



# **FTAA in Perspective: North-South and South-South Agreements in the Western Hemispheric Countries**

**Inter-American Development Bank**

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# Evolution of Regionalism in the Western Hemisphere

The second wave of regionalism has gained momentum in the Western Hemisphere

- **Renewal of LAC's Old Regional Initiatives**
  - \* LAFTA → LAIA
  - \* Andean Community
  - \* Central American Common Market (CACM)
  - \* Caribbean Community and Common Market (CARICOM)
- **Creation of New Trade Blocs**
  - \* NAFTA
  - \* MERCOSUR
  - \* FTAA
  - \* MERCOSUR-EU

# **Policy Questions/Objectives of the Study**

- **What is the potential impact of the respective integration options for hemispheric members?**
- **What pattern of structural transformation does each country or regional bloc undergo?**
- **How different is the North-South approach in comparison with the South-South arrangement?**
- **What is the role of Latin America in the FTAA for the respective LAC's members?**

# Main Features of the CGE Model (I)

**Model:** Multi-region, multi-sector, comparative static

**Production Sectors:** Constant Elasticity of Substitution (CES)

**Demand:**

Final Demand: Utility Maximization by Household

Intermediates: Fixed Input-Output Coefficients

**Trade:** Imperfect substitution

Exports: Constant Elasticity of Transformation (CET)

Imports: Constant Elasticity of Substitution (CES)

**Factors:**

Land

Capital

Labor

**Base Year:** 1997

# Main Features of the CGE Model (II)

- **Trade-linked Externalities: Melo and Robinson (1992)**
  - \* **Sectoral Export Externality**
$$SAD_i^k = \left( EK_i^k / EK_{0i}^k \right) \eta^k$$
  - \* **Import Externality of Capital and Intermediate Goods**
$$SAD2_i^k = n_i \cdot \left( MTOT^k / MTOT_0^k \right) \eta^{m^k} + (1 - n_i)$$
  - \* **Aggregate Export Externality**
$$SAC^k = \left( ETOT^k / ETOT_0^k \right) \eta^{k^k}$$
- **Scale Economies: Melo and Tarr (1992)**
  - \* **Contestable Markets for Manufacturing Industries**

# Sectors in the CGE Model

## Primary Sectors

Grains  
Vegetables, Oilseeds & Soybeans  
Sugarcane & Other Crops  
Livestock  
Mining

## Light Manufactures

Meat Products  
Processed Foods  
Textiles and Apparel  
Other Light Manufactures

## Heavy Manufactures

Petroleum and Chemicals  
Iron and Steel  
Automobiles and Parts  
Machinery and Equipment

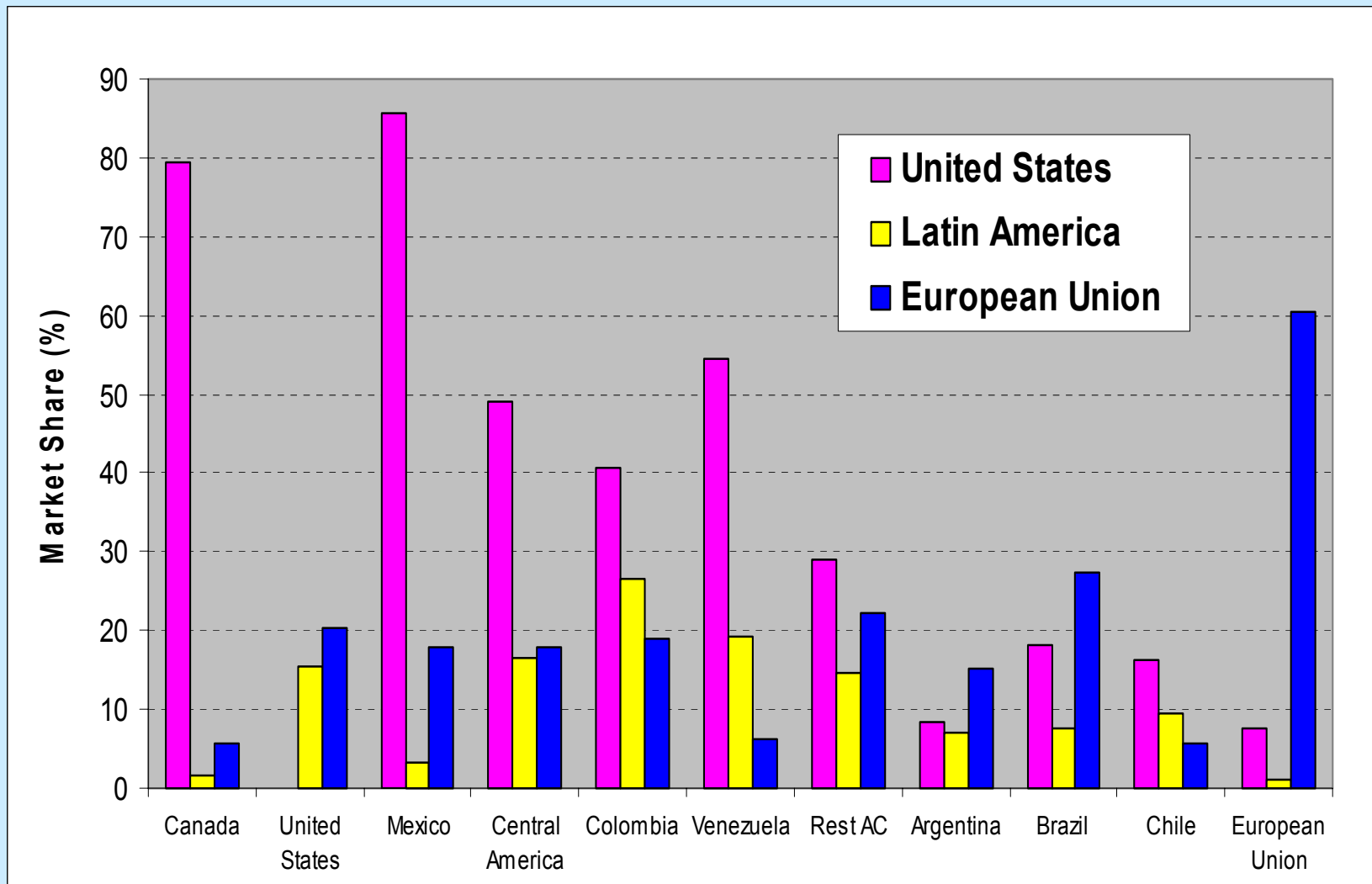
## Services

Utilities and Construction  
Trade and Services

# Regions in the CGE Model

- **Canada**
- **United States**
- **Mexico**
- **Central America and the Caribbean**
- **Colombia**
- **Venezuela**
- **Rest of the Andean Community**
- **Argentina**
- **Brazil**
- **Chile**
- **European Union**
- **Rest of the World (ROW)**

# Exports by Major Partner

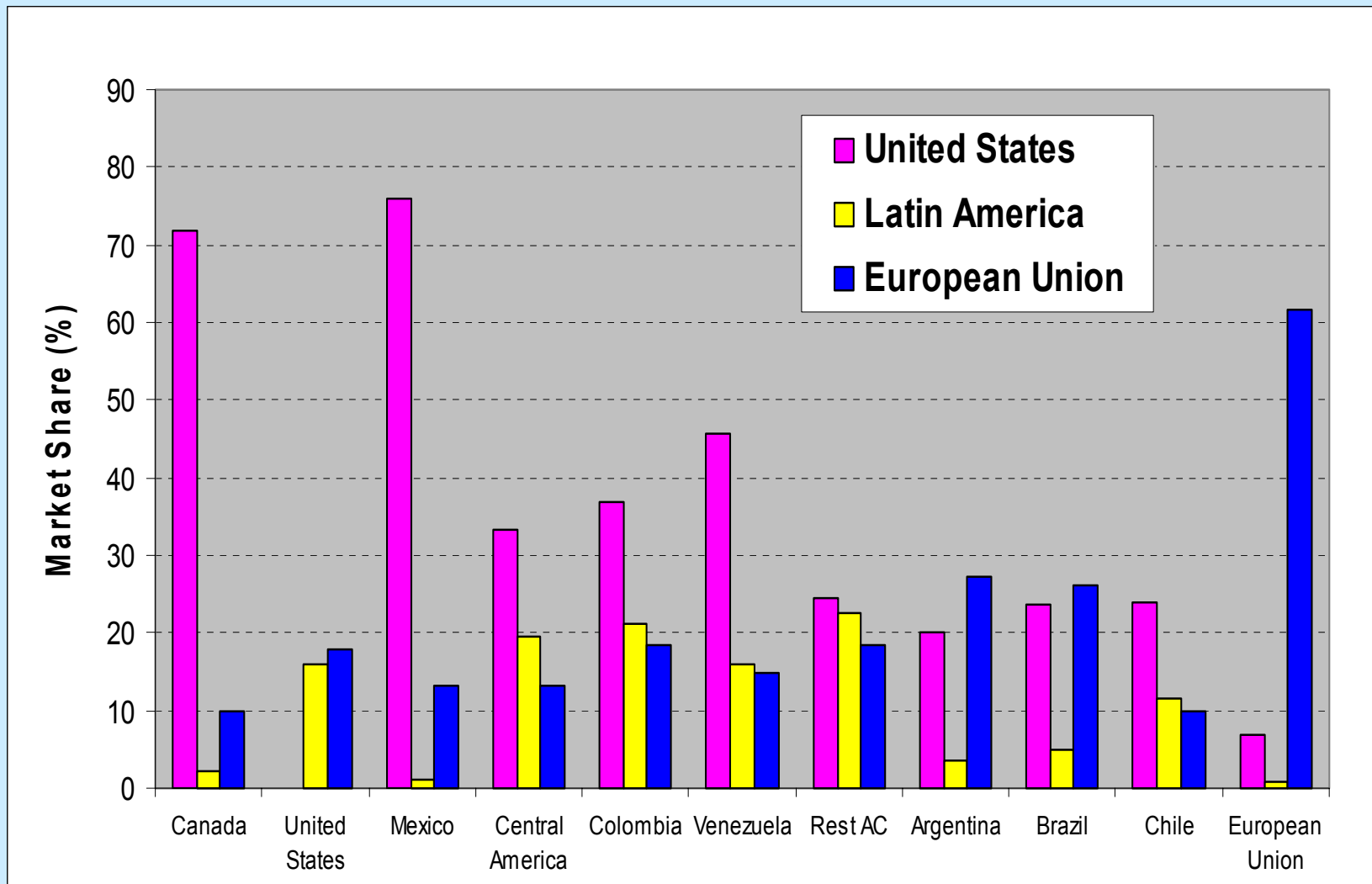


Source: FTAA Hemispheric Database, IDB.

Notes: Exports in goods, 1997.



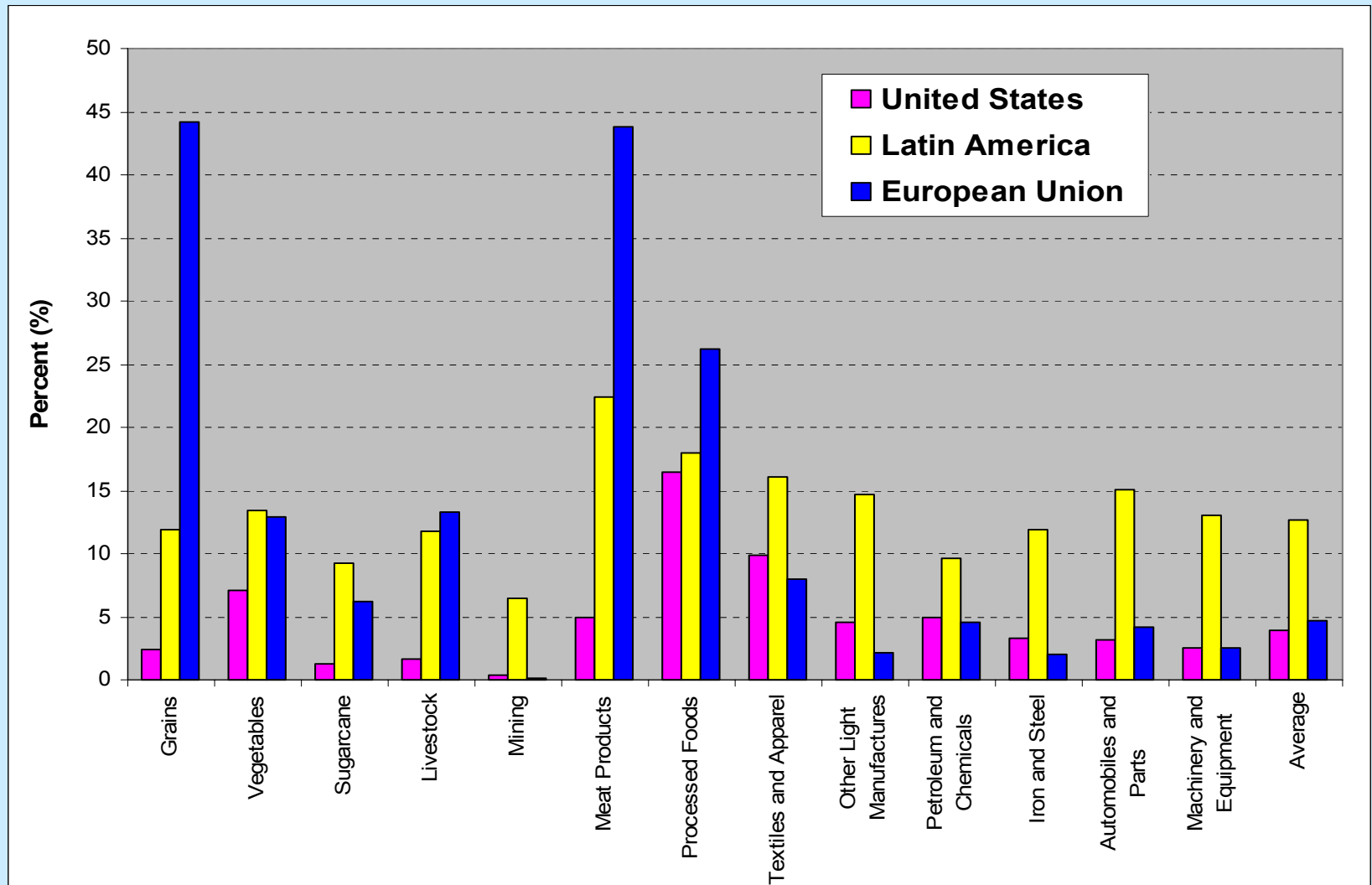
# Imports by Major Partner



Source: FTAA Hemispheric Database, IDB.

Notes: Exports in goods, 1997.

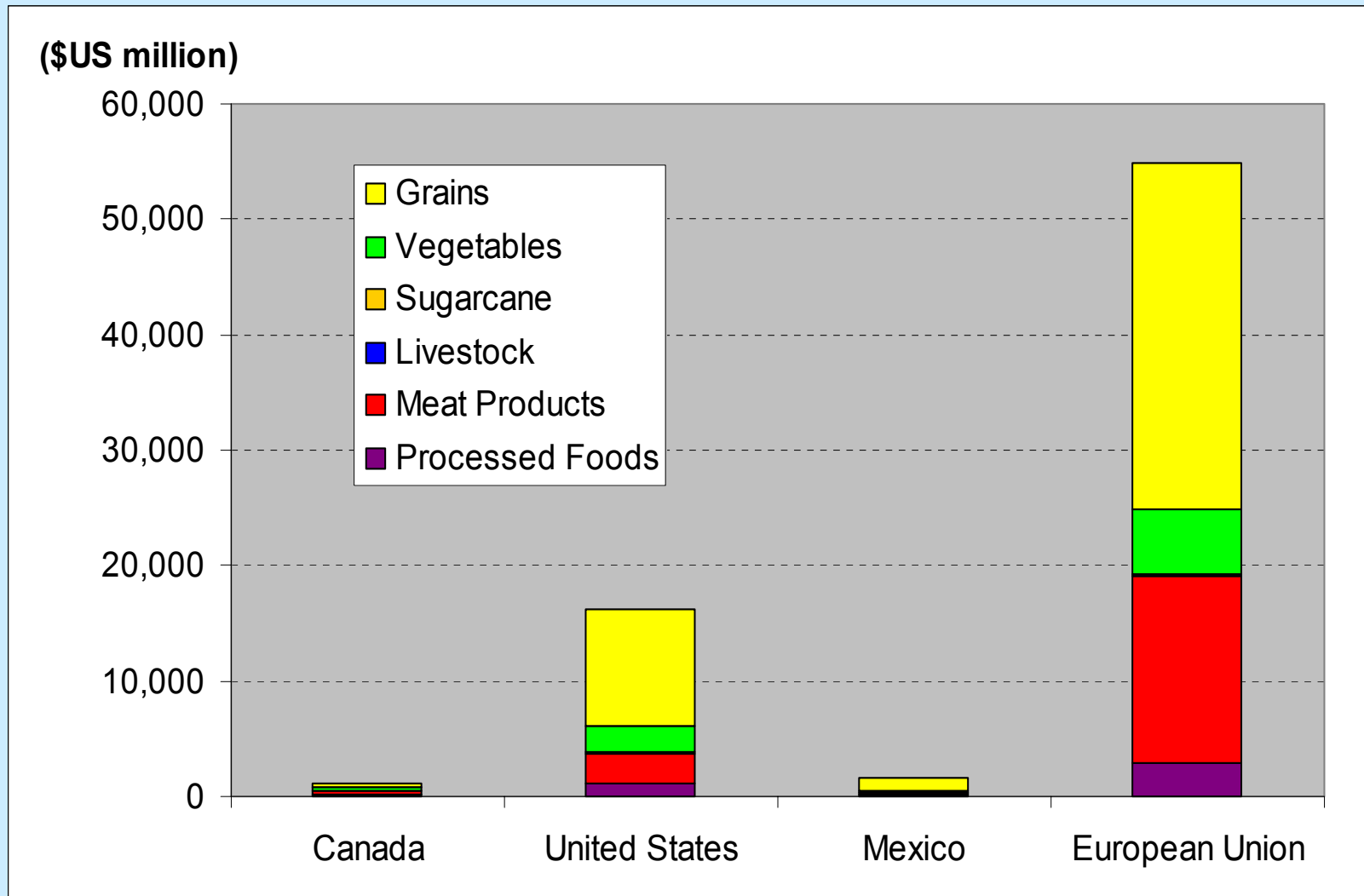
# MFN Ad Valorem Tariffs by Major Partner



Source: FTAA Hemispheric Database, IDB.

Notes: 1997.

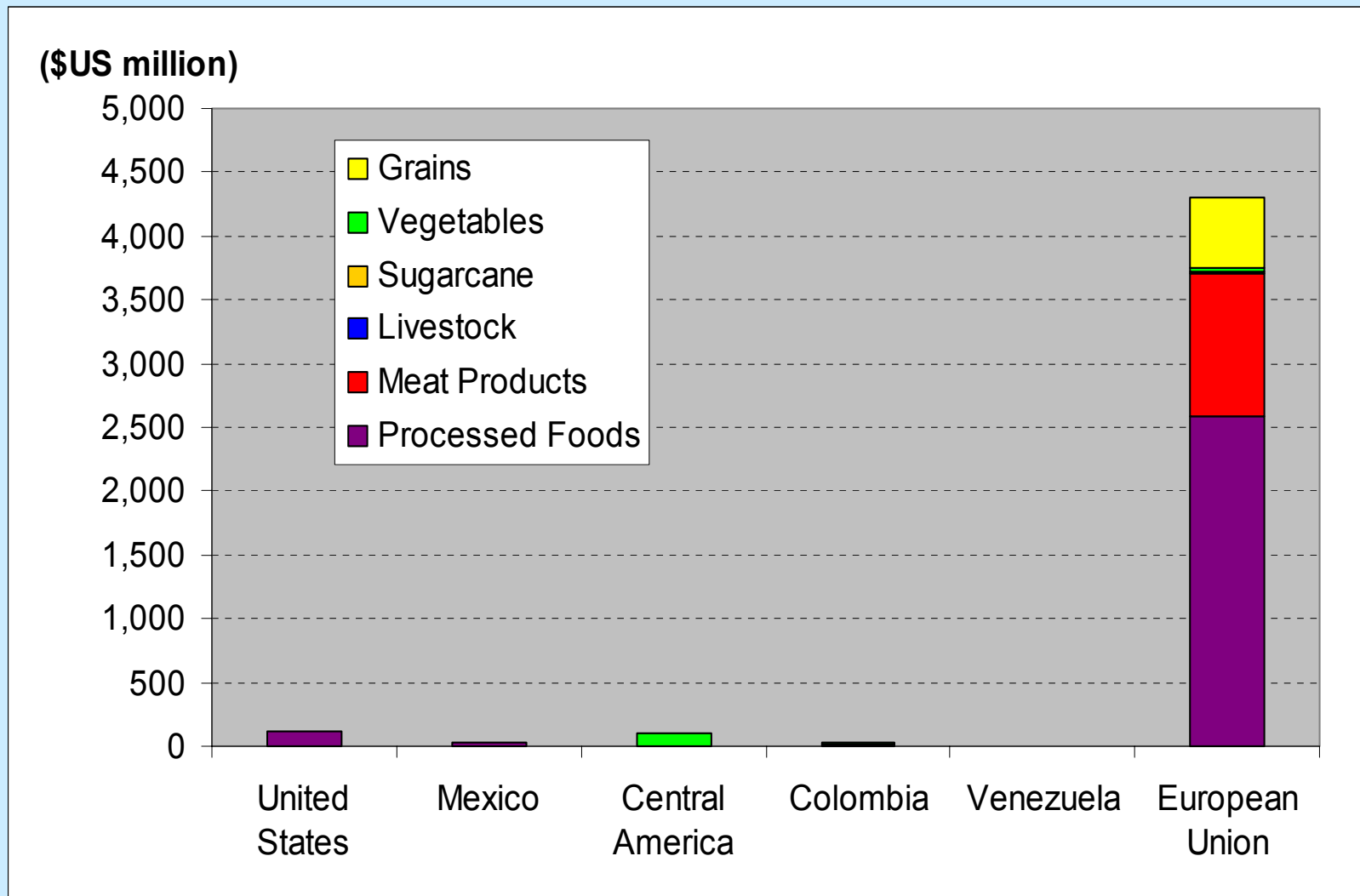
# Allocation of Domestic Support



Source: OECD PSE.

Notes: 1997.

# Allocation of Export Subsidies



Source: WTO Notifications.

Notes: 1997.

# Regional Agreements in the Model

- **Regional Agreements**
  - **NAFTA**
  - **CACM and CARICOM**
  - **Andean Community**
  - **MERCOSUR**
  - **G-3 (Mexico, Colombia & Venezuela)**
  - **EU**
- **Preferential Agreements**
  - **Caribbean Basin Initiative (CBI)**
  - **Andean Trade Preferential Act (ATPA)**
  - **MERCOSUR-Chile**
  - **Chile-Canada**
  - **Mexico-Chile**

Source: FTAA Hemispheric Database, IDB.

# Alternative Scenarios for Latin America

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## Scenarios

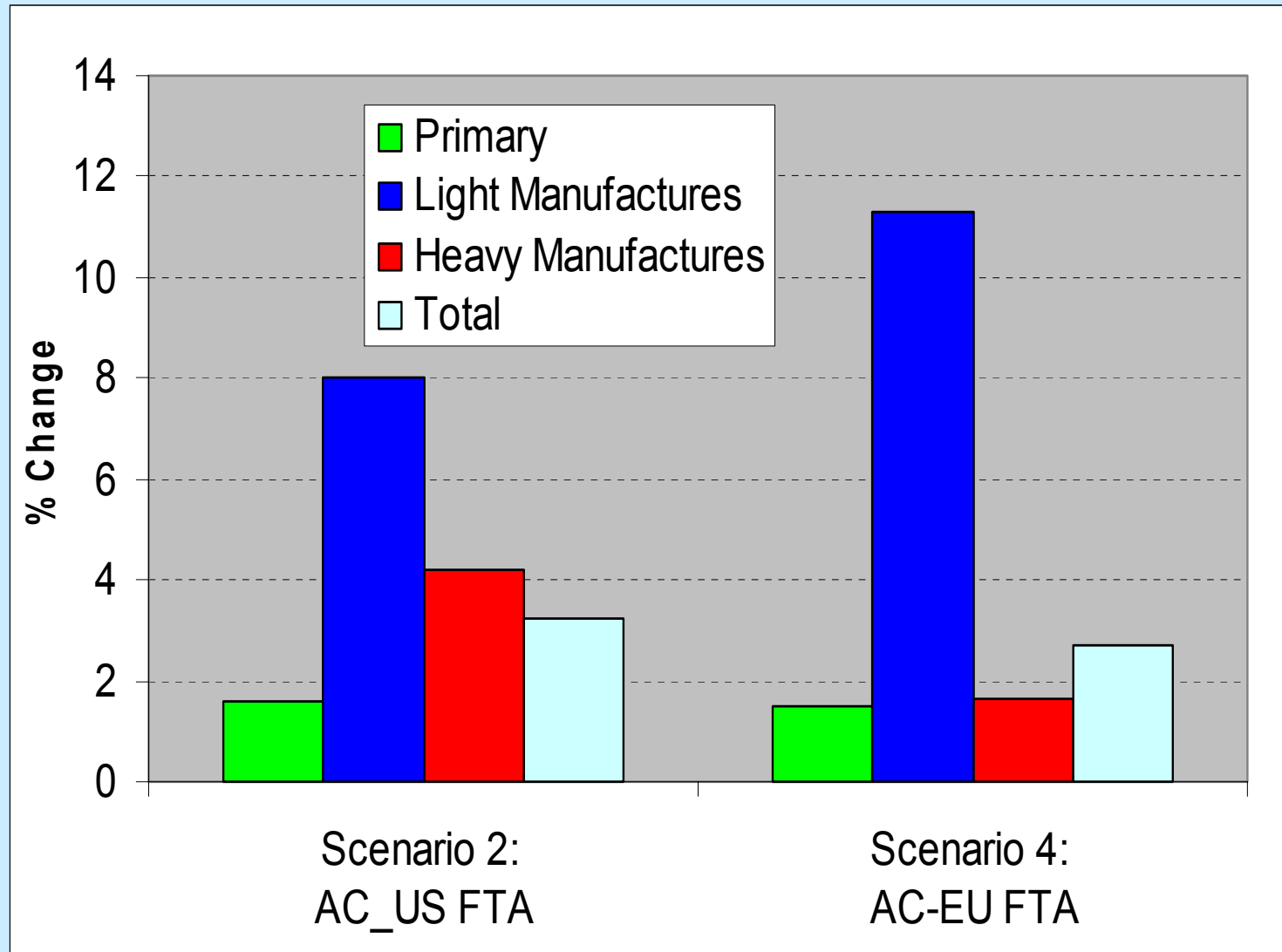
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1. **South American Free Trade Area (SAFTA)**
  2. **AC-US FTA**
  3. **MERCOSUR-US FTA**
  4. **AC-EU FTA**
  5. **MERCOSUR-EU FTA**
  6. **FTAA**
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# Impact on GDP by Scenario

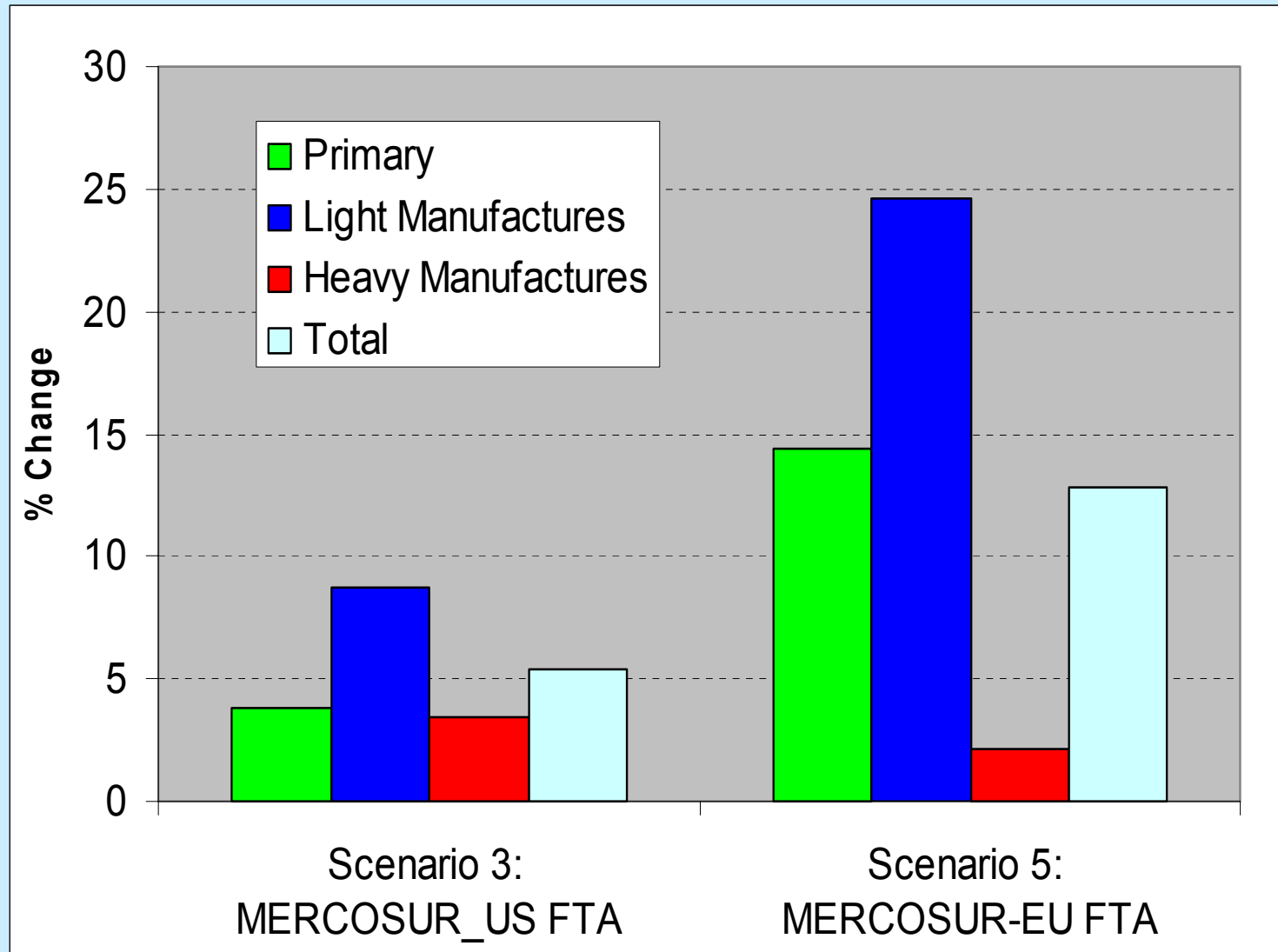
	1	2	3	4	5	6
	SAFTA	AC-US FTA	MERC. -US FTA	AC-EU FTA	MERC. -EU FTA	FTAA
Canada	0.00	-0.01	0.02	0.02	0.04	0.57
United States	0.00	0.15	0.20	0.02	0.03	0.35
Mexico	0.00	-0.05	-0.02	0.01	0.03	1.02
Central America	-0.01	-0.07	0.00	0.01	0.04	2.22
Colombia	0.28	0.92	0.02	0.95	0.05	1.32
Venezuela	0.37	1.40	0.03	0.59	0.10	2.08
Rest of AC	1.21	1.78	0.07	1.84	0.21	2.98
Argentina	0.61	0.00	1.59	0.46	4.20	2.49
Brazil	0.46	-0.01	2.59	0.37	4.94	3.39
Chile	1.14	-0.01	0.00	0.04	0.11	2.84
<b>Latin America</b>	<b>0.42</b>	<b>0.17</b>	<b>1.34</b>	<b>0.39</b>	<b>2.78</b>	<b>2.52</b>
European Union	0.00	0.00	0.00	0.51	0.61	-0.01

# Impact on Exports by Sector: Andean Community

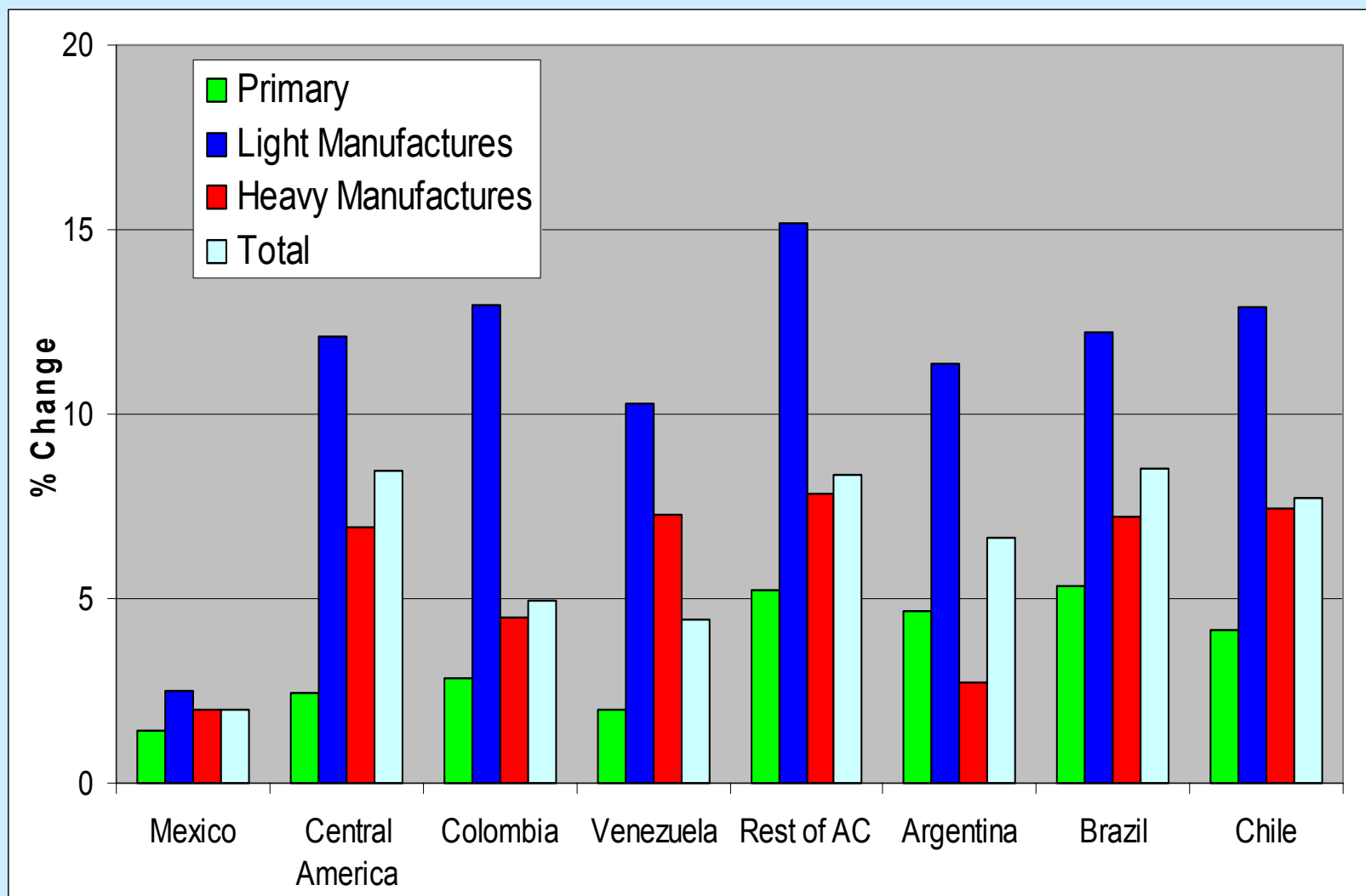




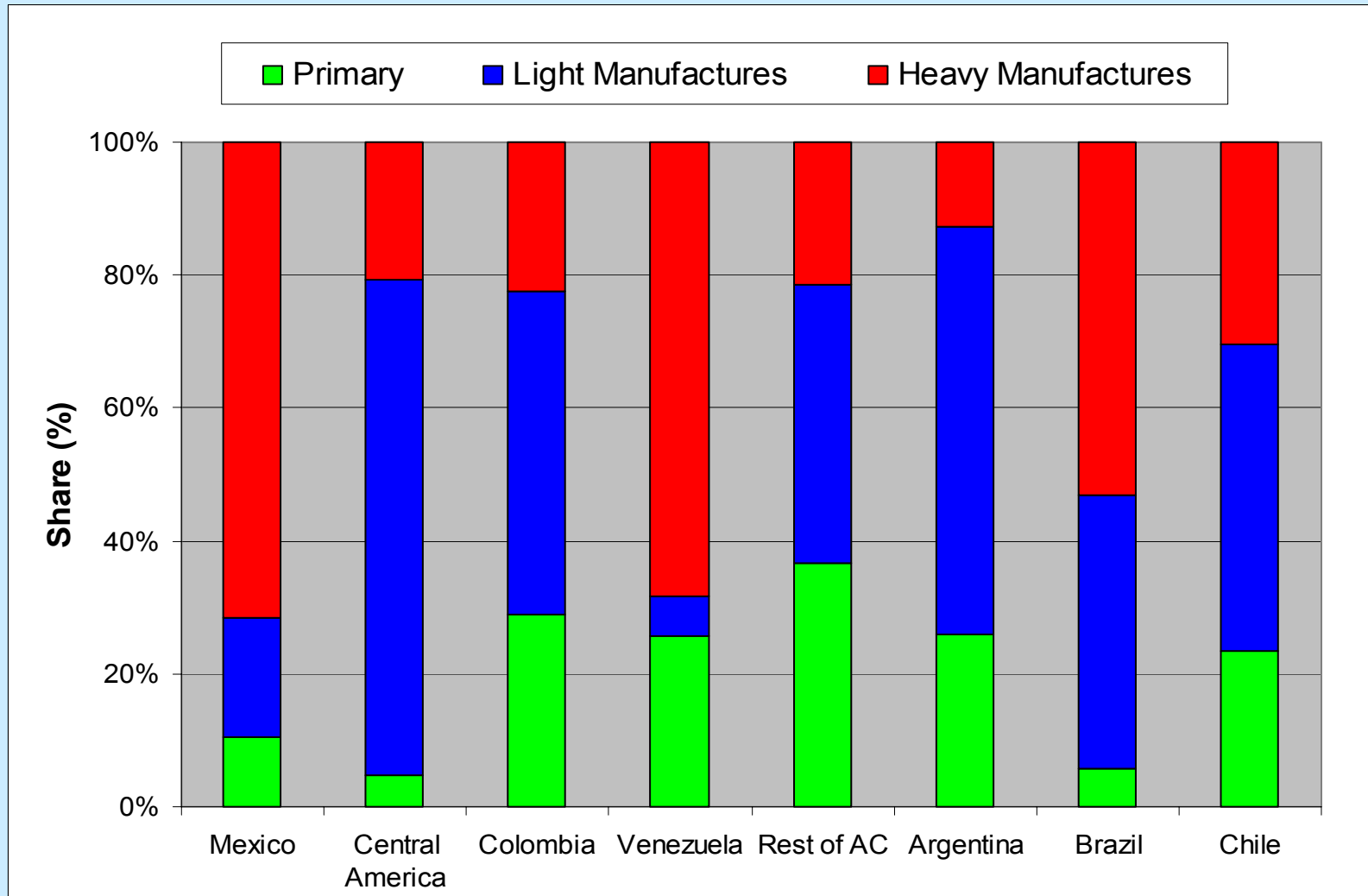
# Impact on Exports by Sector: MERCOSUR



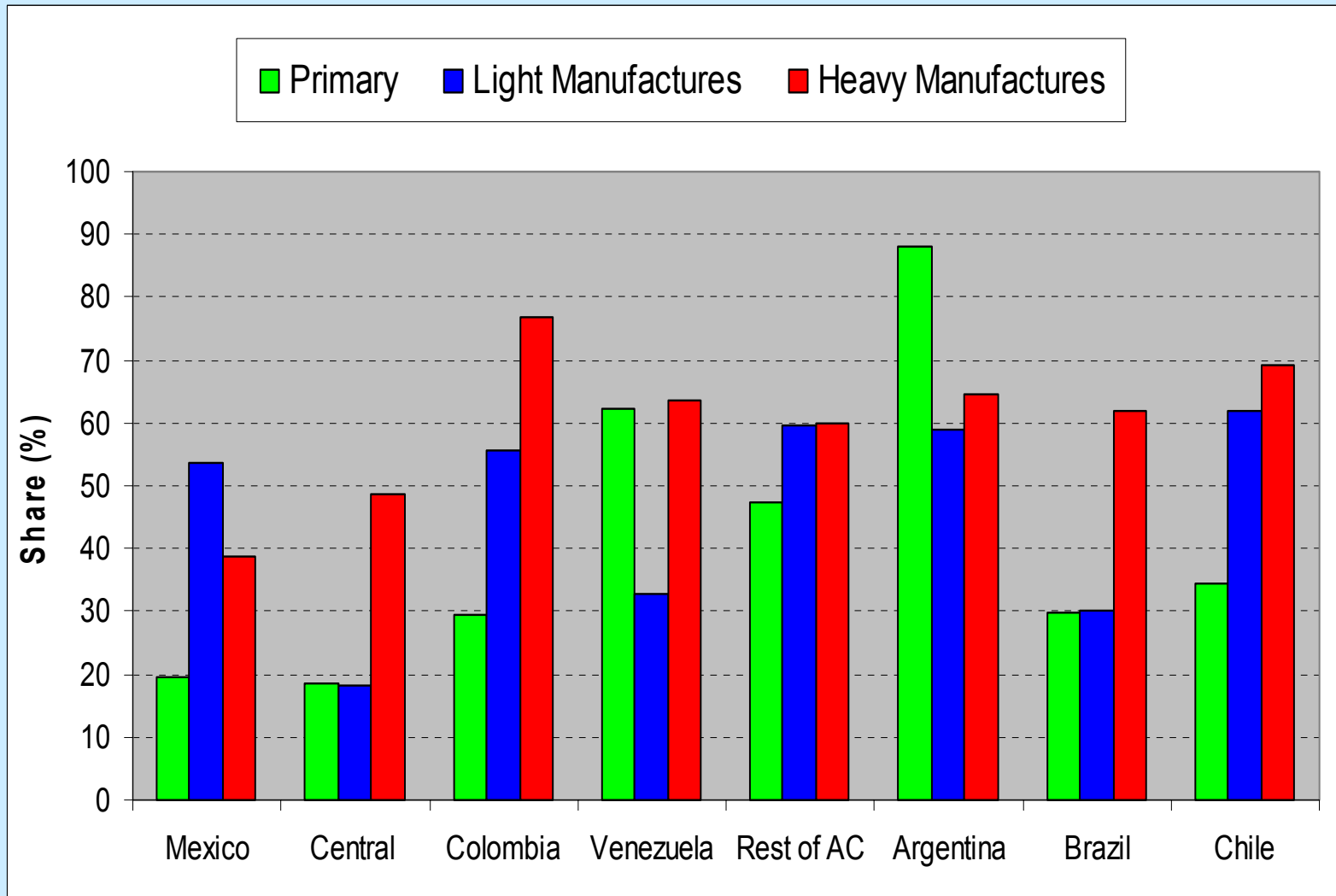
# Impact of FTAA on Exports of Latin American Countries



# Increased Exports to Hemispheric Market by Sector: FTAA



# Share of Latin America in Exports to the Hemispheric Market: FTAA



# Summary and Conclusions

- \* SAFTA generates modest gains, but can be superior to the North-South arrangement in terms of specialization of high value-added exports**
- \* The North-South integration has sectorally differentiated impact on Latin America, depending on partners.**
- \* FTAA is the best option for hemispheric partners except MERCOSUR, for which integration with the EU is more preferable.**
- \* In the FTAA scenario, Latin America absorbs some 50 percent of the increased exports to the FTAA market. The presence of LAC contributes to increase exports of non-resource-based exports.**