

FTAA PROSPECTS

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In the title, I used the initials FTAA—an abbreviation that all trade junkies will recognize but probably seems Washington insider gobbledygook to most Americans and, I suspect, to most Latin Americans, even when translated into the Spanish version, ALCA (Área de Libre Comercio de las Américas). The idea of the Free Trade Area of the Americas has been around since at least the Miami Summit of 1994, and much work has been done to make the FTAA a reality. My guess is that a hemispheric free trade agreement will come into existence, perhaps even by its scheduled date at the close of 2004. The reasons for this judgment are that the United States is pushing hard for the FTAA, duty-free access to the U.S. market is crucial for the majority of Latin American and Caribbean (LAC) countries, and this open access to their largest market will help LAC countries attract the foreign investment they need to augment their relatively low level of domestic savings. The issue is an important one even if the general public is oblivious to what is going on.

There are, however, formidable obstacles to concluding the FTAA by the end of 2004. The most serious of these is probably the high level of U.S. domestic support of agriculture, a subsidy that has a profound impact on the ability of LAC countries to export competitive agricultural products into the U.S. and third markets, and even undercuts the ability of many Latin American producers to compete in their own countries. As this is being written, pig and poultry producers in Mexico are up in arms against the scheduled elimination of tariffs under NAFTA on imports from the United States on the grounds that U.S. producers benefit from highly subsidized feedstuffs. The Brazilians have made improved access to the U.S. market for processed agricultural products a condition of their acceptance of the FTAA. The United States ostensibly believes in the free market, but not really when it comes to agriculture for which substantial subsidies are the norm.

The European Union and Japan are even more culpable in supporting their farmers. The EU also employs export subsidies to avoid accumulating excessive stockpiles of many agricultural commodities, a practice that adversely

affects U.S. producers as well as those from LAC countries. The Doha round of trade negotiations taking place in Geneva under the auspices of the World Trade Organization is now going on and is scheduled to terminate at the same time as the FTAA negotiations. It has become accepted wisdom that the United States will not deal with agricultural subsidies in the FTAA discussions because the EU and Japan do not participate in these but, instead, will reserve this major negotiating issue for the WTO so that concessions can be obtained from all the major free-trade sinners. The only problem is that the French and Germans have agreed that the EU subsidies will continue until at least 2006, well after the scheduled termination date of both the Doha round and the FTAA negotiations. No negotiations on this aspect of agriculture in Geneva and no negotiation in the FTAA because this is reserved for the WTO. This is Catch 22 writ large.

Is there any way around this obstacle? One idea is to agree in the FTAA negotiations to prohibit agricultural export subsidies in the Western Hemisphere and, in order to make this effective, to impose countervailing duties on any directly subsidized agricultural sales entering into hemispheric countries. The office of the U.S. Trade Representative is surely reluctant to agree to this because there is a "peace" pact with the EU on agriculture, but the peace essentially keeps in place an unsatisfactory situation that imperils both the FTAA and the Doha round. In addition, the countervailing duties may have to be quite large. The Latin Americans first proposed the idea of a subsidy-free hemisphere. Another idea is to reduce U.S. import impediments on specific agricultural products coming from LAC countries. Here the problem is the existence of powerful U.S. interests unwilling to make concessions on products, such as orange juice and tobacco from Brazil and sugar from anywhere.

Is an FTAA possible without a major agricultural component, leaving agriculture to a later date in the WTO? The history of past trade negotiations in the General Agreement on Tariffs and Trade (the predecessor of the

WTO) is that the United States regularly threatened to terminate negotiations if agricultural trade was not substantially liberalized, only to conclude each negotiation without much progress in liberalizing agricultural trade. The reason for this repeated capitulation was that there were many other important U.S. objectives, such as trade in nonagricultural goods, trade in services, and, more recently, intellectual property protection. This same reasoning applies to the FTAA. Brazil, in particular, has many nonagricultural products that it can—and to a large extent, *must*—export to the United States if it is to achieve its trade/development aspirations. Mexico's exports are now largely manufactured goods, as are the exports of other LAC countries.

One other problematic issue hovering between the FTAA and Doha relates to the use of anti-dumping (AD) measures. These are used extensively by certain U.S. industries—steel in particular—and industries in other countries. If the United States is to make major changes in its AD proceedings, it will want global and not just hemispheric quid pro quos. This is a sensitive issue in LAC countries, which are convinced that many new products exported successfully into the U.S. market are confronted with AD charges, which can impede their exports even if the case is later dismissed. The cost of defending against these charges is high for small LAC exporters. Will AD issues have to wait until 2006 or later as well because there may be no Doha round completion before then? Most likely they will, but there may be some marginal adjustments on AD that can be made in the FTAA. AD, however, is a less of a deal-breaking issue than agriculture.

I argued earlier that I thought the FTAA would come into existence because most LAC countries wanted reasonably assured access to the U.S. market. Because of NAFTA, Mexico has this assurance and, consequently, is generally believed to be indifferent to the creation of the FTAA. It might even be considered antagonistic if one were to probe a little deeper, although unwilling to give voice to this lest it antagonize other LAC countries—then Mexico would have to share its privileged position. The United States has completed a free-trade negotiation with Chile and will soon open free-trade negotiations with Central America. The question arises whether, once these countries have achieved their objective of assured access to the United States, they will still have any great interest in concluding the FTAA. Probably not is the answer, at least for Central America. We may be setting up a situation for hemispheric free trade to be achieved by U.S. free-trade agreements with one or a few countries at a time, rather than all at once.

The FTAA, in my view, is as much a political as it is an economic enterprise. The basis of this assertion is that trade and investment are the only powerful instruments available to the United States for cementing its relations with the LAC region. Most of the rest of the relationship is about U.S.

demands—destroying coca crops on the ground, fighting narcotics traffic, working to limit money laundering, taking action against international terrorists. The United States is no longer a large aid donor in the Western Hemisphere, save in Colombia to limit narcotics traffic and to deal with terrorism. The United States has also demonstrated its reluctance to mount financial rescue packages when these are needed in the hemisphere. In an almost unique way, assurance of an open U.S. market plays to an LAC objective, whereas no other U.S. policy tool really does this. Trade, by elimination, has become the tool of choice for demonstrating U.S. interest in its hemisphere.

The FTAA is a trade agreement in name but, in reality, it is probably more an agreement that helps LAC countries attract foreign investment. The LAC countries, as noted above, are not big savers and they need capital inflows to meet their investment and development needs. The domestic markets are small in most LAC countries, which means that investment generally serves to produce goods for export. Mexico, which has a relatively large domestic market, has also transformed itself into a major exporter. Brazil, which also has a large domestic market in the Latin American context, has yet to become a significant exporter, and this will have to take place if Brazil is to meet its development aspirations. Membership in the FTAA would thus serve Brazil well in meeting this goal.

The U.S. government regularly stresses the importance of promoting democracy in the hemisphere, improving the region's educational systems, lowering its poverty level, and reducing its corruption—all of which are worthy goals. But the United States has little to offer in these areas other than cost-free pronouncements. In trade and investment, by contrast, the U.S. government and its private sector have to deliver something—an open market and capital flows—and these are things that the LAC countries cannot do for themselves. For these, they need the United States as a partner.

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