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Hemispheric Free Trade: Status, Hurdles, and Opposition

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Abstract. Popular support in the United States for the goal of hemispheric free trade has not materialized. Sources of opposition within this United States can be seen in continuing debate on the benefits and costs of hemispheric free trade, as well as on the efficacy of regional free trade agreements per se.

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ABSTRACT

At the Summit of the Americas held in Miami during December 1994, 34 leaders of the western hemisphere agreed to create a Free Trade Area of the Americas (FTAA) by 2005. At the Second Summit of the Americas, held in April 1998 in Chile, the leaders formally launched negotiations to create a FTAA, in accordance with the March 1998 San Jose Ministerial Declaration. This report evaluates the status, hurdles, and opposition to this objective. Absence of U.S. fast track negotiating authority remains a key obstacle to more rapid movement in this direction. This report will be updated periodically.

Hemispheric Free Trade: Status, Hurdles, and Opposition

Summary

At the 1994 Summit of the Americas in Miami, 34 countries in the Western Hemisphere agreed to complete negotiations to create a "Free Trade Area of the Americas" (FTAA) no later than the year 2005. Since the summit, two approaches have emerged for promoting hemispheric free trade.

The first approach involves the expansion and deepening of sub-regional groupings such as MERCOSUR (the Southern Cone Common Market) and the proliferation of bilateral free trade agreements. Most all countries of the Western Hemisphere -- except the United States -- have been active in this process.

The second approach entails formal negotiations to construct the FTAA by progressively reducing barriers to trade and investment. Under this approach, the trade ministers from the 34 countries agreed on the structure, organization, and venue for the FTAA negotiations at a meeting held March 17, 1998 in San Jose, Costa Rica, and the negotiations were officially launched by the Heads of State at the Second Summit of the Americas held April 18-19, 1998 in Santiago, Chile.

There are at least two different perspectives on how much overall progress has been made over the past four years in advancing hemispheric free trade. Some observers maintain that the official launching of the negotiations at Santiago, combined with the proliferation of sub-regional groupings and bilateral free trade agreements, are all strong evidence of accelerating hemispheric integration. Other observers hold that the formal FTAA negotiations are likely to lose momentum or drag on interminably, and that hemispheric integration may be evolving in a manner that is hurting U.S. interests.

If one assumes hemispheric free trade is a desirable objective, several major hurdles stand in the way of moving more rapidly in that direction. The most important obstacle is absence of fast-track procedures for implementing trade agreements. A tacit assurance that Congress will not demand changes in trade bargains struck by the President is considered key to persuading U.S. trade partners to engage in substantive negotiations. In addition, vast differences in size and interests of the negotiating countries, combined with the possibility that a new round of multilateral trade negotiations may be launched in the near future, could undermine the FTAA negotiations.

While the vision of hemispheric free trade was put forth by President Bush eight years ago, the amount of popular support in the United States for this goal remains unclear. A 1996 public opinion poll found that 57% of the American public was opposed to new free trade agreements with Latin America, while a 1998 poll found 36% opposition. Sources of opposition within the United States can be seen in continuing debate on the benefits and costs of hemispheric free trade, as well as on the efficacy of regional free trade agreements per se.

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Hemispheric Free Trade: Status, Hurdles, and Opposition

This report provides a current assessment of the movement towards hemispheric free trade in three parts. The first part evaluates the status of efforts to create a free trade area in the Western Hemisphere by 2005. The second part, assuming that hemispheric free trade is a desirable objective, discusses the major hurdles to achieving such a free trade area. The third part examines sources of opposition to the proposal.

Status of Movement Toward Hemispheric Free Trade

The objective of establishing a hemispheric free trade area was formally adopted at the December 1994 Summit of the Americas held in Miami. At the Summit, President Clinton and 33 other leaders of the Western Hemisphere agreed to complete negotiations to create a "Free Trade Area of the Americas" (FTAA) no later than the year 2005. In addition, the leaders agreed to make concrete progress toward that objective by the year 2000.[1]

If the FTAA were established in 1998, it would have 34 members (Cuba is not included) with 757 million consumers. The population would be more than twice the 370 million that comprise the now 15-nation European Union. The FTAA would also have a combined economic output of more than $9 trillion, with the $7 trillion U.S. economy accounting for more than 75% if the total.

While the Summit produced a *Declaration of Principles* and a *Plan of Action* that provided some general guidelines for the negotiations, neither document provided a blueprint or precise plan for achieving the FTAA. Subsequently, hemispheric free trade is being promoted through two different approaches or processes.[2]

The first approach involves the expansion of existing sub-regional agreements such as MERCOSUR (the Southern Cone Common Market) or the Andean Community. This approach entails adding countries to existing agreements with a view towards eventually combining or amalgamating the agreements into a larger accord through direct negotiations. Under this approach, the Clinton Administration

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[1] For an analysis of the decisionmaking to convene the summit, see Feinberg, Richard E. *Summitry in the Americas*, Institute for International Economics, Washington, D.C., 1997, 261 p.

[2] Moss, Ambler and Lande, Stephen. "A Critical Year for Hemispheric Free Trade: Can Countries Agree On A Blueprint?" The North-South Center, University of Miami, 1997, p.9.

initially hoped to expand the North American Free Trade Agreement (NAFTA) southward, beginning with the accession of Chile.[3]

The second approach attempts to harmonize diverse provisions and rules of the various existing regional groupings and potential members with a view towards eventual convergence into an overarching or general agreement. This process of formal FTAA negotiations entails acceptance of tariff and non-tariff obligations by various sub-regional groupings and countries with an eye over time toward blending these provisions into a comprehensive free trade agreement. Under this approach, the trade ministers from the 34 countries agreed on the principles and framework for the negotiations (the San Jose Declaration) in March 1998, and the negotiations were officially launched by the leaders at the Second Summit of the Americas in Santiago, Chile in April 1998.

There are at least two different perspectives on how much overall progress has been made over the past two years in advancing hemispheric free trade. Some observers argue that the process, on balance, is "on-track" and others judge that the process is "off-track."

Progress in Expanding Sub-regional Groupings

Since the Summit of the Americas, most countries in the Western Hemisphere, with the exception of the United States, have been actively involved in expanding sub-regional groupings. MERCOSUR, led by Brazil, has been the most active. At the same time, a number of countries have negotiated additional bilateral free trade agreements, with Mexico and Chile leading the way.

Over the past three years, MERCOSUR, which consists of Argentina, Brazil, Paraguay, and Uruguay, has reached free trade agreements with Bolivia and Chile that are designed to serve as steeping stones for full membership into MERCOSUR. Mercosur has also signed an agreement with the Andean Community to negotiate a free trade deal by 2000, and it continues to explore negotiating a trade agreement with the European Union (EU). The main obstacle to beginning negotiations is the insistence by some EU members to exclude the cereals, beef, and sugar sectors from the negotiations. These are all sectors in which Mercosur countries are very competitive.[4]

MERCOSUR hopes to expand its membership to all of South America, thereby creating a South American Free Trade Area (SAFTA). The creation of a SAFTA

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[3] President Bush unveiled a vision of free trade in the Americas on June 27, 1990. Proposed as the cornerstone of his Enterprise for the Americas Initiative (EAI), President Bush envisaged the creation of a "free trade system that links all of the Americas: North, Central, and South ... a free trade zone stretching from the port of Anchorage to the Tierra del Fuego" (the southern tip of Chile). The extension of the U.S.-Canada free trade agreement to Mexico (what became NAFTA) was to be the first step in creating this hemispheric free trade zone.

[4] See congressional testimony of Regina K. Vargo, Deputy Assistant Secretary of Commerce for the Western Hemisphere, before the Subcommittee on International Economic Policy of the House International Relations Committee on April 29, 1998.

could position MERCOSUR, and particularly Brazil, to play a much more important role in regional and world affairs.

Mexico, for its part, has been equally active. Hoping to become a commercial hub between North and South America, Mexico has reached trade agreements with Colombia and Venezuela (creating the so-called *Group of 3)* and with Bolivia, Costa Rica, and Chile. In addition, Mexico has initiated talks with MERCOSUR and a number of Central American countries.

Mexico's growing web of free trade agreements have entailed trade and non-trade obligations that are deeper and more rigorous than those undertaken by MERCOSUR and its free trade partners. For the most part, Mexico has negotiated agreements that are relatively equivalent to its NAFTA obligations.[5]

Chile, which envisions itself as a bridge between Asia and South America and Europe and South America, has been similarly active on a bilateral basis. It has concluded agreements with MERCOSUR, Mexico, Colombia, Venezuela, Canada, and Ecuador, and intends to start similar negotiations with Central America.

The United States is the major exception to this trend of expanding free trade agreements in the hemisphere. While the Administration initially expected to pursue hemispheric integration actively under this approach, beginning with an invitation to Chile to negotiate accession to NAFTA at the Summit of the Americas, the absence of fast-track authority has prevented movement in this direction from taking place. Although negotiations with Chile were formally launched in July 1995, Chile subsequently suspended its participation because the Clinton Administration did not have fast track authority -- a situation that Chile feared could force it to negotiate twice with the United States (once with the Executive Branch and once with the Congress).[6]

The rapid increase in free trade accords in the hemisphere (an estimated 30 agreements have been concluded since 1990) has been accompanied by a rapid acceleration of exports. Latin American intra-regional trade has grown particularly fast, rising on average by 18% per year from 1990-1997. This compares to an average growth of 9% per year to countries outside the region.[7]

Progress in Harmonizing Norms

[5] Moss, Ambler and Lande, Stephen. "A Critical Year For Hemispheric Free Trade: Can Countries Agree On A Blueprint?" p. 9.

[6] Fast-track authority allows the President to negotiate a trade agreement with assurances that the legislation implementing the agreement will be treated in Congress under special floor procedures, including no amendments.

[7]Inter-American Development Bank. "Integration and Trade in the Americas," Periodic Note, August, 1998, p. 31.

In the nearly four years since the first Summit of the Americas in Miami, Western Hemisphere trade ministers have met four times under the FTAA process. The first meeting was held in Denver in June 1995; the second in Cartagena, Colombia in March 1996; the third in Belo Horizonte, Brazil in May 1997; and the fourth in San Jose, Costa Rica in March 1998. While a number of decisions were made at all the meetings, the most significant preparatory work occurred at the San Jose Ministerial.

At the San Jose meeting, the 34 Ministers responsible for trade in the Hemisphere unanimously recommended that the Leaders formally launch the negotiation of the FTAA at the Second Summit of the Americas in Santiago. As provided by the San Jose Declaration, ministers agreed that negotiating groups are to achieve considerable progress by the year 2000, with a conclusion set for December 31, 2004. The San Jose Declaration also provided recommendations on the initial structure, objectives, venues, and principles of the negotiations.[8]

Canada was designated as the Chair of the overall negotiating process for the initial 18 months (May 1, 1998-Oct. 31, 1999) and the United States and Brazil were named co-chairs during the final two years of the negotiations (November 1, 2002-December 31, 2004). As head of both the Ministerial and Trade Negotiations Committee (TNC), the Chair will provide overall direction and management to the negotiations. Consisting of the 34 Vice Ministers for Trade, the first meeting of the TNC will be held no later than June 30, 1998.

The Ministers elected to establish nine initial negotiating groups, which cover all the tariff and non-tariff barrier issue areas identified by the Leaders at the Miami Summit of the Americas. These groups are market access, agriculture, services, government procurement, investment, intellectual property, subsidies, competition policy, and dispute settlement. In addition, the Ministers created two committees and a consultative group. A Committee on Electronic Commerce, comprised of both government and private sector experts, was established to make recommendations on how to increase and broaden the benefits to be derived from the electronic marketplace. A Committee on Civil Society was established to receive input at the hemispheric level from labor and environmental groups, and academic, consumer, and other non-governmental groups. And a Consultative Group on Smaller Economies was established to bring to the attention of the TNC the interests and concerns of the smaller economies.

The United States (Miami) will provide the venue for the negotiating groups and the administrative secretariat supporting those meeting during the first three years. The last four years of the negotiations will be held in Panama and Mexico.

The San Jose Declaration contains General Principles for the Negotiations, as well as General and Specific Objectives. In addition to transparency during the negotiations, the Ministers agreed that the FTAA should improve upon WTO rules and disciplines wherever possible and appropriate. This provision was an attempt to ensure that any final agreement will break down the most serious trade barriers in the region and provide a single set of rules for hemispheric trade. It was agreed that

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[8]Information on the FTAA can be accessed at an official website: http://www.ftaa-alca.org/.

bilateral and sub-regional agreements such as NAFTA and Mercosur can coexist with the FTAA only to the extent that the rights and obligations under those agreements are not covered or go beyond those of the FTAA. It was also agreed that the negotiations will be a “single undertaking”, in the sense that signatories to the final FTAA Agreement will have to accept all parts of it (i.e. cannot pick and choose among the obligations.)

As expected, President Clinton and 21 other presidents and 12 prime ministers of the Western Hemisphere agreed at the Santiago Summit in April, 1998 to launch the trade negotiations, in accordance with the San Jose Declaration. The first meeting of the nine negotiating committees took place in Miami during September 1998.

Movement Toward Free Trade

Assessments differ widely on whether this combined movement toward hemispheric free trade is “on-track” or “off-track.” The former, basically positive, perspective maintains that a solid foundation and structure for FTAA negotiations has been agreed to and that on-going efforts to expand sub-regional groupings are accelerating hemispheric integration. The latter, mostly skeptical, perspective holds that the United States, lacking fast-track authority, has been unable to provide the kind of leadership that is necessary to ensure that the FTAA negotiations proceed according to schedule or in a manner that is supportive of U.S. interests.

Those who see positive developments over the past three years point to the accomplishments of the San Jose Trade Ministerial and the Second Summit of the Americas in getting the FTAA negotiations off to an official start. While some critics doubt much progress can be made in the negotiations until the U.S. obtains fast-track negotiating authority, others point out that the absence of fast-track may have made the U.S. negotiating position more compromising and diplomatically effective to date. This view holds that Brazil and other Latin countries may not have agreed at Santiago to begin formal FTAA negotiations if the United States had not been willing to change its original negotiating positions on agriculture and some other issues.

The “on-track” perspective also points to a continuing trend of greater market opening at both the bilateral and sub-regional level as contributing to an expansion of trade flows. In recent years, intra-hemispheric trade has been growing more rapidly than exports to the rest of the world. This trade growth, in turn, has bolstered the economic performance of the countries of the region and enabled Latin American leaders to negotiate with the United States more confidently, as well as to embrace the long-term goal of hemispheric free trade.

Those who judge that the process is “off-track” make several points. The first is that the United States, lacking fast-track authority, has not been able to promote its preferred approach (the expansion of NAFTA) to hemispheric integration. Instead it has been relegated to the sidelines as other countries and sub-regional groups have continued to reach preferential agreements. These agreements, in turn, are said to be discriminating against U.S. exports and making it more difficult to eventually negotiate a comprehensive, hemispheric free trade agreement. In the continuing absence of fast-track, this view also holds that the FTAA negotiations will lose momentum or drag on interminably.

Hurdles

Those who identify the creation of the FTAA as a desirable objective cite two major hurdles to rapid movement in that direction. These are the absence of fast-track authority, and divergent interests of key countries involved in the negotiations.

Fast-track Authority

Many observers doubt that a formal FTAA can be negotiated by 2005 in the absence of an extension of fast track authority from the Congress. Such authority allows the Administration to negotiate a trade agreement with assurances that the legislation implementing the agreement will be treated under special procedures. Strict time limits on consideration and bars on amendments increase the probability of passage.

A tacit assurance that Congress will not demand changes in trade bargains and compromises struck by the President is considered indispensable for persuading U.S. trading partners to engage in substantive negotiations. While foreign countries in the past have agreed to begin trade negotiations without fast-track authority in place, it is considered unlikely that they would offer sensitive concessions in trade talks if they were unsure that U.S. negotiators could live up to their end of the bargain.[9]

Fast track authority was first adopted in 1974, and it has been renewed five times. However, since its expiration in 1994, efforts, first by the Clinton Administration, and second by the House Republican leadership, have been unsuccessful in winning its renewal. President Clinton transmitted to Congress a draft fast-track bill in the fall of 1997.[10] The proposal and subsequent versions reported out of both the House Ways and Means and Senate Finance Committees proved controversial. Lacking the votes for passage, the President on November 10, 1997 elected to suspend efforts to gain its passage in the 1st session of the 105th Congress. The most recent attempt to pass a fast track bill occurred on September 25, 1998, when the House defeated H.R. 2621 by a vote of 180 to 243.

The inability to obtain a bipartisan majority in favor of fast-track bill has stemmed primarily from divisions on the treatment of labor and environmental standards in future trade agreements. Many Democrats maintain that future trade agreements should contain strong labor and environmental standards, particularly with developing countries that maintain tight control over labor markets and lax standards on environmental protection. Many Republicans believe that these issues should be addressed in different fora and ways. Without a narrowing of the gap concerning the proper relationship between labor and environmental standards and international

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[9] For a full discussion, see Schott, Jeffrey J. ed., *Restarting Fast Track*, Institute for International Economics, Washington, D.C. 1998.

[10] For a description of the President's fast-track proposal, see U.S. Library of Congress, *Fast-Track Authority: Debate Over the President's Proposal*, by George Holliday, Report 97-876 E.

trade, efforts to pass an extension of the fast-track authority may continue to prove difficult in the future.

The terms of any potential fast-track consensus, of course, could have direct consequences for the FTAA and U.S. relations with Latin America. On the one hand, a fast-track extension that entailed strong labor and environmental provisions in future trade agreements could encounter strong opposition from FTAA negotiating partners. Most Latin American leaders have made clear that they view any labor or environmental provisions that are enforceable by trade sanctions as being potentially protectionist, and have vowed not to negotiate such agreements. Similarly, a fast-track extension that contained authority only for multilateral negotiations could obviously gut the FTAA process. On the other hand, a fast-track extension that was accompanied by measures to help American workers adjust to increased competition could help build domestic political support for the FTAA.

Divergent Country Interests

Even if fast-track negotiating authority is renewed in some form, movement toward hemispheric free trade likely will be constrained by the divergent interests of two key countries in the hemisphere -- Mexico and Brazil. In addition, there is growing concern that the possible launch of a new round of multilateral trade negotiations could effectively divert the attention of negotiators and countries away the FTAA process.

Both Mexico and Brazil appear to have an interest in a go-slow approach to the FTAA negotiations. Mexico's interest in prolonging the negotiations is straightforward. Preferential integration with the U.S. economy through NAFTA has been a major boon to its trade and economy. At least in the short-run, it has a clear-cut commercial interest in seeing that the value if its preferential access to the U.S. market is not eroded by the creation of a hemispheric free trade area.[11]

For Brazil, a time-consuming and extended negotiation would provide it with significant advantages, not the least of which would be an opportunity to expand MERCOSUR into a larger South American trade bloc. Buttressed by the diplomatic support provided by a larger MERCOSUR, Brazil could be better positioned to negotiate with the United States from a position of strength. This is particularly important because Brazil (together with Argentina) wishes to extract from the United States concessions limiting Washington's use of unfair trade practices remedies (i.e. antidumping and countervailing duties) and to improve its access to the U.S. market for agricultural products. In addition, because MERCOSUR currently protects a number of sectors (such as financial services, telecommunications, and government procurement), a longer period of time would provide these sectors with more leeway and capacity to adjust to increased import competition.

[11] For example, Venezuela and Colombia, two frequently mentioned candidates in the past, are now experiencing considerable problems. Venezuela is struggling to return to a path of economic reform and revitalization, and Colombia is deeply troubled by guerilla and drug-related violence and corruption.

A final consideration is that gaining unfettered access to the U.S. market may not be as important for Brazil and its principal MERCOSUR partner, Argentina, as it is for many other countries in Central and South America. For both countries, the European Union is a more important trading partner than the United States, which accounts for only 20% of Brazil's exports and 9% of Argentina's exports. For this reason, both countries' calculations of the benefit/cost ratio of a special hemispheric relationship may by lower than of other countries that are more dependent on the U.S. market.[12]

The possible launch of a new round of multilateral trade negotiations under the aegis of the World Trade Organization (WTO) could also divert the attention of key countries from the FTAA process. A WTO Ministerial meeting scheduled for 1999 is expected to decide whether and when to initiate a new round.

Opposition

While the vision of hemispheric free trade was put forth by President Bush eight years ago, and subsequently embraced by President Clinton, the amount of popular support in the United States for this goal remains unclear. For example, a public opinion poll taken in 1996 found that 57% of the U.S. public is against new free trade agreements with Latin America, while a 1998 poll showed 36% opposition.[13] Sources of opposition within the United States can be seen in controversies relating to the benefits and costs of hemispheric free trade, as well as to the efficacy of regional free trade arrangements in supporting U.S interests.

Benefits and Costs of Hemispheric Free Trade

The debate over the benefits and costs of hemispheric free trade tends to divide along economic and geo-political considerations. Those that emphasize the economic benefits and costs often view hemispheric free trade as an end in itself, while those who emphasize geo-political costs and benefits tend to view hemispheric free trade as a means to achieve other objectives.

Economic Benefits and Costs. The Clinton Administration and most supporters of hemispheric free trade emphasize the extent to which movement in this direction will help expand U.S. exports, which in turn will create more and better paying jobs. The statistics cited in support of this contention include the following:

- Exports over the last 5 years have accounted for nearly 40% of U.S. economic growth.

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[12] Ahearn, Raymond J. *Trade and the Americas,* CRS Issue Brief 95017, [updated regularly] 14 p.

[13] Green, Paula. "Study: 57% of U.S. Public Against Free-Trade Pacts with Latin America," *Journal of Commerce, September 8, 1996, p. 2* and Schumacher, Edward. “A Meeting of Minds, From Peoria to Patagonia,” *Wall Street Journal,* April 16, 1998, p. A19..

- Exports support an estimated 11.3 million U.S. jobs, and over 1.4 million of these jobs were generated by increased exports over the last 4 years.

- Export-related jobs are good jobs, paying 13-16% more than non trade-related jobs.

- U.S. exports to the Western Hemisphere (including Canada and Mexico) have accounted for two-thirds of U.S. export growth in 1997.

- U.S. exports to Latin America and the Caribbean (the 31 "other" countries which the U.S. does not have a free trade agreement with) have increased by 150% since 1990, making this region one of the the fastest growing markets for U.S. exports. As a result, the U.S. now sells more to Brazil than it does to China, and more to Chile than it does to India.

- Because Latin America and the Caribbean have relatively higher trade barriers than the United States (tariffs that are four times higher), American companies will have the most to win from a reciprocal reduction of barriers.

- Beyond the potential direct gains from freer trade, proponents see a danger for U.S. exports and investments arising from the movement towards preferential trade agreements in the region without U.S. participation. They cite free trade agreements that Chile has concluded with Canada, Mexico, and Mercosur as contributing to an estimated $500 million in lost U.S. exports. (The effect reportedly is due to the fact that U.S. exporters are subject to a price disadvantage imposed by the 11% Chilean duty that Chile's preferential hemispheric free trade partners do not have to pay.)[14]

Opponents and skeptics can respond that supporters overstate the potential benefits, and underestimate or ignore the potential costs. Regarding the potential benefits, they make the argument that Latin America and the Caribbean (excluding Mexico because it is already a member of NAFTA) represent a relatively small market for U.S. exports. In 1997, for example, the region accounted for only 9% (or $63 billion) of total U.S. exports. Although it may be a fast-growing market, the relatively small trading relationship the United States has with these countries indicates that hemispheric free trade could have only a modest impact on economic activity, including export growth, in the United States. As a result, opponents can argue that movement in this direction is not going to create large numbers of export-related jobs.

Concerning the dangers of inaction, opponents can point out that the trade data, to date, do not support the assertion that the United States is losing market share as a result of being excluded from preferential trade agreements. For example, in the case of Chile, which has negotiated preferential trade agreements in recent years with Mexico, Canada, Bolivia, Venezuela, Colombia, and Ecuador and the four members of Mercosur (Argentina, Brazil, Paraguay, and Uruguay), the U.S. share of Chile's

[14] See congressional testimony of Regina K. Vargo, Deputy Assistant Secretary of Commerce for the Western Hemisphere, before the Subcommittee on International Economic Policy of the House International Relations Committee on April 29, 1998.

total imports has shown little change in recent years. The U.S. market share grew, from 17.8% in 1990 to 23.8% in 1995, averaged 23.1% in 1996 and 23.2% in 1997 (thru the first three quarters).

Opposition to new free trade agreements in general is closely linked to perceptions of how NAFTA is working. For example, a 1997 Wall Street Journal/NBC News poll showed that 43% of Americans believe that NAFTA has had a negative impact on the United States, while 28% believed it has had a positive impact. In a 1998 poll, a plurality of those polled again believed that NAFTA was having a negative impact of jobs and wages.[15]

Opponents of NAFTA and the FTAA appear to fear that agreements with low wage countries — absent strong labor and environmental provisions that are fully enforceable by the threat of U.S. trade sanctions — can lead to a loss of U.S. jobs, put downward pressures on U.S. wages, and divert investment capital abroad. In particular, many Democrats, labor unions, and environmental groups are reluctant to support new trade agreements on the grounds that the NAFTA is working to lower the standard of living of U.S. workers and encouraging businesses to relocate in Mexico to take advantage of lower wages and weak enforcement of environmental laws.[16]

Opponents also point to the huge turnaround in the bilateral trade balance with Mexico, going from a $1.4 billion surplus in 1994 to a $17.5 billion deficit in 1997, as a sign that the agreement is having a negative impact on employment in the United States.[17] A huge increase U.S. imports from Mexico is estimated by opponents to have resulted in a loss of an estimated 250,000 U.S. jobs.[18]

Proponents of hemispheric free trade — both the Administration and many Republicans — counter that NAFTA is working. They point out that in the three plus years NAFTA has been in effect, the U.S. economy has created 8.5 million new jobs and that there has been no stampede of investment capital from the United States to Mexico. In 1995, for example, when total foreign investment from all sources in Mexico was $7 billion, total foreign direct investment into the United States was over

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[15]Schumacher, Edward. A Meeting of Minds, From Peoria to Patagonia, *Wall Street Journal*, April 16, 1998, p. A19.

[16] For analysis of these arguments, see the following CRS reports: Tiemann, Mary E. *NAFTA and Related Environmental Issues and Initiatives*, Report 97-291 ENR, February 27, 1997, 6 p.; Bolle, Mary Jane. *Worker Rights Provisions and Trade Policy: Should They Be Linked?*, Report 96-661 E, July 30, 1996, 18 p.; and Hornbeck, J.F. *NAFTA, Mexican Trade Policy, and U.S.-Mexico Trade: A Longer-Term Perspective,* March 11, 1996, 17 p.

[17] For analysis of the employment effects of NAFTA, see Bolle, Mary Jane. *NAFTA: Estimates of Job Effects and Industry Trade Trends After Two Years*, CRS Report 96-176 E, April 19, 1996, 9 p. For an analysis of NAFTA's impact on the U.S. economy, see Wilson, Arlene. *NAFTA: Economic Effects on the United States,* CRS Report 96-336 E, April 12, 1996, 6p.

[18] Blustein, Paul. "NAFTA Clouds Prospects of New Pact," p. H7.

$60 billion and total gross private investment in the U.S. economy was over $1 trillion.[19]

Despite the data confirming strong U.S. employment and investment performance economy-wide since NAFTA went into effect, there may be a growing sense of anxiety among a seemingly larger segment of the American work force concerning trade agreements with lower wage countries. While the anxiety perhaps could be allayed by the existence of viable retraining or adjustment assistance programs, the concerns appear deeply intertwined with the way a more internationalized and global economy threatens job security and places downward pressures on wages and benefits.[20]

A recent analysis asserts that these anxieties may also be bound up with a variety of other underlying forces that are transforming the employment relationship in the United States, including deregulation, technological change, de-unionization and the weakening of domestic safety nets. New responses to the social challenges posed by the increased mobility of firms and capital across borders, thus, may be necessary if public support for accelerating economic integrationt is to be bolstered.[21]

Geo-Political Benefits and Costs. Although there appears to be a broad domestic consensus that U.S. economic interests should receive the highest priority with regard to future trade agreements, the concept of hemispheric free trade confronts a skeptical and perhaps indifferent American public. As concerns about future free trade agreements have become intertwined with generalized anxieties associated with a more open and globalized economy, the question arises whether future regional trade agreements may need larger geo-political justifications to gain the support of the American public.[22]

Historically, U.S. free trade agreements have relied on a combination of interests with considerable variation in the relative importance attached to economic and geo-political objectives. The two most recent agreements — NAFTA and the GATT/Uruguay Round accord — were motivated primarily by economic considerations, but larger political justifications played a role at critical junctures in each debate.

- The 1993 NAFTA debate focused on employment and investment considerations. Nevertheless, a prime U.S. interest was that a more democratic and increasingly prosperous and stable Mexico would provide a sounder

[19] Testimony by Ambassador Ira Shapiro, Deputy U.S. Trade Representative, Before the Subcommittee on International Economic Policy and Trade of the House International Relations Committee, March 5, 1997, p. 3.

[20] For analysis of the relationship between trade and economic welfare, see Elwell, Craig. *Trade and Economic Well-Being*, CRS Report 96-608 E, June 22, 1996, 14 p.

[21] Rodrik, Dani. *Has Globalization Gone Too Far?* Institute for International Economics, Washington, D.C., 1977.

[22] For further discussion, see Ahearn, Raymond J. *Regional Free Trade Partners and U.S. Interests,* CRS Report 95-393 F, March 13, 1995, 27p.

foundation for dealing cooperatively on a range of problems that affect U.S. interests, such as narcotics, immigration, and the environment.

- Similarly, the rationale for the 1994 Uruguay Round Agreement was its impact on the overall U.S. economy, specific industries, and workers. But as the GATT vote drew closer (just as the NAFTA debate), attention shifted to broad political arguments concerning the impact that approval might have on the U.S. role and leadership in the world economy.

Some proponents of hemispheric free trade argue that similar geo-political arguments should be given primacy in today's trade debate. While the Clinton Administration justifies its support for hemispheric free trade (as well as for fast-track extension) primarily on building prosperity at home through export expansion, it also has made the case that stronger trade ties support broader U.S. interests as well. But the Administration, according to some critics, has failed to consistently and forcefully articulate a clear vision of what those interests are in relationship to Latin America.

Accordingly, some supporters argue that hemispheric free trade would strengthen democratic forces and institutions throughout the region and solidify recent moves toward market-oriented regimes. They argue that this is important for helping to create a world that is less hostile to U.S. interests and for contributing to the economic development of the region. A democratic and prosperous region that is bolstered by closer trade ties, in turn, is viewed as a necessary condition for increasing the disposition of these countries to cooperate on a range of issues that are of critical importance to the United States: drugs, immigration, corruption, and alleviation of poverty.[23]

Opponents of this line of reasoning believe that the United States stands to derive “no benefit” from a close or special association with the other countries of the Americas. This "no benefit" point of view has a long history in viewing the region primarily in negative terms -- not as place of economic opportunity.[24] Adherents to this doctrine today can argue that any special relationship will likely involve the United States more in the instabilities, class tensions, and economic turmoil of many Latin American countries. And they can point to some problems that continue to bolster these perceptions: These include the persistent inflows of illegal immigrants, drugs, and crime into the United States, as well as continuing widespread poverty, income inequality, and corruption in many of these Latin American countries.[25]

Debate over Regional Free Trade Agreements

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[23] Perry, William. "Current Trends in U.S. Policy Toward the Western Hemisphere," Testimony before the Subcommittee on the Western Hemisphere, House International Relations Committee. March 12, 1997. p. 6.

[24] For a full discussion of the history of "hemispherism" or closer ties between the United States and countries of Latin America, see Feinberg, Richard E. *Summitry in the Americas*, chapter 1.

[25] Schrieberg, David. "Dateline Latin America: The Growing Fury," *Foreign Policy*, Spring 1997, pp. 162-175.

A second controversy affecting support for hemispheric free trade revolves around the relative merits of regional trade agreements in promoting U.S. interests. While U.S. policy, in principle, has supported regional free trade arrangements as a means to bolster the multilateral trading system, it has also been clear that these arrangements could lead to some undesirable outcomes. This potential for mixed outcomes has played a role in the evolution of support among academics and policymakers for creating an FTAA via the expansion of sub-regional agreements.

The Clinton Administration initially viewed the expansion of sub-regional groups (to wit, NAFTA) as the most effective approach for promoting U.S. interests. This view was that the United States could expand NAFTA southward as countries or sub-regions became ready to accept the agreement's relatively comprehensive and binding obligations. Absent fast-track authority, the Clinton Administration, however, has been excluded from pursuing hemispheric integration in this way.

Seeking to obtain an extension of fast-track authority, the Clinton Administration argued in 1996 and 1997 that the proliferation of non-NAFTA regional trade agreements in Latin America may be undermining U.S. interests. According to United States Trade Representative Charlene Barshefsky, a number of these agreements were not consistent with WTO rules. The USTR also argued that the proliferation of preferential agreements, without U.S. participation, was creating a morass of conflicting rules for U.S. business, diverting trade, and undermining U.S. leadership in the region.

Specifically, the Administration maintained that a tangled web of rules governing tariffs, intellectual property rights, and product classification will make it harder for U.S. companies to do business in the region. The Administration also expressed concern that the expansion and operation of MERCOSUR may be diverting substantial trade from more efficient producers outside the region, presumably with an adverse impact on U.S. exports. And the Administration argued that the inactivity of the United States in expanding NAFTA southward has left a large vacuum that is being filled by European countries and Japan in carving out special economic arrangements with the countries of the hemisphere.[26]

USTR Barshefshy more recently has expressed a more benign view on the expansion of sub-regional pacts. To the extent that the agreements open markets, she has argued that they tend to support U.S. interests even in those cases where the United States is not a member.[27]

Whether the proliferation of sub-regional groupings that exclude the United States, on balance, support or hinder U.S. interests and the global trading system is difficult to determine with any certainty. Much depends on whether trade is diverted from lower-cost producers to higher-cost producers — an issue that can be determined only on a case-by-case and product-by-product basis.

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[26] Maggs, John. "Barshefsky Makes Case in Congress for Expansion of Trade Authority," *Journal of Commerce*, May 1, 1997, p. A2.

[27]Srodes, James. "Charlene Barshefsky on Trade," *World Trade Magazine*, August 1998, pp. 38-41.

From a different quarter, a small but influential group of economists argue that U.S. exclusion from participation in a preferential regional trade grouping is actually a second best outcome. They assert that the eclectic and variable set of trade arrangements that are developing in South and Central America -- arrangements devoid of a dominant U.S. role -- are positive because they decrease the likelihood of the creation of an inward-looking and entrenched regional trade bloc. Such a bloc, it is feared, is at best a distraction and at worst a hindrance to multilateral liberalization over time. From the perspective of these analysts, multilateral negotiations and a strong global trading system are central to the achievement of U.S. interests because the United States holds an equally strong trade and investment position in all three major regions of the world -- Asia, Europe, and the Western Hemisphere.[28]

[28] Barfield, Claude. "Regionalism and U.S. Trade Policy." In *The Economics of Preferential Trade Agreements*, The American Enterprise Institute Press, 1996, pp. 136-160.