos	58,000	23,566	85,400	3.6

In 1980 dollars

Exhibit B5-2
IMPACT OF TRADE BARRIERS ON PRICES

Item	1985 Free Market Price	1985 Price with Trade Restraints
Blue Jeans	$14.50	$18.00
Rubber Boots	10.00	12.00
Vinyl Purse	10.00	12.00
Leather Purse	40.00	44.00
Box of Candy	2.00	5.00
Automobile	7,500.00	10,000.00

Source: Gary Clyde Hufbauer, Diane T. Berliner, and Kimberly Ann Elliot, Trade Protection in the United States: 31 Case Studies (Washington, DC: Institute for International Economics, 1986); Clyde Farnsworth, "Trying to Shield Injured American Industries," *New York Times*, January 18, 1987.

[5] Source: Keith E. Maskus, "Rising Protectionism and U.S. International Trade Policy," Federal Reserve Bank of Kansas City, Economic Review (July/August 1984), pp. 3-17.
[6] In 1980 dollars.

IMPACT OF TRADE AGREEMENTS ON GLOBAL TRADE

Trade agreements have created an ever-shrinking world that has progressively been moving towards a global market. On a daily basis, U.S. consumers buy goods that are produced in places like China, Germany, and Brazil, while U.S. companies produce goods that are consumed by people in places like Australia, Mexico, and Russia. This increase in trade can be attributed to a number of factors including the reduction in the cost of communication and transportation, as well as other socioeconomic factors which have lead to higher worldwide disposable income. Another key factor is an almost century long series of continuously evolving international negotiations that have led to numerous agreements to reduce barriers to trade.

These trade agreements include both global and regional agreements. Examples of global agreements include the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). Examples of regional agreements include the Latin American Free Trade Agreement (LAFTA), the Andean Pact, the Central American Common Market (CACM), the European Economic Community (EC), the Association of South East Asia (ASEAN), and the North American Free Trade Agreement (NAFTA). These agreements have reduced trade barriers among member nations and directly led to an increase in volume of trade as displayed **in Exhibit B5-3**. Ultimately, the global economy is progressing towards conditions involving free movement of goods across-borders with less restrictions to what people can buy.

Exhibit B5-3
IMPACT OF GLOBAL TRADE NEGOTIATIONS ON TRADE
(Constant dollars)

Time Frame	Number of GATT Countries	Value of Trade Covered	Average Tariff*
Mid 1940's	23	$10 Billion	100%**
Mid 1980's	124	$755 Billion	5 %

Source: Compiled from "Evolution of Trade Treaties and Trade Creation: Lessons for Latin America."
** Average tariff for industrialized nations.*
*** Before GATT (1947).*

PRINCIPLES AND EVOLUTION OF TRADE AGREEMENTS

Over time, countries have realized the importance of trade and have pursued international agreements that have reduced the barriers to trade.[7] The pursuit of freer trade is often referred to as trade liberalization. Trade liberalization is

[7] For additional evidence on how trade barriers can affect economic growth, refer to Barro (1991), Gould, Ruffin, and Woodbridge (1993), Michaely, Papageogiou, and Choski (1991), and Gwartney, Block, and Lawson (1992).

the act of reducing trade barriers by reducing tariff rates, reducing quantitative restrictions, reducing the variance in protection across industries, and increasing the transparency of trade policy. These agreements have generally fallen into one of two categories (Rajapatirana, 1994b):

1. Equal Treatment
2. Preferential Treatment

The classification is based upon a principle referred to as the most favored nation (MFN) principle whereby any access to a domestic market given to one trading partner has to be extended to all countries. Under equal treatment, all countries are given access, while under preferential treatment, only certain countries are given access to a domestic market, while other countries are not. The principle is also applied in terms of the number of sectors involved. At the preferential extreme, a single sector or commodity is protected through agreement, while at the other extreme all goods are traded freely.

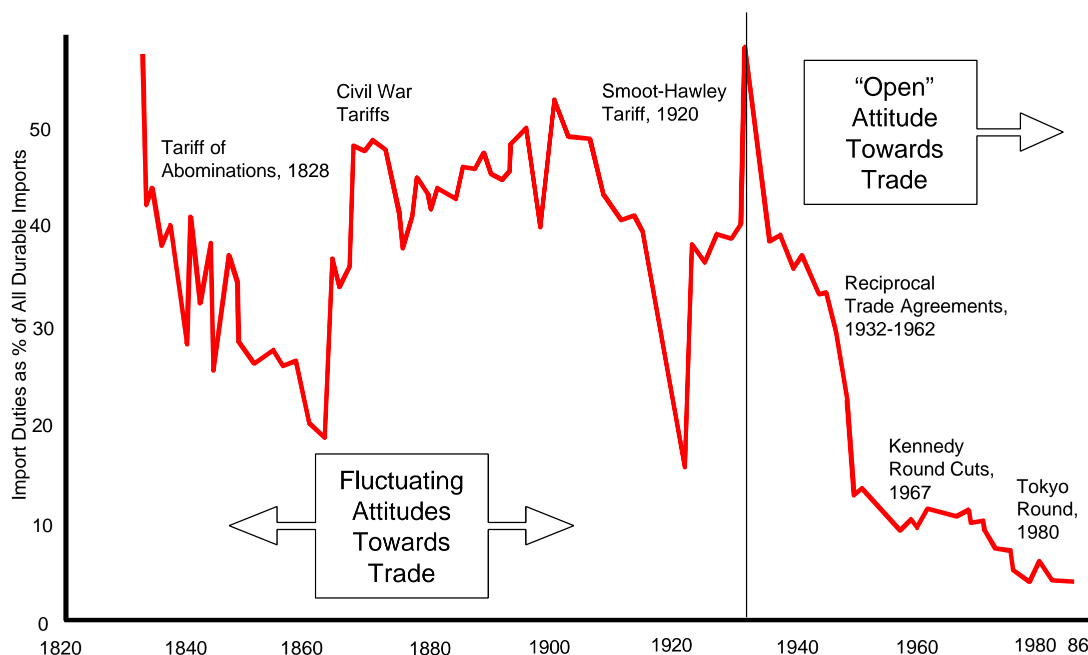
History of Agreements

In the mid 1800's, a number of regional agreements that provided preferential treatment for specific countries were made among European countries to reduced trade barriers. These agreements began the movement towards freer trade. Meanwhile, the U.S. had an inconsistent stance on free trade as a number of trade barriers were reduced and then reinstated. By the 1920's, the U.S. had a tariff rate as low as 20 percent, but in 1930, the U.S. had a radical shift in policy by instituting the Smoot Hawley tariff that significantly increased U.S. tariffs. Within a few short years, the U.S. recognized the harmful effects of this tariff and started to make international regional agreements (referred to as Reciprocal Trade Agreements) that provided preferential treatment to selected countries. In the course of the next 60 years, the U.S. entered a number of agreements that provided both preferential and equal treatment to world trading partners. Each of these trade agreements has made a significant contribution towards free trade through the reduction of trade barriers including tariff rates. **Exhibit B5-4** displays how tariffs have been reduced within the U.S. through the negotiation of numerous agreements. Many of these agreements are highlighted in the following pages.

General Agreement on Tariffs and Trade

An agreement that exemplifies equal treatment and the MFN principle is the General Agreement on Tariffs and Trade (GATT). A country that gains membership into GATT automatically gains access to the rest of the members of the world trading system on a MFN principle. The agreement creates an incentive for member countries to specialize in industries for which they have a competitive advantage, rather than specializing in industries they already have. In the end, and although not perfect, GATT has led to greater competition and reduced cost of production for industries across countries.

Exhibit B5-4
AVERAGE U.S. IMPORT DUTIES, 1820-1986



GATT was developed in the late 1940's and has evolved over the years with intense negotiations among member countries. Through GATT a number of changes in the world trading system occurred. At the forefront is the use of tariffs. At the outset of GATT, the average tariff rate was over 100 percent among industrialized countries (Edwards, 1994). By 1993, this rate had fallen to less than 5 percent among industrialized nations. This remarkable decrease has changed consumption patterns and the welfare of people across the world. Trade among countries have increased dramatically over the last several decades creating new business opportunities for companies and enhancing the standard of living across the world.

Regional Trade Agreements in the Western Hemisphere

During the same time that GATT was evolving, Regional Trade Agreements (RTAs) were forming. In general, the initiated RTAs did not adhere to the MFN principle and provided preferential treatment to an exclusive number of countries. These agreements were often formed among countries in close geographical proximity to one another. These RTAs were accepted under GATT through clauses with the rationale that RTAs were taking steps toward freer trade, even if it was not consistent with GATT and the MFN principle.

In the 60's, a number of RTAs were formed within the Western Hemisphere including the Central American Common Market (CACM), Latin American Free Trade Agreement (LAFTA), and the Andean Treaty (Rajapatirana, 1994b).

These agreements were pursued by Latin American countries with a hope of creating a larger economic region in which economies of scale could be obtained by producers. In many cases, these agreements included a complex system of regulations and were often done on a product-by-product basis. Consequently, these trade agreements ended up actually reducing the trade among the regional partners and isolating these countries from the international economy (Rajapatirana, 1994b).

By the 1980's, many of these original negotiated agreements were either abandoned or modified, while other RTAs were forming. This new generation of RTAs had a greater emphasis on trade liberalization. In other words, these RTAs were not developed to protect specific industries but rather to open new markets for industries. This trade liberalization was accompanied by monetary and fiscal reforms including a devaluation of exchange rates, reduction of fiscal deficits, deregulation and privatization of many public enterprises.

The agreements of the 80's included a modified CACM agreement, a modified Andean Treaty called the Andean Pact, the Mercosur agreement, the Caribbean Basin Act, G3 agreement, the Canada U.S. agreement (CUSFTA), and the North America Free Trade Association (NAFTA) (Rajapatirana, 1994b). Each of these agreements have had varying levels of success and have changed the way industries locate, import, and export. However, the agreements are not really free trade agreements, rather they are freer trade agreements. A Western Hemisphere trade agreement, such as the current Free Trade Area of The Americas (FTAA) initiative, would be a significant step towards free trade in the Americas.

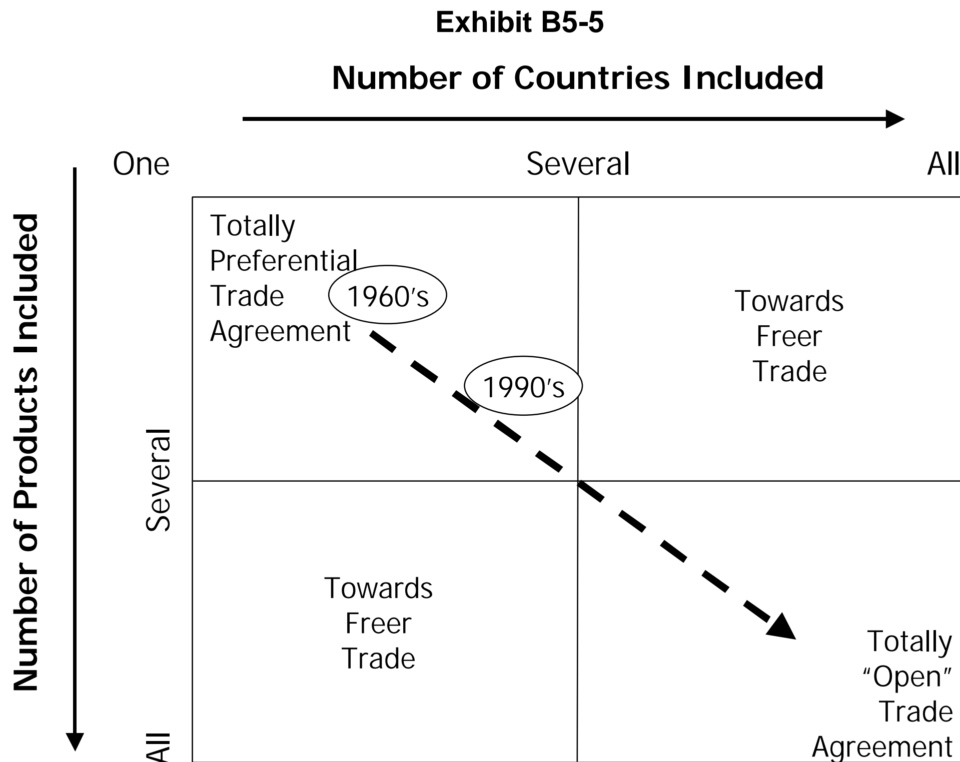
These agreements were more consistent with the MFN principle with greater access to the world market **Exhibit B5-5** illustrates the nature of trade agreements and the movement towards freer trade. The exhibit suggests that the market is moving towards greater and equal access for all countries. The evolution of these agreements are highlighted in the following discussion in which many of these agreements are described in more detail.

THE EVOLVING NATURE OF LATIN AMERICAN REGIONAL TRADE AGREEMENTS

Andean Community

The Andean Community was formed in 1969 and was formerly knows as the Andean Pact or Andean Group. The agreement is among the member countries of Bolivia, Columbia, Ecuador, Peru, and Venezuela that creates an economic region of over 75 million people and a combined GDP of $149 billion. During the late 80's and 90's, the Andean Community experienced tremendous success as intra-Andean trade increased by about 29 percent per year for the years 1990 through 1995 while maintaining a strong growth in exports to non-Andean countries. However, the growth that the group experienced in the mid 1990's has recently slowed down and the future success of the trade agreement may depend upon the developments of FTAA (INT, 1996).

Exhibit B5-5



Caribbean Community (Caricom)

Established in 1973 as successor to the Caribbean Free Trade Association, Caricom includes the countries of Antigua, Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Monsterrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad & Tobago. The economic region comprising these countries includes over 6 million people with a combined GDP of $28.6 billion with an average per capita income of over $4,930. Trade among the member countries has been growing at a rate of about 8 percent per year, while exports to the rest of the world has been growing at slower 5.5 percent. However, trade still only represents a rather small 13 percent of the total GDP among the member countries and indicates that there is room for further integration (INT, 1996).

Central American Common Market (CACM)

CACM was established in 1961 among the member countries of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. CACM has a total population of over 29 million people with a combined GDP of $93 billion with an average per capita income of $2,984. Intra-regional trade among the member countries accounts for 20 percent of total CACM exports with both exports and imports growing at a rather steady and strong pace (INT, 1996). The CACM also established common external tariff rates of 5-20 percent and has helped

promote trade with the U.S. During the early 90's, exports from the U.S. grew at an average annual rate of 60 percent (INT, 1996).

Common Market of the South (Mercosur)

Mercosur was established in 1991 among the member countries of Argentina, Brazil, Paraguay, and Uruguay with a total population of nearly 200 million people and a combined GDP of $1 trillion. While both imports and exports are growing at healthy rate, imports into the member countries have been growing at nearly three times the rate of total exports. Common External Tariff (CET) rates have been established which will place the average tariff rate at 10 percent. The CET rates have been applied to about 90 percent of the goods imported into these countries with each country having an exclusion list. Future agreements with Mexico, Chile and Bolivia are in the works. The sheer size and political clout these countries have among Latin American countries have made them important to future trade agreements (INT, 1996).

G-3

Venezuela and Columbia signed a free trade agreement with Mexico on June 13, 1994 that established the G-3 agreement. The G-3 agreement addresses a number of issues including the protection of intellectual property and the scope of the agreement is almost as comprehensive as the NAFTA agreement (INT, 1996).

North America Free Trade Agreement (NAFTA)

NAFTA was established in 1994 with the member countries of Canada, Mexico, and the U.S.. These three countries have a total population of nearly 400 million and combined GDP of $8.0 trillion with an average per capita GDP of about $20,560. Obviously, NAFTA is an important economic region for any further negotiation of free trade agreements. NAFTA is in the process of eliminating almost all tariffs and trade barriers on North American industrial and agriculture products traded between the member nations. In addition, NAFTA addresses environmental and working condition issues. NAFTA is a highly important economic region for any further negotiation of free trade agreements.

While the Mexican Peso crisis created some setbacks for trade among the countries, it has recovered nicely and has shown strong growth among member countries and to the rest of the world. In particular, trade has increased seven-fold between Mexico and Canada since 1990 (INT, 1996).

Free Trade Area of the Americas (FTAA)

This trend continues as a trade agreement among 34 countries in the America's, referred to as the "Free Trade Area of the Americas" (FTAA), is currently under negotiation. In the two summits that have been held so far for FTAA, heads of state of each participating country has pledged to increase market openness, strive for a balanced and comprehensive agreement on a number of issues including tariff and non-tariff barriers for agriculture, investments, intellectual

property rights, government procurement practices, technical barriers to trade, safeguards, rules of origin, anti-dumping and countervailing duties, and sanitary and phytosanitary standards and procedures. These 34 states have agreed to complete the FTAA agreement by the year 2005.

The FTAA would provide for free trade stretching from Alaska to Cape Horn. FTAA is generally supported by the people as a Wall Street Journal survey of the people of both the U.S and Latin American suggests that 80 percent of those polled in the U.S and the Latin America say they support free trade (Schumacker, 1998). However, there is less support of the finer details of the agreement. Despite this fact, the past agreements and the change of public opinion has created momentum for a Western Hemisphere agreement that would reduce the trade barriers between North America and Latin American.

Summary

Exhibit B5-6 summarizes the changes that have occurred to a number of Latin American countries over the last couple of decades due to the agreements. Through the table, it is evident that restrictions in the form of tariffs have fallen substantially in the last couple of decades. While tariffs are not the only trade restriction, it exemplifies what is happening to the barriers to trade in general.

Regional trade agreements have contributed to the rapid increase of trade for the Latin American countries. Total trade as a percentage of the region's GDP now equals 36 percent, up from 18 percent in 1986 (INP, 1996, p. 3). Much of this increase in trade also can be attributed to regional integration.

MOTIVATIONS FOR A WESTERN HEMISPHERE REGIONAL TRADE AGREEMENT

There are motivations and incentives for North American countries (U.S. and Canada) and South and Central American countries (Latin America) to pursue a WHRTA. First the motivations for Latin American countries are:

1. Expand Trade with the U.S. – A WHRTA would give member Latin American countries access to the lucrative U.S. market, thereby expanding trade. Latin American countries rely heavily on trade with the U.S.. (Rajapatirana, 1994b).

2. Increased Trade Creates Jobs – Member Latin American countries will experience an expansion in jobs and income through industrial expansion (Rajapatirana, 1994b).

3. Get a Jump on Asian Competition - Latin American countries have similar competitive advantages to Southeast Asia in terms of labor and input resources and, therefore, a WHRTA would allow the Latin American countries to be competitive with the counties of Southeast Asia (Rajapatirana, 1994b)

Exhibit B5-6
PRE AND POST REFORM TARIFF RATES

Country	Year Pre-Reform	Post-Reform	Average Unweighted Legal Tariff Rates Pre-Reform	Post-Reform	Tariff Range Legal Tariff Rates Pre-Reform	Post-Reform
Argentina	1987	1991	42[a]	15	15-115[a]	5-22
Bolivia	1985	1991	12[b]	8	NA	5-10
Brazil	1987	1992	51	21	0-105	0-65
Chile	1984	1991	35	11	35	11
Columbia	1984	1992	61	12	0-220	5-20
Costa Rica	1985	1992	53[a]	15[a]	0-1,400[a]	5-20
Ecuador	1989	1992	37[a]	18	0-338[a]	2-25[e]
Guatemala	1985	1992	50[a]	15[a]	5-90	5-20
Honduras	1985	1992	41[a]	15[a, d]	5-90	5-20
Jamaica	1981	1991	NA	20	NA	0-45
Mexico	1985	1990	24[c]	13[c]	0-100	0-20
Paraguay	1988	1991	NA	16	NA	3-86
Peru	1988	1992	NA	17	0-120	5-25
Trinidad and Tobago	1989	1991	NA	41[a]	NA	0-103[a]
Uruguay	1987	1992	32	18	10-55	12-24
Venezuela	1989	1991	37	19	0-135	0-50

Source: Guasch and Rajapatirana.1994. *The Interface of Trade, Investment, and Competition Policies: Issues and Challenges for Latin America.* Working Paper, Washington D.C.: World Bank.

a Including tariff surcharges
b Import weighted average tariff
c Production weighted average
d Including tariff surcharges
e Ecuador also has a specific tariff of 40 percent on automobiles

4. Increased Investment and Technology Transfer – A WHRTA would increase the amount of investment attracted to these countries. Latin America is trying to recover from political instability, debt, and insufficient infrastructure. Through a trade agreement, greater investments into these countries may occur and create economic activity and greater stability through this direct investment (ECLA 1991).

5. Don't Want to Miss Out on Anything Big - NAFTA created preferential treatment to Mexico by the U.S. that may mean lost opportunities for other Latin American countries. Consequently, many Latin American countries are afraid of being left out in the cold from the recent NAFTA agreement and are expected to respond quickly to increased trade opportunities with the U.S. (Coes 1991).

6. It Has Worked Elsewhere - Asian countries have reduced their barriers and encouraged free trade. [8] Consequently, the Latin American countries are looking for similar type of success (Gwartney and Stroup, 1994).

7. Stronger Global Trade Leverage – A WHRTA agreement would allow a member Latin American country to have greater bargaining power than in a global trade bargaining like GATT (Rajapatirana, 1994b).

For Canada and the U.S., the incentive to join in such an agreement may not have the same explicit benefits that can be seen in the Latin American countries. However, the benefits are just as significant.

1. Larger Markets - A trade agreement that reduces the trade barriers would create a larger market for Canadian and U.S. producers (Edmund, Moomaw, Olson, 1994).

2. Lower Costs and Improved Efficiency- Inputs and components imported for the production of U.S. and Canadian goods could be significantly reduced will lower tariffs. Moreover, it would allow greater specialization for Canadian and U.S. companies. Producers could strategically locate plants across various countries to take advantage of comparative advantages across these countries. This would increase profits and increase overall production while reducing the cost of the goods in which they produce (Parkin, 1997).

3. Increased Welfare - Consumers would benefit through lower prices of goods which would increase their consumer surplus. Lower prices would mean that consumers would have an increase in disposable income that they could use for other goods. Increasing their bundle of goods would in turn mean that producers would have to produce more of all goods, which would mean an increase in employment (Gregory and Ruffin, 1989).

Obstacles

However, for a WHRTA to be reached, a number of obstacles would have to be addressed. Each country would have to deal with the political pressure of lobbyists which have strong arguments against a WHRTA. Politically powerful lobbyist such as labor unions, environmental groups, and other lobbying groups have well founded messages with a broad appeal that cannot be ignored. For example, specific industries will be hurt substantially. In one example, a study has projected that job losses may range from 72,000 to 255,000 over a 10 year period for the textile and apparel industry if complete trade liberalization would come about (GOA/GGD-94-83b 1994).[9] In addition, many in the U.S. are skeptical about the positive impacts that a free trade agreement with Latin America would have for the U.S.

[8] The late 1990's crisis in Asia is largely financial, rooted mainly in over speculation. Asian trade continues to flourish.
[9] However, for each apparel job protected, the cost to consumers is approximately $139,000 in higher apparel prices (Hufbauer and Elliot, 1994).

Their issues and concerns will have to be addressed and accommodated if a regional free trade agreement is to succeed. An article by Lawrence and Litan (1986) suggests that a successful trade agreement should phase out trade barriers over time and that individuals who are significantly hurt by free trade agreements should be provided trade adjustment assistance or financial compensation. Policy tools, such as "Fast Track," could be a significant step towards overcoming these internal politics in the U.S.. In addition to the internal political difficulties of each country, the logistics of gaining a mutual agreement among this many countries create another obstacle for a WHRTA.

Despite these perceived obstacles, momentum has been created for an RTA that includes both Latin American and North American countries that would be more inclusive in the industries that it would cover.

OTHER TRADE CONSTRAINTS

The preceding discussion focuses upon a host of trade-related measures which traditionally are employed by governments to protect industries, raise revenues and counter barriers imposed by other countries.

There are other things which also act as a deterrent to trade and, therefore, can be construed to be a "trade constraint or barrier." Examples are as follows:

- Aircraft landing right agreements constrain which international airlines can operate out of various airports.

- Trade lane protection laws such as the Jones Act limit the ability of foreign flag vessels to call at multiple U.S. ports.

- Trade embargoes, specifically the U.S. embargo on trade with Cuba, are a significant constraint.
  - The Helms-Burton Act, enacted in 1996, continued the embargo and gave U.S. individuals and companies the right to sue for property they lost when they fled Cuba following Fidel Castro's takeover in the early 1960s.
  - The U.S. is virtually alone in its embargo on trade with Cuba.

- Procedures and facilities at international border crossings hinder cross-border trade.
  - For U.S. exports, this involves both the Maquiladora trade just across the Mexican border as well as shipments to the Mexican interior.
  - NAFTA reduced some paperwork and opened up trade by reducing or eliminating certain duties.
  - Two programs are underway to make the necessary inspections less time-consuming and, in some cases, less damaging to vehicles and cargo. The North American Trade Automation Program is intended to facilitate information exchange and process automation. The Non-

Intrusive Inspection program is intended to allow more thorough inspections without the delays now caused by unloading of cargoes, etc.

- Physical facilities at border crossings sometimes are inadequate and the process to add facilities can be daunting. For example, to build a bridge across the Rio Grande can require filings with more than 25 government agencies in Mexico and the U.S.
- In the past, some freight trains have been backed up all the way to Kansas as they waited to squeeze through one-track border crossings.
- Mexican trucks entering the U.S. currently are limited to a narrow commercial strip along the border. While NAFTA provisions would have allowed Mexican carriers full access to Arizona, California, New Mexico and Texas beginning December 1995, the U.S. has delayed implementation, citing concerns about Mexican trucks failing to meet U.S. safety standards. Also, the Teamsters Union and the Owner-Operator Independent Drivers Association have aggressively opposed opening the border.
- Mexico has limited the opportunity of U.S. carriers to travel south of the border by banning 53-foot trailers except when used with the unconventional cab over tractor that is seldom utilized by U.S. truckers.

- Multi-shipping line partnerships and the emergence of large container vessels mean greater concentration of cargo at a small number of "hub" ports. In the absence of advance planning and congruent infrastructure improvements, hub ports will experience traffic congestion which will affect trade flows. Also, a feeder system and/or adequate intermodal connections will be required.

- While it is common practice in many foreign ports to operate on a 24-hour day, labor agreements in the U.S. restrict operating hours, thereby limiting the productivity, efficiency and capacity of U.S. ports.

- U.S. ports typically do not have dual-hoist cranes and existing cranes are not capable of the 18 container reach that is associated with ultra large container vessels.

- Although there is a significant move to privatize port operations in Latin America, resistance is encountered from port workers who fear the loss of their jobs. Current work rules guarantee them their jobs, whether there is work to be done or not. Rules which force port operators to employ more workers than they need drive up costs.

- Strikes have been held at some Latin American ports over matters such as more pay, better benefits, safer working conditions and job security in the face of coming modernization. This has led to virtual stoppage of cargo flows at times.

- Cargo security is a major issue that affects trade flows and increases the cost of insurance.

  - B For instance, the Maritime Security Council has reported a major problem of cargo being hijacked, stolen or otherwise taken illegally from U.S. waters or ports.
  - B Piracy is a reported problem in Latin America. Pirates have been know to buy cargo manifests from stevedores and the black market as a means of identifying the best targets. Stolen goods are sold on the black market, often to people who are appreciative of being able to buy imported goods at prices they can afford. Consequently, pirates are sometimes seen as "good" people.

- Transportation infrastructure in Latin America often is inefficient and inadequate. The move towards privatization is helping improve conditions. Nevertheless, it will take time for major improvements to be implemented.
- In the U.S., transportation infrastructure also has many challenges. The investment needs for facilities important to trade with Latin America require a large investment in the period to 2020, as noted in Section D of this report.
- Port expansion and channel deepening are problems at various locations in the Alliance Region.

- Likewise, improvements will be needed in the Region's airports if they are to cope with the increase in international trade flows which this study has forecast.

- Although an analysis of railroad improvements was not undertaken by the study because of the private-sector ownership of most railroads, constraints are apparent in the system of railroads that serve Latin American trade flows.
  - B An example is the lack of vertical clearances to accommodate double stack containers such as on the Gulfport to Hattiesburg railroad.

- By far the greatest infrastructure needs identified by this study are for the Alliance Region's highways. If these highways are not adequate to handle traffic flows (both domestic and international), this will negatively impact the Region's trade opportunities with Latin America and other trading partners.

- U.S. environmental regulations limit opportunities to implement enhance-ments to the transportation system.

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