



Free Trade Area of the Americas

by Karen Hansen-Kuhn, The Development GAP

In April 1998 the leaders of 34 Western Hemisphere countries will gather in Santiago, Chile, for the Second Summit of the Americas. While the Summit agenda includes such broad concerns as education, democracy, and poverty, issues related to economic integration will clearly dominate the meeting.

Contrary to the expectations created at the December 1994 Summit of the Americas, the expansion of free-trade agreements throughout the hemisphere has proceeded slowly. At the Miami meeting, President Clinton was poised to fulfill President Bush's dream of a free-trade agreement stretching from Anchorage to Tierra del Fuego.

In the summit's final declaration, the participating countries promised to create an historic Free Trade Area of the Americas (FTAA) linking all of the hemisphere's economies (except Cuba's) by the year 2005—a goal that seems unlikely given the failure of existing free-trade agreements to generate significant economic benefits.

While these continuing economic crises have dampened public and congressional enthusiasm in the U.S. for free-trade agreements—as demonstrated in November 1997 by the Clinton administration having to withdraw its request for fast-track authority to negotiate new agreements—governments have continued the process set in motion at the summit. At their March 1998 meeting in San José, Costa Rica, the hemisphere's trade ministers agreed to launch the official negotiations for the FTAA on 30 September 1998. They also established nine international negotiating groups, each headed by a different country, to address such topics as market access and investment. The final declaration from the meeting called on the negotiating groups to make “considerable progress” toward an FTAA by the year 2000.

Despite its lack of fast-track authority, the Clinton administration continues to press for a conclusion of the negotiations by the year 2005. While the United States has advocated a series of interim agreements on such issues as government procurement and customs procedures and the U.S. business community has lobbied for a regional agreement on investment to lock in “best practices” in the hemisphere, other governments and business interests have been very reluctant to enter into any agreements until progress has been made on a number of fronts. The understanding reached in San José follows on the negotiating principle established in the Uruguay Round of the GATT—that nothing is agreed until everything is agreed.

Over the past few years, numerous trade and investment agreements have been signed by different countries in Latin America and the Caribbean. In addition to regional pacts, such as NAFTA, Mercosur, the Andean Pact, and the Caribbean Community (Caricom), there are bilateral agreements, such as the one between Chile and Mexico, as well as accords between regional groupings and individual countries. Part of the formidable task of the working groups set up at the Miami Summit was to document and compare exactly what agreements have already been reached in the region. Much of this work has been completed.

Even more significant, especially in light of the U.S. preference that governments participate individually in the negotiating process, was an agreement reached in San José that specifies that countries are free to negotiate as blocs.

Key Points

- The economic crisis in Mexico has dampened enthusiasm in the U.S. for the extension of free-trade agreements throughout the Americas.
- Nine negotiating groups have been set up to work toward the establishment of the Free Trade Area of the Americas (FTAA).
- Negotiations on the FTAA will commence in September 1998 and are scheduled to conclude by 2005.

During the first summit, President Clinton lauded those governments that had adopted “sound policies to tame inflation, to restore economic growth.” Mexico was held out as the model of economic reform and NAFTA as the model trade agreement. Just ten days later, however, the Mexican peso underwent a massive devaluation. That, coupled with the austerity conditions attached to the bailout package financed by the U.S. Treasury and the International Monetary Fund

(IMF), sent the Mexican economy into a deep depression and further lowered the purchasing power of Mexican wages and the prices of export goods, contributing in turn to job losses in the United States.

The effects of the crisis reverberated well beyond Mexico. Mexico's currency crisis and the current financial crisis in East Asia rocked stock markets around the world, and confidence in the free-trade model of globalization has been shaken.

In the process of establishing a Free Trade Area of the Americas, it is likely that the Mercosur countries (Brazil, Argentina, Paraguay, and Uruguay, along with associate members Chile and Bolivia) will negotiate as a group, as will the Andean Pact, while the United States, Canada, and Mexico are expected to negotiate as individual countries. If the non-NAFTA countries in the hemisphere do join together, coordinating their negotiating strategies and building on existing trading blocs, they would have greater leverage in their negotiations with the NAFTA countries than if they were to negotiate as individual countries. By acting in concert through Mercosur and other groups in negotiations with the Asia-Pacific Economic Cooperation (APEC) countries, and particularly with the European Union, these countries have enhanced their leverage all the more in negotiations with the United States.

Because of their size and economic power, NAFTA and Mercosur will likely serve as the two principal models for agreements reached during the FTAA negotiations. Despite their apparent differences—NAFTA is a trade agreement and Mercosur is a common market—they are actually rather similar accords, as both entail extensive liberalization of trade and investment regimes. NAFTA establishes a free-trade area, in which barriers to trade in goods produced in the member countries are removed but each country retains the ability to set tariffs on goods from nonmember countries. However, NAFTA is more than a mere trade agreement; it also includes measures to liberalize capital flows, protect intellectual property rights, open new sectors to foreign investment, and facilitate temporary labor mobility of certain classes of businesspeople and professionals. In reality, then, it includes many elements of a common market.

While Mercosur is officially termed a common market, it has not fully achieved that status. The Treaty of Asunción, signed by the four member countries on January 1, 1991, immediately eliminated tariffs on 90% of the goods traded within the bloc, and the remaining exceptions are to be phased out by 1999. It also established an average common external tariff of 14% on 85% of the goods imported from nonmembers. But while supplementary decisions and resolutions on a variety of issues are reached by consensus among the members in an ongoing process of negotiation, no decisions have yet been reached on issues such as labor mobility and common labor standards. The lack of provisions on labor mobility and the exceptions to the common external tariff mean that Mercosur falls short of being a true common market.

Both NAFTA and Mercosur include measures to deregulate foreign investment. Each provides that foreign investors (with some exceptions) from member countries be treated no differently than local investors. Both agreements also prohibit the application of performance requirements that obligate investors to achieve a certain level of exports or technology transfer. NAFTA goes so far as to prohibit performance requirements on any foreign investments, even those from nonmember countries.

These provisions, along with others on public and financial services, have the effect of locking in the structural adjustment programs implemented in the region over the past decade. Thus, both NAFTA and Mercosur have serious negative implications for member countries. If countries cannot regulate foreign investment, for example, they will be unable to implement coordinated industrial or developmental strategies. They will be forced to continue to reduce wages, to allow poor working conditions, and to ignore environmental regulations in increasingly desperate moves to attract mobile international capital. This, in turn, contributes to job and wage losses and economic insecurity in the United States.

Evidence of the failure of the NAFTA model of economic integration continues to mount. In the aftermath of the Mexican peso crisis, the International Monetary Fund and the U.S. Treasury insisted that Mexico maintain its commitments under NAFTA by continuing to liberalize trade and investment regimes and by maintaining high interest rates in order to shore up the peso. Higher interest rates, decreased purchasing power of consumers, and increased competition with imported goods have had a devastating impact on small and medium-scale producers and retail businesses. Additionally, some two million Mexicans have lost their jobs, and though such macroeconomic indicators as GDP growth have turned positive in the last few years, the standard of living of most Mexicans has shown little or no improvement. The number of Mexicans pushed into the informal sector and working for less than minimum wage, without benefits, or less than full time has increased dramatically, while the purchasing power of the basic minimum wage has dropped by 24% since NAFTA's inception.

In a desperate effort to attract foreign investment, the Mexican government has also initiated legal reforms to relax already poorly enforced environmental regulations. On the U.S. side of the border, official U.S. statistics show that more than 170,000 people have been certified under the NAFTA Trade Adjustment Assistance program as having lost their jobs because of the agreement.

The negative impacts of Mercosur on its members are not as evident because many of the trade liberalization measures only began to be phased in last year. But some signs of troubling fallout are already appearing. Union federations in Brazil, Argentina, Paraguay, and Uruguay have held massive demonstrations during Mercosur summit meetings to protest growing unemployment. Meanwhile, already financially strapped governments in the region have found themselves competing with each other to offer the greatest tax incentives to investors attracted to the Mercosur market.

Key Problems

- Despite their apparent differences, both NAFTA and Mercosur are similar accords.
 - Through their provisions on trade and investment, both agreements lock in the structural adjustment agreements implemented over the past decade.
 - The negative effects of this model of economic integration include falling wages and rising unemployment.
-

Sources for More Information

Organizations

Common Frontiers-Action Canada Network

15 Gervais Drive, Ste. 305
Don Mills, ON M3C 1Y8
Canada

Voice: (416) 443-9244
Fax: (416) 441-4073
Email: comfront@web.net
Contact: Patty Barrera

The Development GAP (D'GAP)

927 15th Street NW, 4th floor
Washington, DC 20005
Voice: (202) 898-1566
Fax: (202) 898-1612
Email: dgap@igc.org
Contact: Karen Hansen-Kuhn

Institute for Policy Studies

733 15th Street NW, Suite 1020
Washington, DC 20005
Voice: (202) 234-9382
Fax: (202) 387-7915
Email: jcavanagh@igc.apc.org

Contacts: John Cavanagh and Sarah Anderson

International Labor Rights Fund

733 15th Street NW, Ste. 920
Washington, DC 20005
Voice: (202) 544-7198
Fax: (202) 544-7767

Email: laborrights@igc.apc.org
Contacts: Pharis Harvey and Terry Collingsworth

Red Chile por una Iniciativa de los Pueblos (RECHIP)

Seminario 774 Casilla 16784 Santiago 9
Chile
Voice/fax: (562) 341-6597
Email: rechip@reuna.cl
Contact: Coral Pey

Red Mexicana de Acción frente al Libre Comercio (RMALC)

Calle Godard Col. Gpe.
Victoria Mexico, DF 07790 Mexico
Voice/fax: (525) 355-1177
Email: rmalc@laneta.apc.org
Contacts: Bertha Lujan and Hector de la Cueva

Americas Net: Summit of the Americas Center

<http://americas.fiu.edu>

United States Trade Representative

<http://www.ustr.gov/index.html>

Publications

Americas Trade (a biweekly publication by Inside Washington Publishers, P.O. Box 7167, Ben Franklin Station, Washington, DC 20044. Subscription rate: \$625/year).

World Wide Web

The Development GAP

<http://www.igc.org/dgap/>

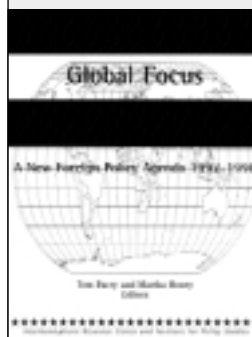
Summit of the Peoples of the Americas

<http://members.tripod.com/~redchile/index.htm>

Global Focus: A New Foreign Policy Agenda 1997-1998

Fifty sections examine the spectrum of U.S. foreign policy, "succeeding where others fail in honestly dealing with our policy shortcomings."

-Rep. John Conners, (D-MI)



Edited by Tom Barry (IRC) and Martha Honey (IPS)

\$15.95

(plus #3.00 shipping and handling)

To order *Global Focus*, contact the IRC.

Back Issues of *Foreign Policy In Focus*

(\$2.50 each, postpaid. Bulk orders: \$12 for 10 copies of the same issue.)

Afghanistan	Congo/Zaire	Iran	Overseas Drug Control
Africa Economic Policy	Costs of NATO Expansion	Iraq	Overseas Rural Development
Africa Overview	Dangers of NATO Expansion	Islamic Movements	Panama
Africa Peace and Security	Defense Conversion	Israel	Peacekeeping and the UN
Albania	Export Import Bank	Japan	Peru
APEC	Export Promotion Programs	Korea	Restructuring Transitional States
Arms Sales to Latin America	Foreign Agricultural Policy	Mexico	Russia
Arms Trade	Foreign Economic Aid	Middle East Oil	Somalia
Asia/Pacific Overview	Former Yugoslavia	Military Modernization	South Africa
Asia/Pacific Security	Free Trade Area of Americas	Military Strategy	U.S. Policy in Middle East
Burma	Haiti	Military Training in L.A.	Structural Adjustment
Burundi	Human Rights	Multilateral Agreement on Investment	Sudan
Cambodia	Indochina	Multilateral Debt	Taxing Overseas Investments
Central America Security	Indonesia	NAFTA	Trade and Environment
Chemical/Biological Weapons	Intelligence Apparatus	Nicaragua	Trade and Labor
Child Labor	Int'l Financial Institutions	Nigeria	USIA
China	IMF Bailouts	North Korea	U.S.-U.N. Relations
CIA, Drugs, and Crack	International Trade	Nuclear Nonproliferation	Warfare vs Welfare
Colombia	Investment/Competitiveness	OPIC	World Trade Organization
	Investment Funds		

To subscribe to *Foreign Policy In Focus*, or to order back issues, contact the IRC at:

PO Box 4506 ♦ Albuquerque, NM ♦ 87196-4506

Phone: (505) 842-8288 ♦ Fax: (505) 246-1601 ♦ Email: resourcectr@igc.apc.org ♦ Website: <http://www.foreignpolicy-infocus.org>