

Comment on “Preferential Trade Liberalisation,” by Roberto Bouzas

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Roberto’s paper deals with two major topics. One is the current institutional process of integration. The other is different and has to do with the real processes of economic integration, with the direction in which the real trends in trade and economic integration are moving. Roberto has dealt very comprehensively with the first topic, in particular with the issues raised by NAFTA and the institutional processes associated with NAFTA. I have little to add on this subject. What I want to do is to focus on the second topic and make some suggestions to strengthen the comparison between the two processes, the “real” and the “institutional” trends in regional integration.

I want to begin by focusing on table 2 of Roberto’s paper¹. This table (see below) presents the actual trade intensity indices in 1990 and the trends in these trade intensity indices over the past 15 years before 1990. Consider now the following exercise. Define as natural trading partners those pairs of countries which have a trade intensity index of 3 or more on both the export and the import sides. A country with a trade intensity index of 3 with respect to another is one that is exporting to that country three times more than what one would expect from the shares of exports and imports of both countries in the world market. So the higher the index the more dense, the more intense are the trading relationships. Taking this value of 3 or more as defining natural partners is a bit arbitrary, but I don’t think that reasonably different values would greatly affect the conclusions of the exercise.

One can then make a list of the pairs of countries which have a trade intensity index of 3 or more. Having done that, use this information to construct a two-by-two matrix as follows. The two rows separate countries according to the number of natural trading partners in the hemisphere. The first row includes those countries with a large number (5 or more) of natural trading partners in the hemisphere. The second row includes the rest, i.e. refers to those with a smaller number of natural partners. The columns separate countries according to whether they have the United States as a natural client. By this I mean that the US is not necessarily a natural trading partner but that,

¹ Originally, this table was included in the draft version of Roberto Bouzas’ paper; it is now reproduced here (see Table 1).

Table 1 Trade Intensity Indices in the Western Hemisphere

	Argentina	Brazil	Canada	Chile	Colombia	Ecuador	Mexico	Peru	Paraguay	USA	Uruguay	Venezuela
Change in intensity (1965–90)												
Argentina	—	3.88	0.09	5.72	1.57	3.69	1.40	8.44	11.78	0.84	4.17	2.07
Brazil	-4.15	—	0.10	2.94	2.02	4.58	0.44	2.67	19.76	0.40	1.19	1.64
Canada	-0.32	0.13	—	0.21	0.14	-0.09	-0.57	-0.17	0.00	3.46	-0.08	-0.15
Chile	-0.55	3.65	0.16	—	3.95	4.37	-0.05	6.78	5.04	-0.23	3.55	0.67
Colombia	-0.02	0.36	-0.12	8.41	—	7.49	0.34	10.03	-0.40	1.36	4.01	5.91
Ecuador	-1.30	0.22	0.03	7.42	-7.65	—	0.13	43.54	-0.07	1.56	-2.14	1.30
Mexico	0.32	0.03	0.07	-1.43	0.45	1.48	—	1.58	6.37	2.71	1.74	0.57
Peru	-2.28	2.28	0.01	0.51	12.00	8.47	0.00	—	0.18	0.21	-0.55	2.94
Paraguay	-12.67	31.08	-0.08	10.28	0.51	-0.13	0.09	3.11	—	-0.95	-10.71	1.31
USA	-0.27	0.04	1.11	-0.36	0.59	-0.03	0.07	-0.38	0.46	—	0.06	0.23
Uruguay	11.16	25.89	0.16	2.51	-3.18	0.37	1.36	3.50	5.37	-0.06	—	0.17
Venezuela	-0.92	-2.52	-1.85	-0.75	9.60	-0.52	0.54	1.13	-0.04	3.03	4.16	—
Trade Intensity (1990)												
Argentina	—	11.07	0.17	13.46	2.88	3.97	2.08	13.87	21.30	1.17	38.65	2.41
Brazil	5.47	—	0.43	5.54	2.51	4.66	1.28	4.27	21.63	2.10	17.06	1.76
Canada	0.08	0.33	—	0.48	0.70	0.30	0.33	0.37	0.03	6.47	0.24	0.38
Chile	3.63	5.71	0.18	—	4.70	5.83	0.56	8.23	5.17	1.38	5.84	0.88
Colombia	1.07	0.43	0.26	8.72	—	12.81	0.48	12.11	0.08	3.79	4.45	6.23
Ecuador	0.95	0.23	0.07	10.28	5.76	—	0.32	46.77	0.19	4.52	0.99	1.34
Mexico	1.12	0.60	0.22	1.21	1.98	2.44	—	2.33	6.48	5.99	2.43	1.04
Peru	0.93	3.07	0.18	6.17	13.78	9.84	0.96	—	0.22	1.97	1.55	3.59
Paraguay	15.43	31.32	0.02	11.24	0.59	0.03	0.11	3.62	—	0.36	21.91	1.31
USA	0.81	1.26	5.41	1.52	2.59	2.06	5.89	1.86	1.23	—	0.66	1.68
Uruguay	12.92	28.71	0.20	3.52	3.53	0.62	1.56	4.66	6.83	0.81	—	0.20
Venezuela	0.10	0.40	0.02	0.55	9.71	1.51	0.55	1.69	0.09	4.84	0.50	—

Source: Primo Braga, Safati and Yeats, 1994.

at least from the side of the country's exports, the US is a natural partner, a natural client for the country's exports. The first column will thus include those countries which have the US as natural client. The second column will include the rest, those countries for which the US is not a natural client.

Thus, we have four boxes:

- In box 1, the North-West box, are those countries which have a large number of natural partners within the hemisphere and have the US as a natural client. Let me call this group of countries the "hemispheric" countries.
- In the second box, the North-East box, we have what one may call the "latinoamericanist" countries, i.e. countries which have a large number of natural trading partners within the hemisphere but for which the US is not one of them.
- Box 3, the South-East box, would be what – for lack of a better name – can be called the "sub-regionalist" group. These are countries which have a small number of natural trading partners and the US is not one of them.
- Finally, box 4, the South-West box, includes those countries which have few natural trading partners and the US is one of them, i.e. they have a very special trading relationship with the US. Call them the "bilateralist" countries.

Figure 1 Classification of Trading Partners

Hemispheric (Colombia)	Latinoamericanist (Chile, Uruguay)
Bilateralist (Canada, Mexico, Venezuela, Ecuador)	Sub-regionalist (Argentina, Brazil, Paraguay, Peru)

What do we learn from this exercise? Well, we find first that the group of "hemispheric" countries is almost empty. There is only one country in this box: Colombia, which has 5 natural partners and the US as a natural client. The second box, the "latinoamericanist" group, is also almost empty but not quite since there are two countries there. One is Chile, which has the largest number (7) of natural partners in the hemisphere but which does not have a special trading relationship with the US. The other "latinoamericanist" is Uruguay, also with a large number of natural trading partners in Latin America. Then, the "sub-regionalist" group includes, interestingly, 3 of the 4 Mercosur countries: Argentina, Brazil and Paraguay (Uruguay is not there

because it is in the “latinoamericanist” group). Peru is also in this group, a country which has indeed few natural partners. This group thus largely overlaps with the Mercosur countries. Finally, in the “bilateralist” group, we find what one would expect, the NAFTA countries, Canada and Mexico, and two more countries, Venezuela – which has a special relationship through its oil exports with the US – and Ecuador which also, for similar reasons, falls into this box.

I think that the exercise is a reminder that geography matters very much indeed. Why is Colombia the only hemispheric country? Simply, perhaps, because it is in the Northern part of South America and, among the countries in this region, it is the one that has the most diversified export base. Thus, it is not surprising that it has a large number of natural partners in the hemisphere and that, because of its geographical location, it has also a special relationship with the US. Why are Chile and Uruguay the two “latinoamericanists”? A simple explanation is that they are two of the more open economies in the hemisphere – partly because they are small, partly because of their trade regimes. They tend to have a large number of trading partners, and being in the Southern Cone, very far away from the US, their natural partners are in South America. And if this is the explanation for Chile and Uruguay being the two “latinoamericanists”, it suggests that the third group, the “sub-regionalist” countries, as it becomes more open and intensifies trading relationships with the rest of the hemisphere, is very likely, due to its geographical location, to become not necessarily “hemispheric”, but rather “latinoamericanist” over time. It is likely that these countries will tend to move from the “sub-regionalist” box to the “latinoamericanist” box.

Two final points on the relationship between the institutional and real processes of regional integration. The first is that, independently of the institutional arrangements, the real processes of trade and economic integration are pointing towards the development of two major blocs in the hemisphere: the North-American bloc, on the one hand, extending from US, Canada and Mexico towards Central America and the Caribbean; and the South American bloc, on the other hand. Taking a very long-term perspective, it is very likely that these two blocs, the North-American and the South-American, will intensify their trading relationships over time and eventually become “hemispheric”. This suggests, as an additional implication, that in this long process of hemispheric integration, natural hubs may be created in the process of integration. It is unlikely that Mexico will become a natural hub in the process of real integration. It is more likely that countries such as Colombia or the Central American countries perhaps – more generally, the Northern part of South America – will become in this long-term process the natural hubs of economic integration in the hemisphere.