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Regionalism and its Place in the Multilateral Trading System

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Chapter 9

NAFTA'S NEXT STEPS: HEMISPHERIC AND GLOBAL IMPLICATIONS

by

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Introduction

This paper analyses North American integration in a comparative hemispheric and global perspective. The process of North American integration is unique in its characteristics and challenges, yet paradoxically it has stimulated a dynamics of fear and emulation throughout the Western Hemisphere and in many places around the world. The North American Free Trade Agreement (NAFTA) has generated concern about its potential effects on income distribution, trade and investment diversion, as well as the possibility of initiating a new competitive race of trade-bloc formation. NAFTA has thus reopened an intense discussion about the optimal future of regional integration arrangements, relations between rich and poor countries, and the formation of regional trading blocs.

This paper will briefly outline some conclusions from a series of studies that my colleagues and I have conducted concerning the impact of alternative scenarios of the evolution of NAFTA and a possible Western Hemisphere Free Trade Area (WHFTA). How NAFTA develops will have important implications for the regional pattern of trade and investment, income distribution and the political economy of future trading arrangements. I will argue that the optimal post-NAFTA scenario includes both a "deepening" of NAFTA into the realms of financial and labour flows, and a "widening" of a WHFTA through a comprehensive and inclusive negotiating framework. These two goals, while complementary, pose a number of collective action problems which will have to be overcome in order to avert other, potentially less optimal scenarios. Such a hemispheric strategy of "open regionalism", which must provide enough policy depth to deal with specific development challenges in the Americas while pursuing greater openness with other regions undergoing balanced integration, can provide both a better global trading partner and a model for relations between emerging regional trading arrangements.

North American integration in comparative perspective

A special challenge

North American integration is taking place within a unique setting, which generates a number of very complex challenges. Nowhere in the world is there such a lengthy border between two large, rich G7 countries (Canada and the United States) and nowhere is there a longer border between such economically disparate countries (United States and Mexico). Not surprisingly, North America also contains the largest bilateral trade relationship between two rich countries and the largest trade relationship between relatively rich and poor countries. The United States and Mexico, in fact, have historically represented the highest degree of integration between any two such economically unequal countries, as measured by a broad range of indicators: the largest trade relation and the largest debtor-creditor relation between any two developed and developing countries; the largest foreign investment flows; the largest in-bond co-production relations (*maquiladoras*); and the longest border with the highest levels of border crossings and border commerce, both legal and illegal. The border itself is a metaphor of this North American challenge where the developed world meets the developing world: it is the most internationally integrated region of either country, generating fundamentally new patterns of economic, cultural and environmental interdependence. Despite the recent attention given to the large United States-Mexico trade and investment relation, the transfer of labour via migration linkages actually has the largest impact on each country's economic activities: as an eager source of migrant low-skilled labour needed for US growth; and as a source of employment, income, foreign exchange and cheap credit through remittances for Mexico. It is argued that the social structures of both countries, including their legal political frameworks, are also much more interdependent due to migration than through other linkages (Hinojosa, Robinson and Wolff, 1992).

NAFTA represents the most ambitious attempt at integrating a highly developed economy with a developing economy. Development disparities *between* North American countries are much wider than between any other group of countries that have attempted to integrate their economies. Countries within the European Union (EU) and the European Free Trade Association started with far smaller differences in per capita (and total) GDP than those between Mexico and the United States. Income distribution disparities *within* the United States and Mexico are also much wider than within member countries of the European Union. An important element in US income inequality is the widening gap between the incomes of white Americans and those of Latino and other minority populations, both US born and immigrant (Hinojosa, Carnoy and Daley, 1991). Regional income gaps are also very wide within countries. The income gap between Mexico's rich northern border and the southern state of Chiapas is wider than the difference in average income between Mexico and the United States. There is also a high degree of income inequality along the border region, which includes shanty-towns and high-technology plants in Mexico, as well as the United States' poorest counties located in Texas and prosperous San Diego, California. The task of building a pattern of equitable and sustainable development in North America will thus face two major challenges: wide income, productivity and infrastructure gaps, both within and between countries; and a lack of institutional development in both countries to manage uneven development.

Historically, the structure and evolution of the United States-Mexico pattern of integration have had important implications for how relationships between rich and poor countries evolved throughout the world. During the 19th century, it was in Mexico that the United States first developed its particular approach to large-scale trade and investment relations with developing countries. In the post-World War II era, the United States and Mexico were the first to work out a complementary relationship of direct foreign investment and import-substituting industrialisation, soon to be adopted throughout the developing world. NAFTA now represents a historic watershed as the first free trade agreement between highly unequal rich and poor countries anywhere in the world. Thus while NAFTA is unique, its success and evolution will have important implications, not only for US foreign economic relations, but potentially for setting the pace of trade and investment relations between developed and developing countries.

North America in a global and hemispheric perspective

As the overwhelmingly superior post-World War II position of the United States in the world economy began to recede, global output, trade and financial flows recovered, diversified, reconcentrated back towards Europe and, increasingly, towards Asia. The last two decades have witnessed an intensified growth in output, trade and financial activities both within and between the three most dynamic regions of the world economy: Western Europe, North America and the Asia-Pacific countries (Japan, NIEs and ASEAN). Rates of "intra-regional" factor movements have begun to outpace the still growing tendency of global "inter-regional" trade and investment. Much attention is being placed on how the end of the East-West cold war is giving way to a North-North economic battle between new regional blocs (Garten, 1992; Rosenberg, 1992; Thurow, 1992; Lawrence, 1991), with North-South issues now being redefined within each regional sphere.

A number of important points emerge from global statistics for the past 25 years when presented in terms of inter- and intra-regional trade (see United Nations, 1990).

First, world trade is already quite regionalised and is becoming increasingly concentrated within the three major regional trade blocs. Over the last 20 years, the European Union and Europe have been developing into the most cohesive trade bloc, already accounting for 30 per cent of total world trade. The European Union has exhibited in the last decade both the highest and the fastest-increasing degree of intra-regional trade (from 51 per cent to 59 per cent of its total trade), as well as the greatest bias for intra-regional trade.

North America is a relatively smaller trade bloc with only 6.3 per cent of world trade, despite its large share of global GDP. North America is also relatively less cohesive as a trading unit, with 33 per cent of its exports consumed by other North Americans, up from 32 per cent ten years ago. Taken together, North and South America have also experienced more rapid growth of intra-regional trade in the 1980s (from 32 per cent to 36 per cent) despite the region's slight bias towards regionally external trade.

Paradoxically, Japan and East Asia constitute the most rapidly emerging cohesive trading region despite the continued dependence of both on extra-regional trade. While world trade rose by 53 per cent in the 1980s, Asian trade rose by 108 per cent. Yet the recent growth in the share of intra-regional trade among Pacific Asian countries (from 33 per cent of Asian trade in 1980 to 37 per cent in 1990) is in fact still driven more by the rapid growth within Asia than by a secular bias towards trading among Asian countries [Frankel (1991) shows that this bias actually fell, indicating a relatively greater dependence on foreign markets]. While Pacific trade exceeded Atlantic trade in the early 1980s, many expect trade among the Asian side of the Pacific Rim to exceed trans-Pacific trade in the early 1990s. Flows of intra-regional investment are starting to show a similar pattern.

Second, the trade emerging between the three blocs and the rest of the world is generating extreme imbalances and uneven development which will be difficult to sustain for an extended period of time. The Asia-Pacific region, in particular, has experienced the most rapid growth in extra-regional exports, driven by its successful penetration of markets in North America and, to a lesser extent, Europe. Japan and Southeast Asia are running a trade surplus with North America -- by far the largest trade imbalance in the world today -- as well as surpluses with the European Union and the developing South.

North America, meanwhile, is running the largest trade deficit of any major region in the world, having big deficits with Japan, the European Union and the developing world. The European Union runs a slight surplus with both North America and developing countries and a slight deficit with Japan, on the whole maintaining its position as a slight net exporter. EU trade with Japan and North America is less than its trade with developing countries.

The developing South is perhaps the least integrated global trading unit, with less than 25 per cent of its exports going to other developing countries. North America is the largest net importer from the South, but both the European Union and Japan are running surpluses with developing countries.

The asymmetrical interdependence of trade in North and South America can be seen more clearly in Table 1, which lists exports to partners as a percentage of total exports from 1980 to 1992. Latin American economies have increasingly relied on countries in the Western Hemisphere to buy the bulk of their products. The dependence is focused on the United States, the primary destination of Latin America's exports. With the exception of Argentina, every country and bloc listed sends a greater percentage of its exports to the United States than to the rest of Latin America. The dependence is largely one-sided, however, as the majority of US exports are destined for outside the hemisphere. Although a substantial 33.9 per cent of US exports remain in the Western Hemisphere, 85 per cent of these exports go to Canada and Mexico, the two other NAFTA countries and the first and third largest trading partners of the United States respectively.

It is interesting to note the effect of the debt crisis and subsequent recovery on the pattern of export concentration in the hemisphere. Not surprisingly, the initial effect of the debt crisis in the early 1980s resulted in a crippling blow to trade within Latin America, while generating a thrust in exports to the United States and, to a lesser extent, other parts of the world. Figures for the 1985-92 period show a recovery of trade within Latin America as well as a continued concentration on exports to the United States.

Trade within the trading blocs listed (NAFTA, MERCOSUR and the European Union) all increased over the last decade. Latin American exports to the United States and to Latin America now represent a larger percentage than they did in 1980, while the share of exports to Europe and Japan have fallen back below 1980 levels. The levels of intra-MERCOSUR trade more than doubled from 1980 to 1992. The asymmetry in trade dependence between North and South also appears to be diminishing compared to the 1980s. As economic reforms in Latin America take shape and pent-up import demand is fulfilled, the region is becoming the fastest-growing market for US exports. In 1992, Latin American exports accounted for one-sixth of the total increase in US exports. Increases in US exports to Latin America, however, have also meant the return of Latin American trade deficits with the United States. As trade blocs with lock-in agreements become more important in the emerging world economic order, fear of exclusion is becoming more of a motivating factor in the Latin American policy shift in favour of negotiated trade alliances.

Alternative scenarios of North American integration

What possible impact can the recently signed North American Free Trade Agreement have on the future course of United States-Mexico integration? What is the most appropriate policy approach that can result in an equitable and sustainable pattern of mutually beneficial growth and integration in North America? Over the last three years, my colleagues and I at the University of California have been exploring these questions using a variety of methodological techniques, from state-of-the-art computable general equilibrium (CGE) modelling to a range of regional industrial and labour-market case studies. This research revealed three options from which the United States and Mexico had to choose: i) NAFTA as originally negotiated in 1992; ii) a "no NAFTA/neo-protectionism" scenario; or iii) a "NAFTA-plus" scenario with policies for sustainable and equitable growth.

While the NAFTA by itself was shown to be potentially very positive for increasing investment flows and enhancing income and productivity in North America, especially for more competitive firms, sectors and regions, United States-Mexico free trade was also shown to generate high levels of displacement and migration among the less skilled, with lower wages for migrants and greater wage inequality in both countries. A "neo-protectionist" NAFTA reductionist scenario, on the other hand, is much worse in terms of output, employment and welfare, with no reduction in migration or inequality. Only scenario 3, which combines NAFTA trade liberalisation with policies and institutions to ensure long-term investment flows to address development and adjustment issues in both countries, can be expected to generate sustainable economy-wide output, employment and equitable wage growth on both sides of the border.

NAFTA as originally negotiated in 1992

The originally negotiated NAFTA, based solely on the elimination of tariffs and many non-tariff barriers, was shown to be beneficial to the more competitive export sectors and more highly trained workers (usually the more unionised workers in the manufacturing sectors), but would also place accelerated displacement burdens on the low-wage import-competing sectors and on less skilled and less protected workers and communities on both sides of the border. While NAFTA was shown to increase the potential flow of investment to more competitive sectors, it was also shown that those investments would need to be of a long-term nature to realise those productivity potentials, address the potentially large adjustment problems and avoid potential macroeconomic disruptions related to a much larger Mexican current account deficit.

Interestingly enough, we indicated that disproportionately large adjustment costs would fall on Latino and recent immigrants who are more concentrated in the lower-skilled import-competing sectors in the migrant-sending regions of Mexico (agriculture) and the immigrant-receiving sectors of the United States (garments and electronic assembly). Higher-skilled and higher-paid unionised workers, by contrast, do considerably better since they are concentrated in the higher-productivity export-generating sectors or in the non-traded, non-manufacturing sectors of the economy.

If free trade had been immediately imposed in all sectors, there would have been much more severe structural adjustment problems in Mexico. Our research, and that of others, indicates that if free trade in agriculture is adopted, US corn farmers would gain because their exports to Mexico would increase, but would damage 2.5 million poor Mexican subsistence maize farmers who are now heavily protected and subsidised. The result would be increased migration out of the Mexican countryside to the cities, increased migration to the United States and lower real wages for unskilled urban workers in both countries.

A "no NAFTA/neo-protectionism" scenario

We showed that a rejection of NAFTA would likely result in short-term collapse and a long-term stagnation of the Mexican economy, which would result in a much more dramatic loss of US jobs than any possible displacement from NAFTA. In addition, immigration pressures and political instability would probably increase.

Rejecting any type of NAFTA and closing off trade with Mexico would in many ways be the worst of all possible scenarios. Mexico would not be able to sustain any foreign investment flows and the United States would forfeit the economic (and employment) gains from increased trade and investment with its third largest trading partner. Mexican real wages and employment would continue to fall as they did in the early 1980s, and migration pressures could only increase as Mexico faces further demographic growth for the rest of the century.

A "NAFTA-plus" scenario with policies for sustainable and equitable growth

We showed that only with a substantially enhanced NAFTA that establishes specific institutional mechanisms for long-term investments would it be possible for North America to embark upon a new pattern of integration which leverages the economic benefits of trade liberalisation for the explicit goals of sustainable development, environmental upgrading and improvement of wages on both sides of the border.

Establishing a NAFTA was seen as a necessary part of the policy package that would enable Mexico and North America to shift their development strategies. If the new strategy is to succeed, Mexico's domestic and foreign capital needs will have to expand greatly. Mexico will need to mobilise resources for a major investment effort, and be able to re-enter world capital markets in a sustainable manner. While we showed that the creation of a NAFTA would improve confidence for private investors, including Mexicans who have maintained large investments abroad during the last decade, we also argued that under existing institutional arrangements, and given Mexico's existing debt overhang and projected current account deficits, much more would be needed for sustainable growth, especially to finance large-scale investments.

To this end, we proposed the creation of a North American Development Bank (NADBank) (Fishlow, Hinojosa and Robinson, 1991), recognising the severe lack of existing institutions for bi-national co-ordination and the leveraging of investments that could minimise the adjustment costs and enhance the positive potentials of regional integration. Few are aware that the political struggle around NAFTA also produced the NADBank as an innovative type of institution designed for democratically based regional planning and international leveraging of public and private financing. The NADBank was created through a grassroots effort of Latino community and environmental groups to facilitate the cost-effective financing of environmental infrastructure and economic development projects, both on the United States-Mexico border and in other communities needing adjustment assistance due to NAFTA. The NADBank, capitalised at US$3 billion by Mexico and the United States equally, will serve as a regional institution designed to finance, co-ordinate and implement bi-national environmental, social and physical infrastructure projects related to continuing integration. NADBank is organised specifically to invest in the environmental and social infrastructure that will be needed to bring about an upward convergence in environmental and social standards and practices.

While our research had shown that an institutional approach had worked successfully in the European integration process, where the gaps between poor and rich regions narrowed due to the operation of the European Regional Development Funds and the European Investment Bank, NADBank will actually be more flexible in the use of a wide variety of dedicated financial options for environmental and adjustment-related investments and will have more direct participatory mechanisms for local communities and NGOs.

While we showed that a pattern of equitable and sustainable integration is possible in North America, much more will be needed to ensure the availability of long-term investments in Mexico to realise the productivity potentials of NAFTA. The original proposal for the NADBank contemplated a US$40 billion capitalisation, which sounds less fantastic now than it did before the latest peso crisis and US-led emergency rescue package. The success of NADBank-type institution-building for expanding the scope of long-term public and private investments will have decisive implications for the ability of North America to generate environmentally sustainable and socially equitable integration.

Alternative scenarios of Western Hemispheric integration

The North and South American Free Trade Area (NASAFTA) CGE model exercise was designed to establish an empirically rooted economic framework which could be used in the anticipated new round of post-NAFTA analysis and discussions (Hinojosa, Lewis and Robinson, 1994, 1995). The modelling results of 20 alternative scenarios (Table 2) provide insights and implications for the formulation of strategic trade policy by the United States and all other countries in the Western Hemisphere.

- The trade diversion impacts of NAFTA are for the most part negative but very small for all countries in the hemisphere, particularly in the comparative static version of the models. The longer-term, dynamic externality results show that NAFTA can potentially enhance trade diversion over time, but that it will be a net trade creator in the hemisphere if it delivers on its productivity-enhancing potentials.

- Trade diversion with respect to the rest of the world will grow in importance as more countries are incorporated into a NAFTA or a WHFTA, but this can be ameliorated by maximising the potentially dynamic externality effects on productivity obtainable through hemispheric integration.

- The NASAFTA model results show, as did most research on NAFTA, that any pattern of US-Latin American integration can be expected to have relatively small positive implications for the United States, but will have much more important positive or negative implications for all other countries in the hemisphere. Through a WHFTA, the United States gains in real GDP and exports at roughly double its rate of improvement under the NAFTA alone, because the United States would be able to export not only to a wider WHFTA market, but also to a richer hemispheric market now enhanced through regional gains from freer trade among all its member countries.

- While the aggregate effects of every alternative scenario are small for the United States, there nevertheless are relatively important differences between scenarios, both for the United States and for the rest of the region. Our modelling results show that:

  - a full WHFTA scenario is slightly better for the United States than its own self-centred hub-and-spoke system constructed through individual bilateral FTAs or via NAFTA accessions;

  - the United States is better off through the incorporation of all regional groupings than through incorporation of a smaller number of individual countries; and

- the "first-best" scenario for all other countries in the hemisphere is to be part of a single, all-inclusive WHFTA.

– The scenario results also uncover a complex set of collective action problems in the hemisphere due to the fact that, while all countries have the same first-best interest in a full WHFTA, every country's second-best scenario diverges strongly from that of their partners in both NAFTA and MERCOSUR. A failed resolution of this complex political economy problem between countries, sectors and socio-economic groups in the region could result in strong conflicts and lower levels of national and regional output and trade.

Essentially, our alternative scenarios uncover a prisoner's dilemma type of situation whereby, in the absence of co-operation in providing the public good of a multilateral negotiating mechanism, each country is left to fend for itself in a high-stakes and highly competitive environment. While the formation of a WHFTA is shown to be the optimal scenario for most of the major member countries of NAFTA and MERCOSUR, the lack of a mechanism for credibly negotiating a multilateral agreement places a high discount on this option. In the absence of a first-best solution, strategic relations both within and between NAFTA and MERCOSUR become very volatile, with each member country having a very divergent set of second-best preferences as to how and with whom to proceed with trade liberalisation. To create the conditions for a first-best solution to be organised in the hemisphere, however, collective action problems must first be addressed within NAFTA and MERCOSUR.

Mexico and the United States have to reach a decision on how to expand beyond NAFTA, for which they have essentially three options: individual hub-and-spoke arrangements; NAFTA accessions; or an agreement with MERCOSUR on negotiating a WHFTA. As we have shown, Mexico would slightly prefer to be its own hub, yet this is unlikely to succeed since it has so little to offer in terms of a market. If Mexico tries to develop its own hub-and-spoke system, the United States could block this by attempting to create its own hub-and-spoke configuration, with much greater probabilities of success. Yet if the United States tried to pursue its own hub-and-spoke alternative, or even aggressively push individual NAFTA accessions of non-MERCOSUR countries, this would likely spur Brazil into a defensive strategy to build up a South American Free Trade Agreement (SAFTA) around MERCOSUR. Given the relatively lower adjustment costs required to build a SAFTA, MERCOSUR would probably win a race against NAFTA to establish free trade with its neighbours, resulting in a low-preference outcome for the United States.

To avoid these conflicting outcomes, Mexico and the United States essentially have to be able to co-operate on a common strategy to offer Brazil and MERCOSUR a non-competitive framework for establishing a WHFTA, abandoning their strategy of individual NAFTA accession or bilateral hub-and-spoke agreements. This of course would necessitate an assurance that Brazil and other MERCOSUR members would also be willing to go along with a means of reaching a WHFTA.

In the absence of a mechanism for negotiating a WHFTA, Brazil and Argentina would also face a prisoner's dilemma set of choices as each would attempt to reach its own second-best option at the expense of its partner. The scenario results indicate that in the absence of a multilateral framework, it is in the interest of both Brazil and Argentina to compete against one another to gain individual and exclusive access to the US or NAFTA market, while leaving all the other spoke countries out of the regional trading arrangement. The more likely default scenario would thus be Argentina and Brazil's choosing a SAFTA strategy for MERCOSUR to develop free trade with other non-NAFTA countries, even though this is not their preferred second-best option. The reason for this is that attempts by Brazil and Argentina to access NAFTA individually would immediately be complicated by the incentive for Mexico and the United States to be the centre of their own hub-and-spoke system, thus seeking to prevent Brazil and Argentina from becoming the other NAFTA partner's additional spoke. As NAFTA partners with veto power, both the United States and Mexico must make a key decision: to share a wider NAFTA market with all competitors or to block any NAFTA accessions and risk the other NAFTA partner's achieving a hub-and-spoke system with its geo-political neighbours.

This situation can only be resolved through a decision by NAFTA and MERCOSUR countries to establish a credible mechanism for the formation of a comprehensive Western Hemispheric Free Trade Area. Fortunately, a WHFTA represents a first-best outcome for the United States, Brazil and Argentina, and a close second-best outcome for Mexico. This common strategy can be achieved by developing mechanisms and institutions which: i) reduce the uncertainty of multilateral negotiations; and ii) mitigate the economic costs of integration through trade adjustment investments. The OAS Special Trade Committee, with the technical assistance of the IDB and CEPAL, could serve as the convenor of these regular rounds of discussion and negotiations. A financing mechanism charged with the financing of trade-related adjustment, environmental and infrastructure investments could serve as an incentive to further widening and deepening of trade agreements. Financing would be made available to all countries contingent upon their entering into or deepening any sub-regional or hemispheric trade-liberalising agreement. The IDB, the UNDP and the NADBank could be used as the institutional context for this mechanism (UNDP, 1994).

While it is clear that not all sectors of all countries in the region are ready for NAFTA accession, and that the US political system may not be ready to accept them at this time, it is essential to keep the momentum going towards a broader regional liberalisation that is commensurate with other short- and medium-term development objectives. Meanwhile, our results still point to the fact that failure to resolve the outstanding regional problems of low rural productivity and wide income gaps could actually exacerbate inequalities under the auspices of regional integration. The optimal outcome of greater hemispheric integration could be part of the solution, but only in combination with a sustained investment in productivity enhancement and poverty alleviation.

Conclusion

Some analysts have envisioned a renewal of global blocs in conflict with one another, at the expense of the world trading system (Banks, 1990; Belous and Hartely, 1990; Schott, 1989). Others are hopeful that the regional blocs currently under construction will serve as building blocks to an enhanced multilateral open order (Dornbusch, 1991; Lawrence, 1991). The dynamics that could potentially lead towards one or the other of these outcomes, however, are far from precise and their emergence is not assured.

This paper has argued that a dual strategy of a NAFTA "deepening" and a WHFTA "widening" is the optimal scenario for countries in the hemisphere. A deepening of NAFTA into the realms of financial and labour flows will be necessary if North America is to achieve sustainable and equitable output, productivity and wage growth, while the creation of a fully inclusive WHFTA through a comprehensive and inclusive negotiating framework is needed to overcome potential geo-political conflicts and avert other, potentially less optimal scenarios. Such a hemispheric strategy of "open regionalism" must provide enough policy depth to deal with specific development challenges in the Americas while pursuing greater openness with other regions undergoing balanced integration. Open regionalism provides the potential for both a better global trading partner, creating rather than diverting trade, and a model for relations between emerging regional trading arrangements.

Table 1. **Exports to partners as percentage of total exports, selected years**
(percentages)

		PARTNERS											
EXPORTER		USA	Mexico	Chile	Brazil	Argen-tina	NAFTA	Mercosur	LAC	W.Hemis-phere	EU-12	Japan	Rest of world
USA	1980	--	6.9	0.6	2.0	1.2	22.9	3.3	16.6	32.7	23.6	9.4	34.3
	1985	--	6.4	0.3	1.5	0.3	28.6	1.9	13.3	35.5	20.7	10.6	33.2
	1990	--	7.2	0.4	1.3	0.3	28.3	1.7	12.8	33.9	22.3	12.4	31.5
	1992	--	9.1	0.5	1.3	0.7	29.2	2.1	16.1	36.2	20.7	10.7	32.3
Mexico	1980	64.7	--	0.2	2.6	0.3	65.5	2.9	5.9	71.4	14.8	4.3	9.5
	1985	60.4	--	0.1	1.3	0.2	62.1	1.6	4.7	66.9	18.0	7.7	7.4
	1990	69.3	--	0.3	0.6	0.4	70.2	1.5	5.5	75.7	11.6	5.5	7.2
	1992	76.3	--	0.4	0.7	0.4	81.4	1.2	4.2	85.6	7.2	2.6	4.6
Chile	1980	12.6	1.4	--	9.6	6.0	15.7	16.4	23.9	38.2	33.9	10.8	17.1
	1985	22.5	1.3	--	5.4	2.2	25.8	8.1	14.2	38.7	31.2	9.9	20.2
	1990	17.3	0.7	--	5.6	1.3	18.6	7.6	12.1	30.0	34.3	16.1	19.6
	1992	16.6	0.9	--	4.5	4.6	18.3	9.9	17.0	34.3	26.8	15.9	23.0
Brazil	1980	17.4	2.3	2.2	--	5.4	21.0	9.0	17.9	36.5	28.7	6.1	28.6
	1985	27.1	0.9	0.9	--	2.1	29.7	3.9	9.3	38.1	24.6	5.5	67.4
	1990	24.6	1.6	1.5	--	2.1	27.9	4.2	11.1	37.3	28.3	7.5	26.9
	1992	19.7	3.1	2.6	--	8.5	23.9	11.4	22.0	42.9	26.4	6.4	24.3

Table 1 (continued)

		USA	Mexico	Chile	Brazil	Argen-tina	NAFTA	Mercosur	LAC	W.Hemis-phere	EU-12	Japan	Rest of world
Argentina	1980	8.9	1.5	2.7	9.5	--	11.0	14.2	23.4	32.9	29.7	2.6	34.8
	1985	12.2	3.0	1.3	5.9	--	16.0	8.0	18.5	31.4	22.7	4.3	41.5
	1990	13.8	2.6	3.7	11.5	--	17.0	14.9	25.9	40.3	28.0	3.2	28.5
	1992	10.9	1.9	4.7	13.5	--	13.3	18.8	32.3	43.7	29.1	3.0	24.2
NAFTA	1980	16.8	5.1	0.5	1.8	0.9	33.6	2.9	13.3	41.8	20.4	8.3	29.5
	1985	25.0	4.3	0.2	1.2	0.2	43.9	1.5	9.5	49.2	16.1	8.8	26.0
	1990	20.9	5.3	0.4	1.0	0.2	41.4	1.4	9.8	45.9	18.2	10.5	25.4
	1992	21.9	6.6	0.4	1.0	0.6	43.3	1.7	12.2	48.9	16.7	8.8	25.6
Mercosur	1980	14.7	2.0	2.4	3.4	4.4	17.7	11.6	20.4	36.0	29.0	5.0	30.0
	1985	23.1	1.4	1.0	2.0	1.8	25.8	5.5	12.1	36.6	24.3	5.1	34.1
	1990	20.8	1.9	2.1	4.8	1.7	24.0	8.9	16.7	38.8	28.1	6.0	27.1
	1992	17.1	2.7	3.2	4.2	6.7	20.8	14.2	25.5	43.5	27.1	5.4	24.1
LAC	1980	31.4	0.9	1.5	3.0	2.3	35.1	6.7	15.7	49.9	22.1	4.7	23.3
	1985	39.3	0.6	0.8	1.7	1.3	42.0	3.7	10.5	51.9	21.3	5.3	21.5
	1990	39.3	1.0	1.3	2.9	1.1	41.8	5.0	12.7	53.5	21.1	5.8	19.6
	1992	42.8	1.4	1.6	2.5	3.0	46.7	6.9	16.0	61.3	18.3	4.6	15.7
W.Hemisphere	1980	18.4	4.3	0.7	2.1	1.3	32.7	3.8	14.2	42.5	21.1	7.6	28.8
	1985	26.4	3.7	0.4	1.3	0.5	42.5	2.0	10.0	48.8	17.2	8.0	25.9
	1990	22.4	4.7	0.5	1.4	0.4	40.3	2.1	10.6	46.1	19.1	9.8	25.0
	1992	22.8	6.0	0.7	1.4	1.1	41.7	2.8	13.4	49.2	17.6	8.4	24.9

Table 1 (continued)

		USA	Mexico	Chile	Brazil	Argen-tina	NAFTA	Mercosur	LAC	W.Hemis-phere	EU-12	Japan	Rest of world
EU-12	1980	5.8	0.5	0.1	0.6	0.5	7.1	1.2	2.8	9.4	46.4	1.0	43.2
	1985	10.4	0.3	0.1	0.3	0.2	11.9	0.6	1.8	13.4	46.4	1.3	39.0
	1990	7.3	0.4	0.1	0.4	0.1	8.6	0.5	1.5	9.7	52.1	2.2	36.0
	1992	6.8	0.5	0.1	0.3	0.3	8.1	0.6	1.8	9.4	52.4	1.9	36.3
Japan	1980	24.5	0.9	0.4	0.9	0.8	27.3	1.7	5.2	31.5	12.9	--	55.6
	1985	37.6	0.6	0.1	0.4	0.1	40.8	0.5	2.2	42.4	11.1	--	46.6
	1990	31.7	0.8	0.2	0.4	0.1	34.8	0.6	2.1	36.1	17.4	--	46.5
	1992	28.5	1.1	0.3	0.3	0.2	31.7	0.6	2.9	33.4	17.1	--	49.5

Source: IMF.

Table 2. **Description of NASAFTA-CGE Model Scenarios**

No.	Scenario	Description
I.	**Sub-Regional Accords**	
1	NAFTA	Remove tariffs and non-tariff barriers between the USA and Mexico, but not with or among Brazil, Argentina and Rest of world. No MERCOSUR.
2	MERCOSUR	Remove tariffs and non-tariff barriers between Brazil and Argentina, but not with the USA, Mexico and Rest of world. No NAFTA.
II.	**Bilateral Hub-and-Spoke Accords**	
3	US hub with Brazil - MERCOSUR	NAFTA plus a US-Brazil FTA. No MERCOSUR.
4	US hub with Brazil + MERCOSUR	NAFTA and MERCOSUR plus a US-Brazil FTA.
5	US hub with Argentina - MERCOSUR	NAFTA plus a US-Argentina FTA. No MERCOSUR.
6	US hub with Argentina + MERCOSUR	NAFTA and MERCOSUR plus a US-Argentina FTA.
7	US hub with Chile	NAFTA and MERCOSUR plus a US-Chile FTA.
8 Argentina,	US hub with Brazil, Argentina and Chile	NAFTA and MERCOSUR plus separate US- US-Brazil, US-Chile bilateral FTAs.
9	Mexico hub with Brazil	NAFTA and MERCOSUR plus a Mexico-Brazil FTA.
10	Mexico hub with Argentina	NAFTA and MERCOSUR plus a Mexico-Argentina FTA.
11	Mexico hub with Chile	NAFTA and MERCOSUR plus a Mexico-Chile FTA.
12	Mexico hub with Brazil, Argentina and Chile	NAFTA and MERCOSUR plus separate Mexico-Brazil, Mexico-Argentina, Mexico-Chile bilateral FTAs.
III.	**NAFTA with Individual Accessions**	
13 which is	NAFTA accession of Brazil = Brazil bilateral hub	NAFTA with Brazil accession and MERCOSUR, the same as Brazil bilateral FTAs with NAFTA and Argentina.
14	NAFTA accession of Argentina = Argentina bilateral hub	NAFTA with Argentina accession and MERCOSUR, which is the same as Argentina bilateral FTAs with NAFTA and Brazil.

15	NAFTA accession of Chile	NAFTA with Chile accession and MERCOSUR.

Table 2 (end)

No.	Scenario	Description
IV.	**MERCOSUR "4+1" Bilaterals**	
16	MERCOSUR with USA = US bilateral hub	MERCOSUR and NAFTA plus a MERCOSUR-US FTA, which is the same as NAFTA plus US bilateral FTAs with Brazil and Argentina.
17	MERCOSUR with Mexico = Mexico bilateral hub	MERCOSUR and NAFTA plus a MERCOSUR-Mexico FTA, which is the same as NAFTA plus Mexico bilateral FTAs with Brazil and Argentina.
18	MERCOSUR with Chile	MERCOSUR and NAFTA plus a MERCOSUR-Chile FTA.
19	Chile hub with NAFTA and MERCOSUR accessions	Accession of Chile to MERCOSUR and NAFTA.
V.	**Western Hemisphere Free Trade Area**	
20	NAFTA + MERCOSUR + Chile	Remove all tariffs between NAFTA, MERCOSUR and Chile.

Note: Version "a" of each scenario (e.g. 1a) includes only static effects; Version "b" (e.g. 1b) also includes dynamic externality effects.

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