

## **Free Trade in the Americas: the leadership of small countries, the ethics of a continent**

By Alejandro A. Chafuen

Notes for a presentation on “Prospects for an FTAA” at George Washington University, sponsored and co-hosted by Bayer Consulting, November 21, 2002

First draft, please do not quote without author’s permission

For an updated version click on [www.hacer.org](http://www.hacer.org) (Hispanic American Center for Economic Research)

*“I would say then to every nation on earth, by treaty, your people shall trade freely with us, & ours with you, paying no more than the most favored nation.” Thomas Jefferson, in a letter to James Monroe, 1785*

*“Our goal should be to create a Hemispheric community from the bottom up. . .the challenge for Brazil is a challenge each of our nations faces: To wage the battle of ideas, to make the case for why expanded trade benefits all our citizens, and to seize this opportunity.” Robert Zoellick*

When in 1990 president George Bush launched the “Enterprise of the Americas Initiative,” the effort to create a free trade zone from Alaska to Tierra del Fuego, the Washington crowd, including myself, was surprised by the immediate positive response coming from most of Latin America. “Great, let’s do it tomorrow!” seemed to be the response coming from the South. Twelve years have passed, and only Mexico and Canada have become better integrated into the US economy.

The momentum for integration seemed strong. Some countries had opened their economies unilaterally, especially Chile (under an authoritarian government), Bolivia (under a popular democracy) and increasingly Mexico (then under a combination of both, labeled a “perfect dictatorship”). Other countries were on their path. Passing NAFTA helped solidify and further increase the progress toward free trade in North America. Then, something happened that people around America hear often, and has taught them to be skeptical.

Those of us who toil in the non-profit private sector have a favorite joke about “the two biggest lies.” One is: “the check is in the mail,” the other is “I am here from Washington, and I coming to help you.”

When “Washington,” represented by the Clinton administration, decided to “help” push the process of increasing free-trade in the Americas, almost automatically, the unilateral efforts in Latin America grinded to a halt. This brought back mercantilist practices and people saw the negotiating style of the administration as an opportunity to get something “in exchange” for their efforts of lowering trade barriers. Worse yet, Latin Americans who favor US leadership in the continent, (and believe me that they exist) started waiting for leadership from the North.

All this reminds me of the failed attempt of 1888. In May 1888 the Congress of the United States authorized the President to invite Latin-American governments to a conference in Washington to consider measures for preserving peace and security, forming a customs union, establishing better communications, adopting a common

currency (based on silver), a uniform system of weights, measures, patent-rights, copyrights and trade-marks, while protecting for health risks due to this potential increase in trade. Sound familiar?

All the governments, except Santo Domingo, accepted the invitation to this conference, commonly known as the first Pan-American Conference. It met on the 2nd of October 1889, was presided over by James G. Blaine, the American secretary of state, who had been instrumental in having the conference called, and continued its sessions until the 19th of April 1890.

The majority of its members voted for most measures, from customs regulations to a monetary union, to common weights and measures, patents and trademarks, and creating an international American bank, and the building of an intercontinental railway. The more ambitious idea of the customs union was rejected and, as usual, the only agreement was the creation of a new bureaucracy: "the Commercial Bureau of American Republics" under the supervision of the State Department. Also referred as the International Bureau of American Republics, its task was the collection and publication of information relating to the commerce, products, laws and customs of the countries represented. Later in 1910, the Bureau was renamed the Pan American Union.<sup>1</sup>

The Brazilian delegate, J.G. do Amaral Valente, also representing the USA, Colombia, Nicaragua, Mexico and Venezuela, acknowledged that the major stumbling block for the adoption of the customs union was not only the modification of fundamental laws in all signatory countries, but that then, unlike know, "tariffs on foreign trade is the principal source of revenue for all American nations." Nevertheless, and with Brazilian acquiescence, the delegates favored the creation of mechanisms that would lead gradually to hemispheric free trade.

Unfortunately the 1890 "McKinley Tariff Act" followed this, almost immediately. With Republicans in control of the presidency and both houses, the protectionists were able to get a tariff bill to the liking of the special interests. In 1888, Grover Cleveland, who was a champion of free trade, and even devoted a "State of the Union" address to fight tariffs, won the popular vote. He was defeated in the Electoral College by Harrison leading to, for the first time since the Civil War, Republican control of the legislature and the executive power.

Then, (unlike know?) Protectionists had a stronger influence on the republicans. The tariff was, in the words of a historian "the most thoroughgoing protective measure ever passed up to that time. The average duty rose to 49 per cent." Nevertheless, a number of goods from Latin American countries were exempted, and the president, at his discretion, had the right to impose duties again if the Latin countries discriminated against American goods in their duties.<sup>2</sup>

#### Latin American economies: mostly closed

---

<sup>1</sup> [http://www.iadb.org/intal/publicaciones/FerreiraSimoes\\_DT9.pdf](http://www.iadb.org/intal/publicaciones/FerreiraSimoes_DT9.pdf) page 13.

<sup>2</sup> A Basic History of the United States, Clarence B. Carson, vol. 4, p. 89.

The prospects do not look good for free trade in the Americas—at least for the larger countries. Argentina and Brazil have two of the most closed economies in the world, both exporting less than 10% of their product (2001). Free-trade indices, in Latin America, especially South America, are twice as bad as in North America. In a 1-5 scale, where 1 is the best, The Heritage Foundation-Wall Street Journal Economic Freedom Index, shows NAFTA countries scoring 2, and countries representing more than 90% of South American GNP scoring 4. That is worse than Cuba, which this year scored a 3, better than Argentina. Contrary to perception, the last decade in South America has been a decade of neo-statism, rather than of neo-liberalism. [See the attached table with trade data for Latin American countries]

As Anne Krueger stated “without prior trade liberalization the adjustment costs of an FTA [a label for FTAA] will be greater, as will the potential for trade diversion, once an FTA is formed. Moreover, countries that have liberalized their trade regimes will themselves have fewer pressure groups seeking exemption from the FTA if they have already liberalized their economies . . . In regards to all economic policy measures, it is important that all economic policies immediately be based in part on avoiding measures that will promote special interests that might oppose an FTA.”<sup>3</sup>

Many authors take it as a given that one first needs to undertake internal reforms, like Mexico and Chile, and only then seek free trade. If that is the case, given the internal problems of Argentina, Brazil and Venezuela, the prospects don't look good. Another concern for free traders is the lack of provision for the mobility of labor. Without this mobility within a trade bloc, it is difficult for the benefits of economies of scale expected from integration to arise. There is talk to allow such mobility within the countries of Mercosur. If that occurs, the power of Mercosur players benefiting from economies of scale, might indeed lead to a worse confrontation. But given the dismal state of the institutions in the major Mercosur countries, I doubt that they will advance toward labor mobility.

The more an economy is based on knowledge and information, the more it will depend on economies of scale, and therefore the more it will benefit by an open economy. Unfortunately, piracy is also rampant in Latin America. If regular property rights are trampled, who can expect a better fate for intellectual property rights? Without proper protection of IPR's it is impossible to develop a strong economic sector based on knowledge and information. Latin American countries should study the changes that took place in Ireland, and adopt similar policies. Intellectual property rights were essential for Ireland, and this is an area that will need to see major improvements in the process toward, and after the implementation of an eventual FTAA.

Despite the eight plus agreements for pushing free trade in the Americas, only NAFTA had some teeth. But this happened because Mexico had started opening up its economy prior to the agreement and because Canada and the US had become less protectionist. Nevertheless, despite many “Free Trade Latin American agreements” Latin America is a dismal case. During the past half century, from having over 10% of the world trade, the

---

<sup>3</sup> “Conditions for Maximizing the Gains from a WHFTA” p. 102.

region collapsed to represent 3% of international trade. Why is this? Latin America still has a ruling elite of family groups, who have done little to solidify institutions and help disseminate property. These groups are aided by the IMF, WB and IADB, and always find the way to frame their message in politically correct language, from Import Substitution to Sustainable Development, to maintain control of their dominant power.<sup>4</sup>

### Will bilateral agreements show the way?

Writing about the free-trade agreement on the works with Singapore, New York Times reporter Edmund Andrews writes that the process “is probably more important as an indicator of the United States' new strategy in opening up global trade markets. That strategy increasingly relies on negotiating deals with individual countries and small regions, in part to build support for more ambitious projects, like a "free trade agreement for the Americas" and a new global trade agreement at the World Trade Organization.

In addition to Singapore, the White House hopes to wrap up a free-trade deal with Chile by the end of the year. It is also starting talks with five countries in Central America and with Australia, and it is trying to open talks with other countries in Southeast Asia.”<sup>5</sup>

One can continue the path toward free trade with bilateral agreements accompanying, and showing the way, by their results. Nothing speaks as strong as success. The Chilean experience is a good proof.

Uruguay is led by a President who not only endorses FTAA, but who is willing to lead the way with a bilateral agreement with the US. Two weeks ago, at a workshop organized by CERES, a think-tank supported by Atlas, and the speakers made a careful analysis of what might Uruguay expect from such a bilateral agreement. They used the process of implementation and history of NAFTA as a model.<sup>6</sup> I encourage everyone who can read Spanish to read the papers and speeches that are available on line. They address most of the issues discussed here today.

### The major enemies of integration

Free-Trade agreements always had strong enemies. Father Antonio Rosmini-Serbati (1797-1855), the great Catholic priest of the nineteenth century, noted that it is first the predominant families, who control major economic groups who oppose free-trade, only to be followed by “national selfishness.”<sup>7</sup> Some historians describe how these families

---

<sup>4</sup> See Timothy Goodman's Ph.D. dissertation.

<sup>5</sup> Singapore and U.S. Near a Trade Deal, y Edmund L. Andrews, NYT, November, 20, 2002

<sup>6</sup> “ALCANCES Y LÍMITES DE UNA POSIBLE NEGOCIACIÓN DE UN TRATADO DE LIBRE COMERCIO ENTRE EE.UU. Y URUGUAY” by HERMINIO BLANCO M., and JAIME ZABLUDOVSKY K, Noviembre 5, 2002, [http://www.espectador.com/principal/documentos/eeuu\\_uruguay.doc](http://www.espectador.com/principal/documentos/eeuu_uruguay.doc)

<sup>7</sup> “*I precursori italiani del personalismo economico: una riflessione sugli scritti di Luigi Taparelli D’Azeglio, Antonio Rosmini e Matteo Liberatore*” by Alejandro Antonio Chafuen-Rismondo, in II Coraggio della Libertà (Rubbettino, Catanzaro: 2002) pp. 109-143

forge friendships and alliances that can have a negative effect on the economy. James Bryce noted that “Private friendship or family relationship have a great effect on his conduct, and often an undue effect, for one is everywhere told that the difficulty of securing justice in these republics lies not so much in the corruptibility of judges, as in their tendency to be influenced by personal partiality. Things go by favour.”<sup>8</sup> Protectionist clans will try to use all their pull to block any free-trade agreement that might affect their interests.

But we do not have to be concerned only of enemies from within. During the failed experience of 1888-9, the English were not so keen to see some of their great business allies, like Argentina, give preferential treatment to the USA. That surely played a role in slowing down the paths of continental integration. Today, other trade partners of Latin America feel threatened. “European companies lost almost half of their presence in the Mexican market after the integration to NAFTA” reported José María Zufiaur, writing for *Cinco Dias*, on April 24, 2001. This critic of President Bush started his piece by stating “The Third Summit of the Americas has confirmed the expressed will of George Bush to place the Latin American and Caribbean relationship as the prime objective of US foreign policy.” This, again following Zufiaur, was contrary to Clinton’s policy of focusing on the conflicts in Ireland, the Balkans, and the Middle East.

Protectionist interests in the US and Canada, including labor unions, also play a role. Sometimes, the contradictions of a role model might be more damaging than the defects of the emulators. The US, especially this administration, has been championing the importance of the rule of law. One of the major advantages of free trade is its positive impact on the rule of law. Unfortunately, we can still remember who was the US candidate for chairing the WTO. The way in which protectionist interests try to prevent implementation of free trade in the Americas, also make a mockery out of the rule of law. Nevertheless, even after the new agricultural subsidies and the restrictions on steel imports, the US remains one of the most open economies in the continent (average tariff 1.8%). Yet these protectionist measures don’t help gain friends, and undermine the efforts of those of us who work for the unity of the continent.

Other contradictions, coming from the “North” are the practices of international lending organization. Although not always concerned with trade, these organizations play an important role when their lending is tied to institutions necessary for trade, or to help solve balance of payment problems. While it is refreshing to see some at the IMF making an effort to stop the perverse morality that results from rewarding mischief, it is sad to see this organization promoting fiscal regimes that can only lead to bankruptcy and destruction of the rule of law (i.e. see for example the IMF advocating that courts in Argentina should protect banks and not require them to return deposits to their rightful owners, such activity should earn them a place as being an accessory to criminal activity rather than as auditors for sound fiscal policy).

The need for truthful external audits is not only needed in the private sector, the same scrutiny should be directed to the lending practices of the Inter American Development

---

<sup>8</sup> South America: Observation and Impressions, James Bryce, (McMillan, New York: 1912) p. 505.

Bank, the World Bank and the International Monetary Fund. Although these organizations theoretically are independent of the US, they are nevertheless perceived to follow US interests (especially the IMF and the World Bank).

Some opposition to free trade is well intentioned, as that which originates from the impact of free-trade on people who are not prepared for a global economy and on those who cannot escape the inefficiencies of state activity. But the solution here is to open educational opportunities rather than to close the doors to economic progress and integration.

Other fears, such as that economic integration will erase cultural differences in Latin America, are over blown. Huge differences exist between a Washingtonian and someone living in the foothills of the Blue Ridge Mountains, less than two hours away from the place of this conference—this despite that the US economy, is the most successful experiment of economic integration in the history of civilization.

Cultural influence is a two-way trade. At least in conservative circles people seem more alarmed for the influence of Hispanic Americans in the USA. From representing less than half a percent of the population during the “Jefferson” era, today approximately twelve percent of the population is of Hispanic and Latin origin. Sure that free-trade can “exports” values that some of us do not like, but many Latin countries will be at pains to show better social indicators than the US. No one has the monopoly on behavioral patterns that can offend cultures. Promiscuity in Bolivia, for example, which manifests partially in its famous “Viernes de solteros.” (bachelors Friday’s<sup>9</sup>) has little to do with free trade.

### Argentina and Brazil

Any movement from Brazil or Argentina, towards endorsing FTAA, and respecting their commitments to launch it in 2005, will signal the success of the process.

Argentina is in such turmoil, that few can predict where the chips will fall. Currently the Candidates of the Party run by the successors of Juan Domingo Perón are leading in the polls. The candidate who is running first, Rodríguez Saa, is able to endorse any sort of policy. He can champion and implement free-market reform, even in the area of education; a protectionist retrenchment, and perhaps, endorse opposing policies at the same time. The other candidate, former President Menem, will undoubtedly move fast to integration with FTAA.

Brazil is different and analysts are still assessing the impact of Lula’s shakeup. A large portion of experts sees the election of Lula to the Presidency of Brazil as an ominous sign for the future of FTAA. Nevertheless, the prevalent view before Lula’s election was predominantly anti-FTAA, but with the added negative factor that the ruling powers had a stronger grip on different sectors of Brazilian civil society. Lula’s victory,

---

<sup>9</sup> “Bachelors” Friday is a tradition where **married** men, have fun on Friday nights, and usually don’t return home until Saturday.

in a way, shakes up this consensus. The political shake up produced by his victory might open political space for those who favor stronger integration with the USA, and might also encourage Lula to seek strength by leading a new relationship with his old enemies. Lula might surprise the world, much in the way that President Menem in Argentina, and before him Paz Esstensoro in Bolivia, confused Latin American watchers by reversing the policies that had traditionally been advocated by their parties.

There is a one to ten chance that the above will happen. I agree with Abreu's conclusion that a less confrontational stance of Brazil vis-à-vis trade relations with the US, requires "a combination of relatively slow hemispheric integration, a continuous commitment to multilateral liberalization by both countries in the GATT, and developments in Brazil that would assure achievement of price stabilization and the effective implementation of structural reforms progressing towards the consolidation of a market economy."<sup>10</sup> Brazilian special interests are so powerful, that they will always create enormous friction to oppose a fast push toward free trade in the Americas.

Although I am concerned by the uncertain stance of Brazil and Argentina, I am also concerned by the potential impact of the war against militant Islam. During the period of US intervention in Vietnam, enemies of the United States used the opportunity to rally efforts against our country. From the Che Guevara in Latin America to Middle Eastern terrorists enemies of the USA used the war to rally against US interests. Today, the anti-US crowd has a much more difficult task. The leader of the Third Way is not one of its inventors such as Juan Domingo Perón or Benito Mussolini, but the self-proclaimed champion Tony Blair. Russia has a flat income tax of 13% and mainland China is experimented with educational vouchers, to the envy of US conservatives and to the bewilderment of what is left from the Latin "left." I expect some negative reaction on the process of integration due to current challenge, but not something so strong that would derail a train that is moved by other forces.

As they have done in the past, many countries will sign treaties that they do not intend to respect. Before FTAA, Latin Americans had ALALC, (Latin American Free Trade Association), which despite its name, ended up by being a major protectionist scheme. Some nations will undoubtedly sign and "play" the game of pretending, but if they maintain their closed economies, it is their population that will suffer.

### The Moral Implications of Free Trade

As an economist, I have no doubt that allowing free trade is the easiest and surest path to economic development. Nevertheless, as a human being, I am more concerned with the ethical underpinnings of human action. And it is in the ethical arena, that free trade has more merit.

If any of you go to the United Nations building in New York, you may notice that the most important statue is dedicated to the great sixteenth-century moralist, the Dominican

---

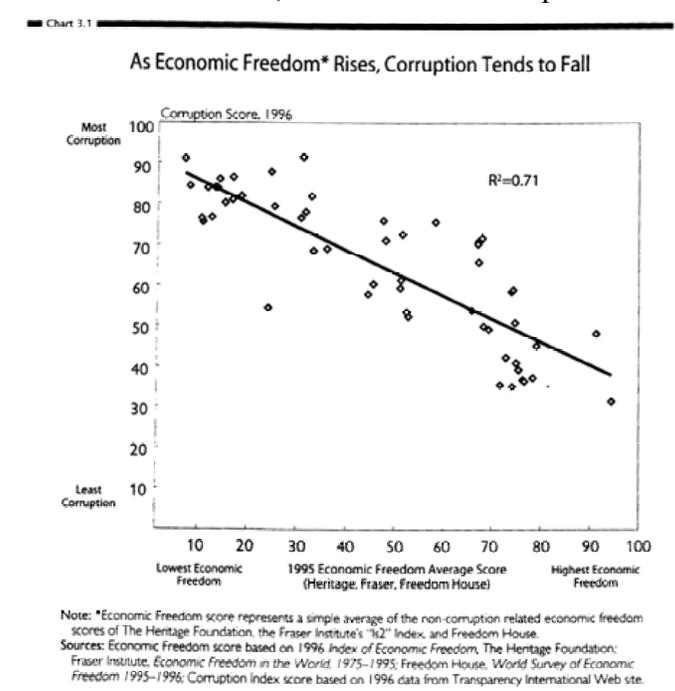
<sup>10</sup> "Economic Relations of Brazil and the United States and the Enterprise for the Americas Initiative", Marcelo de Paiva Abreu, p. 410.

Priest, Francisco de Vitoria. Francisco de Vitoria was a great champion of human rights. For Vitoria, the rights of the Americans to trade freely were an essential human right.

My first academic paper was an analysis of the economic ideas of the Dominican Priests who followed the path of Columbus, and settled in the island of La Española (now divided between Haiti and the Dominican Republic). Their first writings on economic issues were a demand for free trade. The call for free trade was an American call, even before the “white man” set foot in what is today the USA.

I remember standing in the frontier between two very poor areas of Paraguay and Argentina more than two decades ago. On one side of the border I saw poor people who knew how to produce and market flour very cheaply. On the other, people who produced rice, also very cheaply. Both could be better off, better nourished, healthier, by exchanging the wheat for the rice. What prevented them for doing so? Customs officials with rifles, defended by the same ideologies and special interests that today encourage Brazilian vested interests, European lobbyists, and American defenders of Agricultural protectionism, to prevent FTAA from happening.

I know that free trade, like wealth, beauty, and all created things, can be used for the bad. But, as St. Augustine said, the vices are of the businessman, not of business. It is not eating at McDonalds, driving a Ford, or watching CNN that will make us evil. It is what comes out of us. And what comes out of us is a direct result of what is in us. But that is for another sermon. In other academic settings I have shown the high correlation that exists between the lack of free-markets, free trade and corruption.<sup>11</sup>



<sup>11</sup> "Economic Freedom and Corruption" with Eugenio Guzmán, in 2000 Index of Economic Freedom, O'Driscoll, Holmes and Kirkpatrick: The Heritage Foundation-Wall Street Journal, Washington DC 1999. Spanish version: [http://www.atlas.org.ar/economia/chafuen\\_guzman.asp](http://www.atlas.org.ar/economia/chafuen_guzman.asp)

Apart from the general salutary effects of free trade and free-markets on corruption, FTAA will have a more focused impact on piracy. Of all the unethical economic practices in Latin America, piracy, or the violation of intellectual property rights, is perhaps even more damaging than inflation, as a deterrent for economic development and investment.

The rule of law, of which respect for intellectual property rights is only a portion, can benefit greatly from free trade. As James Bryce wrote “the more the citizens acquire capital and themselves enter on commercial undertakings, and form business habits, and get to look at things with a practical eye, the stronger and more general will grow the public sentiment that insists on replacing the reign of force by the reign of law.”<sup>12</sup>

### **Conclusion:**

Not long ago, there was a consensus in the corporate world, that FTAA was a given. The only doubts were about where, when and how. From Brazil to Honduras, and in between, all the economies were going to end up integrated as never before in the history of civilization.

As a strong believer in the power of ideas and that non-monstrous creations develop slowly and from the bottom up, I have to put my chips, and bet that the future of FTAA will depend on the leadership of smaller Latin American nations. Of these, those with more open and freer economies, have a chance to join first. Please refer to the table in the appendix. Only as a second best I would bet on a surprise coming from one of the three largest South American economies. If a couple of nations follow the paths of Chile, then they will slowly lead other nations on the path to free trade.

The greatest challenge to Free Trade in the Americas would come, and I do not expect it, from a Mexican catastrophe. If Mexico keeps on its path, even some backtracking by the US, pushed perhaps with the excuse of security concerns, would not be totally destructive to Free Trade in the Americas. Mexico and Canada, if the above happens, will likely respect its Free Trade pacts with other countries, and might likely pursue others as well.

The Ibero-American Summit ended in the Dominican Republic only days ago. They concluded with a statement: the “Declaration of Bavaro.”<sup>13</sup> Trying to find the complete text I typed the words, and found only two references in Google. Given the long list of empty words, it was a good sign that almost no one paid attention to the summit. Governments that are champions in corruption, preaching about transparency; dictatorships and quasi-dictatorships lecturing about democracy; and governments that by impoverishing their populations have helped create havoc on the environment, pretending to be champions of sustainable development. These same governments, who have kept most of South America as one the most closed to trade in the century, were complaining

---

<sup>12</sup> [South America](#), p. 573

<sup>13</sup> <http://www.xiicumbreiberoamericana.gov.do/Disursos/DeclaracionBavaro/DeclaracionBavaro1.htm>

not about the faults of their neighbors, but about the protectionism of the developed world, especially the US.

Let me finish on a somewhat optimistic tone quoting again from Bryce and the from President Batlle:

*“The future of the temperate South is more certain, for all the material conditions that make for prosperity in North America and Australia are present there also. These countries will be the home of rich and populous nations, and possibly of great nations. The most interesting of all the questions which a journey in South America suggests are those which concern the growth of these young nations. What type of manhood will they develop? What place in the world will they ultimately hold? They need fear no attacks from the powers of the Northern Hemisphere, and they have abundant resources within. Their future is in their own hands.” Bryce in 1912, p. xxiv*

President Batlle (November 5, 2002)

*“Without doubt, the main transformation in this difficult path that we are following, and will continue to follow, will come from trade. . . Mexico is a clear example, and Uruguay also, when it lived in the world of commerce structured by England, after Trafalgar. This world was lost, and if together we do not find it back quickly, no financial gimmick will be able to satisfy the just social demands coming from large, medium and small countries.”<sup>14</sup>*

---

<sup>14</sup> Original reads, “sin duda la transformación central de este camino difícil que hemos estado recorriendo y que vamos a seguir recorriendo se dará por la vía del comercio, no por la vía de otro tipo de soluciones. México es una demostración muy clara, y Uruguay lo fue mientras vivió en el mundo que comercialmente había organizado Inglaterra después de Trafalgar. Este mundo se perdió y hoy, si no lo reencontramos entre todos rápidamente, no habrá artilugios financieros que puedan atender las justas demandas sociales de países grandes, medianos y pequeños.”