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Asia Pacific: Perspectives is a peer-reviewed journal published twice a year in May and November. It welcomes submissions from all fields of the social sciences and the humanities. In keeping with the Jesuit traditions of the University of San Francisco, *Asia Pacific: Perspectives* commits itself to the highest standards of learning and scholarship.

Our task is to inform public opinion through a broad hospitality to divergent views and ideas that promote cross-cultural understanding, tolerance, and the dissemination of knowledge unreservedly. Papers adopting a comparative, interdisciplinary approach to issues of interrelatedness in the Pacific Rim region* will be especially welcome. Graduate students, as well as established scholars, are encouraged to submit their work.

* 'Pacific Rim region' as used here includes North America, Pacific Central and South America, Oceania, Australia, New Zealand, Southeast Asia, East Asia, South Asia (India, Pakistan, Nepal, Bhutan, and Sri Lanka), and the Russian Far East.

A New Era of International Trade: A Study of Asian, North American, and Latin American Regional Associations

by Rolf Mário Treuherz, Ph.D.

Abstract

The need to achieve competitive advantage in foreign trade operations has led both developed and developing countries to join forces. A new balance of power was generated by the formation of regional associations in the global marketplace. This trend brought about a new era in the field of international relations, as a direct consequence of liberalization of trade and capital flows impelled by globalization. In this context, where disputes among nations can become endless, it is easy to understand the growing importance of the WTO (World Trade Organization) as a ruler and mediator. On the other hand, forming an opinion about possible consequences of this new order upon world trade, involves a thorough comprehension of the objectives and forms of organization of the existing trade agreements.

1. Introduction

Competition and survival in the international marketplace stimulated the establishment of regional trade agreements. In Asia, North, and South America various groups of countries implemented joint treaties, each one with specific objectives. Under the principles and rules set forth by the WTO (World Trade Organization), regional associations have grown in size and scope in response to liberalization of trade and capital flows impelled by globalization.

As the growth trend continues, their power of negotiation will rise, bringing about a new era in the field of international trade. To evaluate this new scenario, it is of primary importance to understand the objectives, procedures, and disputes within these agreements.

The purpose of this article is to analyze the functions of the main trade arrangements in the above continents and to provide a sense of perspective in terms of their internal and external coexistence. An analysis will then be made of the future outlook in world trade.

Although trade agreements have many different goals, the discussion in this paper will be limited to the aspects of trade.

2. Regional Agreements

Asia

Two important associations among Asian countries will be described in this topic: ASEAN and APEC.

ASEAN (Association of Southeast Asian Nations) [1]

This association for regional cooperation among the countries of Southeast Asia was formed in Thailand in 1967 with the purpose of promoting the economic growth, social progress, peace, and cultural development of its members. Other common interests are contained in the agreement such as collaboration in technical, administrative, educational, scientific, and administrative fields; improvement in transportation and communication facilities, and cooperation with existing international and regional organizations.

Unlike the European Union, ASEAN did not adopt a central bank that defines the group's monetary policy or conducts foreign exchange operations like the European Central Bank. Each country controls its own economic policy, its own foreign exchange operations, etc.

In 1967 only five countries became members of this community - Indonesia, Malaysia, Philippines, Singapore and Thailand. Throughout the years, five more nations joined the group. With the association of Cambodia, Brunei Darussalam, Vietnam, Laos and Myanmar, all Southeast Asian economies are now members of ASEAN.

The total population of the countries of ASEAN is about 500 million, which is equivalent to half the size of China. One in every ten persons in the world today is a Southeast Asian. With the increase in world trade liberalization, member countries agreed to create the ASEAN Free Trade Area (AFTA) at the fourth ASEAN Summit in 1992. This free-trade area, a market of close to half a billion people, would allow corporations in ASEAN to take advantage of economies of scale. These companies would also have access to the best prices for raw materials, even as competition among them stimulates their productivity and efficiency. An integrated ASEAN economy would thus be a potent attraction for investors from outside the region who prefer large, integrated, and efficient markets to small, fragmented, and inefficient ones.

APEC (Asia-Pacific Economic Cooperation) [2]

APEC was established in 1989 in response to the growing interdependence among Asia-Pacific economies. Begun as an informal dialogue group with 12 members, APEC has since become the primary regional vehicle for promoting open trade and practical economic and technical cooperation. Its goal is to advance Asia-Pacific economic dynamism and sense of community based on a spirit of openness and partnership. It is intended also to encourage the free exchange of goods, services and investment, and work towards broadly based economic growth and higher living, and educational standards. Other objectives were established later in 1996, such as developing human capital, fostering safe and efficient capital markets, strengthening economic infrastructure, harnessing technologies of the future, promoting environmentally sustainable growth, and encouraging the expansion of small and medium-sized enterprises.

APEC's 21 member economies comprising 2.5 billion people had a combined gross domestic product of over US$18 trillion in 1999 and 47% of world trade.

The countries currently participating in APEC are: Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong (SAR), Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Chinese Taipei, and Vietnam.

North America[3]

NAFTA (North American Free Trade Agreement) [4]

The North American Free Trade Agreement was implemented in 1994 by Canada, the United States and Mexico. It was designed to increase trade and investment among these countries, with a schedule for gradual tariff elimination and reduction of non-tariff barriers, as well as comprehensive provisions on the conduct of business in the free trade area. This includes discipline on the regulation of investment, services, intellectual property, competition and the temporary entry of businesspersons. The lowering of tariffs among members is envisioned to accomplished over a transition period that concludes on January 1, 2008.[5]

The majority of trade in North America is made in accordance with rules of the NAFTA and the World Trade Organization (WTO). Each country retains its external tariffs vis-à-vis non-members' goods and levies a lower tariff on the goods from the other NAFTA members. Rules of origin provide the basis for customs officials to make determinations about which goods are entitled to preferential tariff treatment under the agreement. These rules provide certainty and predictability to producers, exporters, and importers. They also ensure that the benefits are not extended to goods exported from non-NAFTA countries that had only minimal processing in North America.

The numbers reflecting the increase in trade and investment between Canada, Mexico and the United States are impressive. Since 1994 trade has grown by 128%, surpassing US$676 billion, against US$297 billion in 1993, which represents more than US$1.8 billion per day. Investment among the three economies also increased markedly, with the total in NAFTA countries reaching US$1.3 trillion in 1999. As a result of this growth in trade and investment, millions of jobs were created in all three countries.[6]

Latin America[7]

The Mercosur (Common Market of the South) [8]

The Common Market of the South, established in 1991, is an economic integration project between Argentina, Brazil, Paraguay, and Uruguay, mainly for the improvement of the countries' competitiveness and the enlargement of their markets. This agreement should contribute to economic development of the region through a more efficient use of available resources. It also determined measures to preserve the environment, improve communications, and coordinate macroeconomic policies.

A transition period was set up in order to create the common market. The instruments to attain this goal consisted of a trade liberalization program that established a progressive tariff reduction, the coordination of macroeconomic policies, a common external tariff (CET), and the adoption of sector agreements to optimize the utilization and mobility of the factors of production.

Since January 1, 1995 Mercosur has been a customs union (although still an imperfect one) whereby the member states have eliminated tariff and non-tariff barriers to reciprocal trade and adopted a common external tariff for third party countries. According to what has been negotiated by its members, the customs union will be in full effect on January 1, 2006. All four countries of Mercosur have equal rights and obligations.

Chile and Bolivia signed agreements in 1996 and 1997, respectively, for economic integration in Mercosur and are presently associated members. Negotiations are being carried out in order to include Venezuela as an associate member of Mercosur[9] in a free trade arrangement.

The World Trade Organization (WTO) anticipates the possibility of joint action by countries that create a customs union (in a manner similar to that of the European Union). As measures are taken to consolidate and perfect the customs union, Mercosur may act as a single unit in the future.

Mercosur encompasses an area of about 12 million square kilometers, which corresponds to four times the European Union. It represents a potential market of 215 million people and a gross national product of over US$ 1.2 trillion. This means that Mercosur is one of the main regions for foreign investments and is ranked as number four among the largest economies of the world, following closely behind Nafta, the European Union and Japan.

CAN (The Andean Community) [10]

The Andean Community is a sub-regional organization with an international legal status. It was created by Bolivia, Colombia, Ecuador, Peru, and Venezuela in 1969 and became an Andean free trade zone in 1992. In 1995 the member countries (with the exception of Peru) adopted an economic common tariff and, in 1997 set up an agreement with Mercosur. The five Andean countries have a population of over 111 million inhabitants with a gross domestic product that amounted to 272 billion dollars in 1999.

The key objectives of the Andean Community (CAN) are to promote the balanced and harmonious development of the member countries, to boost their growth through economic and social cooperation, to strive for a steady improvement in the standard of living of their people, and to accelerate the creation of employment. The final outcome should enhance the progressive formation of a Latin American Common Market.

Likewise, this Agreement seeks to reduce external vulnerability and to improve the position of the member countries within the international economic context, to strengthen sub regional solidarity, and to reduce existing differences in the levels of development among the member countries. The fulfillment of these objectives shall lead to an enduring improvement in the standard of living of the population.

According to the ASEAN Secretariat as of May 10, 2001, the Andean Community and ASEAN agreed to intensify their cooperation through information and communication technologies to help overcome the geographical distance and increase the awareness of opportunities in each other's regions.

The Andean Community successfully deregulated trade in goods among its member countries and is now moving toward liberalizing trade in services. A common external tariff is in place on imports from non-member countries, thereby giving shape to a customs union, albeit a still imperfect one. Community efforts are now being directed toward perfecting this enlarged market and ensuring its transparent and proper operation, thus providing adequate customs instruments, technical and health provisions, and provisions on origin and competition.

LAIA (Latin American Integration Association) [11]

The Latin American Integration Association, also known as ALADI, was formed in 1980 with the participation of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela, comprising a population of 430 million people in an area of 20 million square kilometers. Later in 1999 the number of members was increased to 11 with the inclusion of Cuba.

The objectives of LAIA are to promote the harmonious and balanced socio-economic development of the region and to lay the foundation of gradual and progressive establishment of a Latin American common market.

LAIA took over the duties of the Latin American Free Trade Association (LAFTA), which had been created in 1960 to establish a common market for its member nations through progressive tariff reductions until the elimination of tariff barriers by 1973. In 1969 the deadline was extended until 1980, at which time the Treaty of Montevideo created LAIA. It has the more limited goal of encouraging free trade, with no deadline for the institution of a common market. Economic hardship in Argentina, Brazil, and many other member nations has made LAIA's task difficult.

G-3 (Group of Three) [12]

The Group of Three was formed in 1995 between Venezuela, Colombia, and Mexico. The group was initially set for a minimum of three years, but the agreement was renewed for an indefinite period. The objectives of the G-3 are to stimulate the expansion and diversification of trade among members, eliminate barriers to trade, and facilitate the movement of goods and services, promote conditions of fair competition, increase substantially investment opportunities in the territories, protect and enforce intellectual property rights, and foster equitable relations among members while recognizing the differential treatment that results from the country categories established in LAIA. It is also the objective of G-3 to eliminate tariffs among member nations over a ten-year period and to add more members.

As of 1997 gross domestic product of the group amounted to US$ 586 billion and trilateral trade of US$ 3.6 billion a year.

Western Hemisphere

FTAA (Free Trade Area of the Americas) [13]

At the Summit of the Americas held in Miami in 1994 all 34 democracies in the Western Hemisphere, with the exception of Cuba, signed an agreement aimed at creating the largest free trade area in the world, the FTAA, also known as ALCA (*Área de Livre Comércio das Américas,* in Portuguese). With a population of approximately 800 million people, the purpose of the agreement is to progressively eliminate all barriers to trade and investment. The negotiations of the agreement will be completed by 2005. According to the Declaration of Principles established at the Summit, the FTAA's objectives are to preserve and strengthen the community of democracies of the Americas, promote prosperity through economic integration and free trade, eradicate poverty and discrimination in the hemisphere, and to guarantee sustainable development and conserving the natural environment for future generations.

The objectives also encompass the promotion of human rights and cultural values, the fight against corruption, drugs, terrorism, and the increase in mutual trust. Capital markets development and liberalization, cooperation in telecommunications and information infrastructure, energy, science and technology, and tourism incentives became part of the project. Other items, such as universal access to education and to basic health services, strengthening the role of women in society, encouraging micro enterprises and small businesses, and forming partnerships in energy, biodiversity and pollution prevention were also defined as targets of the agreement.

The list of members of the FTAA includes Central American as well as Caribbean countries. They are: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Colombia, Chile, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Granada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, Sta. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, United States, Uruguay, and Venezuela.

3. Explaining Different Types of Agreements and Related Terms

The following terms used throughout this article deserve some clarification:

Common external tariff: this means member countries define the same tariff for the same types of imported goods. As an example, all member countries could decide jointly to levy a tariff of 10% on imports of merchandise "A" and 15% for product "B".

Common market: is a fully integrated market area, including not only complete freedom in internal trade as in a customs union, but also free mobility of labor and capital. This involves the right to reside and accept employment in all member countries and mutual recognition of professional and technical qualifications, subject to satisfying language requirements. Full capital mobility means lack of exchange controls and full right for the establishment of firms in all countries. It also implies the coordination of macroeconomic policies. The European Union is now a typical common market with the addition of a common currency. The harmonization of the national legislation can also be required.

Customs union: supposes the elimination of tariff and non-tariff barriers among member countries in order to create a single customs territory and the adoption of a common external tariff for trade with non-members.

Free-trade area: is an arrangement whereby member countries eliminate all tariff and non-tariff barriers to reciprocal trade, but retain independent tariff systems with non-members. Free-trade arrangements must apply to a substantial proportion of trade, but some sectors, such as agricultural products or defense equipment, may be exempted from the free-trade provisions. To avoid the country with the lowest external tariff on any good being used as a route for imports to other members, tariff-free trade is confined to goods certified as being produced in member countries. One example of a free-trade zone is the NAFTA (North America Free Trade Agreement). However, each member retains its institutional individuality, without making common commercial commitments.

Imperfect customs union: is a free-trade agreement adopting economic obligations in common which, by their importance and scope, imply a political coming together among its members. Mercosur and the Andean Community are examples of an imperfect customs union.

Independent tariff system: is a means whereby every country establishes its own tariff for incoming goods from non-member countries.

Non-tariff barriers: are man-made obstacles to trade, such as the imposition of import quotas, or barriers imposed by national differences in matters like health and safety standards, labeling requirements, and weights and measures regulations. Although they may not be imposed as trade barriers, they tend to cause delays and higher costs on international trade in excess of those experienced in domestic trade.

Tariff barriers: are practices that make trade between countries more difficult and expensive. They are accomplished through the imposition of tariffs on imports.

Tariff preference: means that similar imports from different countries are taxed at different rates. It is the opposite of a non-discriminatory tariff whereby imports from all countries are taxed equally.

4. Countries Participating in Different Agreements

In examining the various agreements described in the previous paragraphs it becomes evident that various countries are members of more than one trade agreement. They are shown in the following list.

COUNTRY	AGREEMENT
Peru	APEC, CAN, LAIA, FTAA
Canada	APEC, NAFTA, FTAA
Chile	APEC, LAIA, Mercosur, FTAA
Mexico	APEC, NAFTA, G-3, LAIA
Brunei Darussalam	ASEAN, APEC
Indonesia	ASEAN, APEC
Malaysia	ASEAN, APEC
Philippines	ASEAN, APEC
Singapore	ASEAN, APEC
Vietnam	ASEAN, APEC
Ecuador	CAN, LAIA, FTAA
Columbia	CAN, LAIA, G-3, FTAA
Venezuela	CAN, LAIA, G-3, FTAA
Argentina	Mercosur, LAIA, FTAA
Brazil	Mercosur, LAIA, FTAA
Paraguay	Mercosur, LAIA, FTAA
Uruguay	Mercosur, LAIA, FTAA
Bolivia	Mercosur, LAIA, CAN, FTAA
United States	APEC, NAFTA, FTAA

The table suggests that the above mentioned countries might have a competitive advantage over countries participating in just one, or in no, agreement at all. This observation will be discussed further in the item "Globalization and Regional Associations", under the next heading.

5. World Trade Outlook

Decline in Worldwide Economic Activity

The declining economic activity in the United States and in other parts of the world since the beginning of 2000 affected trade worldwide, especially in emerging countries. The stock exchanges suffered the consequences, and a typical bear market developed, causing an almost complete halt in new stock issues.

This recessive climate was further aggravated by the contagion from the Turkish and Argentinean financial crises early in 2001, affecting developing countries of the Mercosur, the Andean Community, the Group of Three, and the Latin American Integration Association. The devaluation of the Brazilian currency in January 1999 represented an additional burden on Argentina and was greatly responsible for the decline in its exports. The drop in world trade and investments harmed the Brazilian trade balance in the first three quarters of the year as well as its industrial output and the economy in general, causing additional currency devaluation of the Brazilian currency until November 2001 that again backfired on Argentina and other countries in South America. The economy of Brazil, however, started to recover in December, despite the Argentinean problems. The "real" appreciated almost 20%, the stock market turned around and exports soared, restoring the confidence of foreign investors in the country's future.

On the other hand, the recent resignation of President Fernando De la Rua and Minister of the Economy Domingo Cavallo, after a failed martial law imposed by the government on December 20, 2001, was a direct result of the insurrection of the population. The repulsion against the latest measures imposed upon them by Domingo Cavallo and the significant increase in unemployment to almost 20% stirred popular demand for the presidential resignation and eventually transformed Buenos Aires into a battlefield between the worn-out people, and government troops.

De la Rua was immediately replaced by the President of the Senate, Ramón Puerta, but the majority of the congress, supported by the Justicialist Party, decided to nominate Adolfo Rodriguez Saá as President of Argentina on December

23. Saá, former governor of the province of San Luis, did not last more than seven days as president due to a series of errors starting with the nomination of a cabinet charged with corruption. Furthermore, he announced the default of the country's foreign debt and the creation of one more currency in addition to the peso, by the name of "Argentino". He also maintained the restriction upon bank withdrawals at a maximum of US$ 1,000 per month per bank account. The immediate consequence was an even greater rebellion of the population, forcing Saá to resign.

Finally, on January 2, 2002, both houses of congress elected Senator Eduardo Duhalde (of the Judicialist Party) President of Argentina with a mandate until 2003. His nomination constituted the climax of the long-lasting financial, economic, and social crisis of Argentina.

The Terrorist Attack

The attack on the World Trade Center and the Pentagon on September 11, 2001 contributed further to slowing down world trade and reducing stock prices, not only in specific sectors such as the airline industry, travel and services, but in other segments as well. Clearly it would be impossible at this time to foresee the perverse effects that these events will have upon the global economy, upon emerging nations, and upon countries participating in trade agreements. Some advantages, however, seem to emanate at this point, as described in the next topic.

Greater Economic Cooperation Among Nations

First, the relationship between the United States and Latin and Central America appears to be changing toward one of closer cooperation. Working groups are being formed with the purpose of opening markets in various fields of economic activity. In addition, it is not unlikely that the various alliances of the United States with other countries in the fight against terrorism will be mutually advantageous in commercial terms.

Second, in the words of Director-General Mike Moore, "the success of the WTO Ministerial Conference Doha, Qatar held between November 9 to 13, will be remembered as a turning-point in the history of the WTO and the trading system and in relations between developed and developing countries within that system. With the accession of China and Chinese Taipei to the organization, the final outcome at Doha brings to an end the uncertainty, loss of momentum and lack of confidence created by the equally spectacular failure at Seattle two years earlier".[15]

Third, according to recent U.S. trade meetings in Managua, Nicaragua, a possible free trade agreement with countries of Central America[16] may become feasible.

The present circumstances and the need to overcome the world economic slowdown may eventually convince the United States that the power of regional associations has to be considered more seriously and that all pertinent negotiations must be handled with fairness to provide equal opportunities to emerging countries.

Another effort in mutual assistance is being made by Australia and New Zealand to develop closer ties with ASEAN on a framework for the Closer Economic Partnership (CEP) between these countries in order to improve the prevailing business and trading climate. Australia also shares membership with several Latin American countries in APEC, working towards trade and investment liberalization and business facilitation in the Asia-Pacific region. The majority of APEC member economies have reported further tariff reductions or significant steps to reduce non-tariff measures this year. Australia is working constructively with Mexico when it takes on the job of chairing APEC in 2002.[17]

Additional developments such as the financial packages supplied by the IMF to both Argentina and Brazil may indirectly contribute to reduce somewhat the internal disputes within Mercosur. These disputes were related to Chile's and Argentina's intention to establish closer and more direct commercial ties with the United States, which was harshly criticized by Brazil and contributed to undermine Mercosur's harmony.

Unfortunately, the so-called "Fast Track" bestowed upon President Bush by the United States Congress to negotiate treaties and commercial agreements with countries and / or blocs of countries has frustrated many emerging nations. Among other protesters, the Brazilian government considered this a protectionist measure by the United States, in conflict with what was established at the Doha Ministerial Conference. Although negotiations will continue, this event will possibly delay further discussions toward the establishment of the FTAA.

Assuming that such negotiations will result in a future conciliation between developing countries and the United States in the near future, the FTAA will represent a powerful trade instrument of the Western Hemisphere. Many regional associations may choose to merge to avoid duplication of efforts and achieve greater economies of scale.

Globalization and Regional Associations

The greater degree of liberalization of trade and capital flows in the Information Age intensified price competition among nations. So, countries availed themselves of regional associations to achieve superior competitive advantage. The new trend to form larger associations is therefore a direct consequence of the upsurge in globalization. Consequently, regional groups generate greater strength with a resulting change in the balance of power within the international marketplace.

For example, as stated earlier, when the FTAA becomes fully operational, its power of negotiation will become overwhelming. The entire Western Hemisphere will be integrated into one association. Another shift in the balance of power would occur in a (hypothetical) merger between ASEAN and APEC. Such integration would bring new and unexplored trade opportunities vis-à-vis other groups such as the European Union.

However, while these large regional agreements will confer greater bargaining force to the group as a whole, it is not implicit that individual members will benefit uniformly from the integration. But surely non-members will be at a clear disadvantage.

The difference will be amplified exponentially when comparing the power bestowed upon large regional associations with that of countries of the African continent, most of which do not arouse much attraction for foreign investments and are therefore powerless to generate sufficient international business.

A corollary of this perception is that developed nations will continue to increase the size and strength of their foreign trade, while less developed economies will probably trail behind in their quest to compete in international markets. Unintentionally, globalization could be causing additional economic and social imbalances through the increase in regional agreements.

6. Final Comments

Regional associations established connections among different countries not only in trade affairs but also in terms of human relations, understanding, and mutual respect. This is especially true at this moment of international tension resulting from the recent acts of terrorism. However, this interdependence must be governed by principles of justice and fairness, an attribute that has not been regularly followed by industrialized countries in their disputes with less developed nations.

This new era in the field of international trade will require the firm commitment of the World Trade Organization to impose standards of behavior that will render foreign trade more reliable and predictable. In the above context, it becomes even more important that both the WTO and regional associations analyze this new framework by focusing on the effect that the additional power will have upon the labor force that is ultimately responsible for the global productive output. The advantages and disadvantages of more potent regional agreements must therefore be carefully weighed, above all with reference to the disparities among group members and individual countries not associated with regional associations.

However, both the WTO and regional associations have gained sufficient experience in the past and are now capable of following a path of greater and more effective integration towards trade and investment liberalization in the global economy.

This increased understanding will facilitate the transition toward a New Era of International Trade.

ENDNOTES

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