

## The Puzzling Mar del Plata Summit of the Americas

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The headline on page 1 of the U.S. edition of the *Financial Times* of November 7 read: “Trade agenda stymies Bush.” For many days leading up to the hemispheric summit on November 4 and 5 in Mar del Plata, Argentina, the media focused on President Bush pushing a hemispheric free trade agenda, namely, to resume negotiations on the Free Trade Area of the Americas (FTAA), even more than on the advertised summit themes of creating jobs, fighting poverty, and strengthening democracy. My instinct was that the media were distorting the U.S. position in order to stress the conflict on trade issues between President Hugo Chávez of Venezuela and President Bush. I cited the FT headline because this newspaper is good on trade issues; and I realized that the media were not distorting what was happening, but that the U.S. government had decided that it had to address regional trade negotiations.

The trade push by the United States at the summit was unwise, but it did end up with some benefits. Anyone who has been following hemispheric trade issues knew that the FTAA, if not dead, was moribund. Chávez had always opposed hemispheric free trade, but this hardly matters because Venezuela has little to export other than oil. The more serious opposition came from Brazil, which for reasons different from Venezuela, had concluded about two years ago that it had little interest in proceeding with the FTAA. Brazil’s reasoning was not always self-evident because it contained elements of a political desire to retain hegemony in South America, a desire to give priority to the Doha Round in the World Trade Organization (WTO) where the prospects for liberalization in agricultural trade were more promising, and a deal with the European Union over one in the Western Hemisphere where the United States and Mexico would dominate the trade agenda.

Brazil pushed for and obtained a new framework for the FTAA negotiations at a ministerial meeting on this issue in Miami in November 2003. The framework departed

from all previous trade negotiations in that it called for a core of concessions focusing on market access (lower tariffs and other trade barriers) containing obligations that would be required of all countries, and then discretionary adherence by countries to other obligations, such as trade in services, strengthened intellectual property provisions, transparent government procurement rules, investment, and other areas that have been highlighted in recent free trade agreements. This was immediately dubbed “FTAA à la carte” or “FTAA lite.” The discretionary areas were of major importance to the United States, especially services, including financial services, where future U.S. competitiveness was deemed to be greatest. For some reason, possibly to secure Brazilian cooperation in the WTO negotiations, the United States consented to this framework.

In any event, it proved impossible to schedule meetings on the FTAA. The United States and Brazil were the co-chairs of the negotiations at that point, and agreement on the next meeting could never be obtained. Indeed, there has been no substantive FTAA meeting since the Miami framework agreement (i.e., for two years as of this writing). Brazil clearly did not want a meeting. The main U.S. response has been a series of one-on-one free trade negotiations with many Latin American countries and a negotiation with the five countries of Central America. The United States now has or is negotiating free trade agreements (FTAs) with the following hemispheric countries: Chile, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, the Dominican Republic, Panama, Peru, Colombia, and Ecuador. This is in addition to free trade with Canada and Mexico, under NAFTA. The main missing countries are Venezuela and the four countries of Mercosur (Brazil, Argentina, Paraguay, and Uruguay).

All these separate agreements include, or will include if consummated, the provisions that were made discretionary under the Miami FTAA framework. Brazil at one point

suggested an FTA with the United States, but this was rejected because it would not include the areas made discretionary in the Miami framework. Why in heaven's name would the United States now want to revive an FTAA negotiation that would not include themes that it insists on having in all its other hemispheric FTAs? President Vicente Fox of Mexico suggested at the Mar del Plata summit that the FTAA negotiations should include those countries that want to negotiate a full-fledged agreement. Indeed, this suggestion was made by many before the United States accepted the Miami framework.

Presidents Bush and Lula of Brazil, who met in Brasilia immediately after the summit, got along famously with each other. Perhaps the main reason the United States agreed to the Miami framework—and is reluctant to go ahead with an FTAA negotiation without Brazil—is to maintain good personal relations between the two presidents. In addition, Brazil is an important trading country, and it plus Argentina and Venezuela make up about half of Latin America's population and GDP.

The communiqué after the summit reflected the differences among the majority of countries—29 of them—that would like to go ahead with FTAA talks, even without the four Mercosur countries and Venezuela. This was an important point in the final communiqué because it gives the lie to assertions that most Latin American countries see no value in FTAA negotiations. This declaration took place because trade issues were debated at the summit. My view is that the United States should proceed with negotiations for a full FTAA with those countries that wish to do so, whether or not the Doha Round deals effectively with agricultural subsidies. This need not destroy the good relations that exist with Brazil on most issues.

The U.S. policy of having individual FTAs in lieu of a hemispheric agreement has the merit of including issues of major importance to the United States. It has the defect of being a hub-and-spoke structure in which the United States has free trade with many countries, but omits this benefit for the Latin American signatories unless they have their own network of bilateral FTAs. It does little, therefore, to stimulate intra-Latin American trade, which should be a goal of the United States.

The proliferation of bilateral economic integration agreements in the hemisphere complicates trading relationships. Rules of origin often differ among the many agreements. Exporters find themselves searching for the proper country from which to export goods in order to ship from a country which has preferential relations with the destination country. Regional preferences are by no means the first-best way to conduct trade, but a single preferential agreement in the hemisphere is much more

desirable than the spaghetti of scores of such agreements that now exist.

The United States should emphasize first principles in its hemispheric relations. Fostering economic development is the most important objective of most Latin American countries. They have been anxious to conclude bilateral FTAs with the United States because they are being offered no other option; and the communiqué of the summit shows that they wish another option, to join together in a structure that both enhances their exports to the United States and to each other. This structure is consistent with job creation and alleviating poverty, although it is not sufficient by itself to do this—but a structure that encourages trade does make a contribution to economic development. If the willing countries go ahead with their preferred choice for the hemispheric trade structure, Brazil and the other Mercosur countries retain the option of making their own choices.

Earlier summits dealt with trade issues, but this particular summit was not the best forum for airing these issues because this inevitably led to confrontational rhetoric. Chávez was given a free ride, and at this point the forum for discussing hemispheric free trade should exclude him because he offers only vitriol. President Bush's trip to Mar del Plata did nothing to improve the U.S. image in Latin America; indeed, it did the reverse by making the United States the target of demonstrations and rhetorical scorn. However, by focusing in the right forum, one that is made up of those countries that have indicated that they want to proceed with a new hemispheric trade structure, the United States can demonstrate that it cares about a key aspiration of Latin America. A hemispheric free trade negotiation would be tough, and the United States would surely have to confront its home-grown protectionists, but it is a far more desirable path than the confrontational situation that now exists.

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