John Clark-Hudson Institute White Paper

The Possibilities and Improbabilities of Western Hemispheric Economic Integration

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July 2003

Summary

The basic fact of life in the Americas is the economic dominance of the United States, which in the context of its history in the region will make any project of hemispheric integration unique. The poorer countries of the Americas crave access to markets in the US: even though US tariffs are already low, powerful domestic interests can lobby for the imposition of other restrictions on trade. At the same time that it is carrying out global trade negotiations, the US wants to secure its dominance in its southern neighbors' markets, which includes preventing political instability from spilling into the US. While the important recent economic story in LAC is liberalization, the big political story is democratization … but neither story is finished yet. This worries Washington and drives its push for a Free Trade Area for the Americas.

Despite controversies in the US over its adoption, and triple Mexican crises coincident with its launching, NAFTA's successes have made it a model for a Hemisphere wide free trade area. But successful subregional organizations in Latin America and the Caribbean and an increasingly dense network of bilateral preferential trading arrangements mean that rather than creating an entirely new organization or simply expanding NAFTA to encompass the Western Hemisphere, the FTAA will be a framework linking existing institutions … which adds a distinct flavor to negotiations.

- The US remains the dominant player in the process as it pursues a global trade policy agenda but can't force its will on the others against their resistance and in addition to being aware of the anti-globalization voices the US government must balance very different US business interests.
- Canada maintains an independent stance especially on symbolically significant issues.
- Mexico could see its special NAFTA relation with the US diluted but fears being left behind.
- The Andean Community seeks institutionalized access to US markets.
- Even though MERCOSUR has many problems it has achieved more than anyone expected and may find it easiest of all actors not to conclude an FTAA or at least to go slow.

We can see several possible shapes for a FTAA.

Scenario #1: The FTAA process breaks down, which might happen if South America collapses, but is unlikely.

Scenario #2: FTAA goes on as an expansion of NAFTA, which might happen if Brazil withdraws from the process.

Scenario #3: A minimalist FTAA leaves the tough issues for later and for Doha, while establishing a framework that allows ruling politicians to claim credit — this is the most likely scenario.

Scenario #4: FTAA = SAFTA+NAFTA, perhaps Brazil's preferred scenario … but would require that the South accept rule by a new giant.

Scenario #5: "A New Deal for the Western Hemisphere" would be move toward an EU-style comprehensive regional integration, and might be the ideal solution, except it requires a very high degree of trust and leadership.

The basic fact of life in the Americas—

If the Free Trade Area of the Americas were only to try to integrate the Latin American economies, those south of the Rio Grande River, the task would be enormous. An agreement would need to take into account intractable political instability, frequent economic crises, widespread poverty, and decades-old rivalries between major countries. But the FTAA is not being driven by the countries of Latin America, and looming over any consideration of regional integration is the obvious fact that the United States is big. Very big.

—is the economic dominance of the United States—

The United States has no equal in the region. The US economy is more than twice as large as the other 33 constituent economies of the FTAA combined. Its per capita income is the highest in the region. The United States is the destination of choice for most of the immigrants in the region. If possible, its political, cultural, and even moral dominance within the Western Hemisphere are even greater than economic—at least in the eyes of its own citizens. The US is the oldest and most stable democracy, the political form of choice these days in Latin America. Of course residents of Latin America and the Caribbean (LAC) think it is cynical or disingenuous for the US to preach the virtues of free trade and open markets when the Bush Administration at the same time provides nearly 200 billion dollars of subsidies to farmers in the US, and imposes anti-dumping sanctions to protect an increasingly inefficient US steel industry. And leaders and citizens in the region listen to lectures from American politicians about the need to embrace democracy and to respect popularly elected civilian governments with fresh memories of the all too heavy-handed behavior of the US in the region.

Table 1: Populations and GDPs of FTAA countries and Blocs

Sub-regional group	Country	Population	Pop. as % all FTAA countries	GDP US$	GDP as % all FTAA countries	GDP per capita
NAFTA		**415,864,922**	**50.12%**	**11,925,000,000,000**	**82.27%**	
	United States	280,562,489	33.81%	10,082,000,000,000	69.56%	$35,935
	Canada	31,902,268	3.84%	923,000,000,000	6.37%	$28,932
	Mexico	103,400,165	12.46%	920,000,000,000	6.35%	$8,897
MERCOSUR		**223,113,443**	**27.8%**	**1,788,200,000,000**	**12.33%**	
	Brazil	176,029,560	21.22%	1,340,000,000,000	9.25%	$7,612
	Argentina	37,812,817	4.56%	391,000,000,000	2.70%	$10,340
	Uruguay	3,386,575	0.41%	31,000,000,000	0.21%	$9,154
	Paraguay	5,884,491	0.71%	26,200,000,000	0.18%	$4,452
Andean Community		**115,138,164**	**13.88%**	**594,200,000,000**	**4.04%**	
	Colombia	41,008,227	4.94%	255,000,000,000	1.73%	$6,218
	Venezuela	24,287,670	2.93%	146,200,000,000	0.99%	$6,020
	Peru	27,949,639	3.37%	132,000,000,000	0.90%	$4,723
	Ecuador	13,447,494	1.62%	39,600,000,000	0.27%	$2,945
	Bolivia	8,445,134	1.02%	21,400,000,000	0.15%	$2,534
Central American Common Market		**35,087,120**	**4.23%**	**137,900,000,000**	**0.94%**	
	Costa Rica	3,834,934	0.46%	31,900,000,000	0.22%	$8,318
	El Salvador	6,353,681	0.77%	28,400,000,000	0.19%	$4,470
	Guatemala	13,314,079	1.60%	48,300,000,000	0.33%	$3,628
	Honduras	6,560,608	0.79%	17,000,000,000	0.12%	$2,591
	Nicaragua	5,023,818	0.61%	12,300,000,000	0.08%	$2,448
CARICOM		**6,360,683**	**1.62%**	**48,968,000,000**	**0.33%**	
	Haiti	7,063,722	0.85%	12,000,000,000	0.08%	$1,699
	Trin. & Tobago	1,163,724	0.14%	10,600,000,000	0.07%	$9,109
	Jamaica	2,680,029	0.32%	9,800,000,000	0.07%	$3,657
	Bahamas	300,529	0.04%	5,000,000,000	0.03%	$16,637
	Barbados	276,607	0.03%	4,000,000,000	0.03%	$14,461
	Guyana	698,209	0.08%	2,500,000,000	0.02%	$3,581
	Suriname	436,494	0.05%	1,500,000,000	0.01%	$3,436
	Belize	262,999	0.03%	830,000,000	0.01%	$3,156
	St. Lucia	160,145	0.02%	700,000,000	0.00%	$4,371
	Anti. & Barbuda	67,448	0.01%	674,000,000	0.00%	$9,993
	Grenada	89,211	0.01%	424,000,000	0.00%	$4,753
	St. Kitts & Nevis	38,736	0.00%	339,000,000	0.00%	$8,752
	St. Vin. & Gren.	116,394	0.01%	339,000,000	0.00%	$2,913
	Dominica	70,158	0.01%	262,000,000	0.00%	$3,734
Not members of subregional organization						
	Chile	15,498,930	1.87%	153,000,000,000	1.04%	$9,872
	Dominican Republic	8,721,594	1.05%	50,000,000,000	0.34%	$5,733
	Panama	2,882,329	0.35%	16,900,000,000	0.11%	$5,863
Total FTAA Countries		**802,628,054**		**14,494,268,000,000**		

Data from the 2002 CIA World Factbook

—which in the context of its history in the region—

For the people of Latin America, the US does not only mean a healthy democracy and gigantic economy. Dozens of times in its history, the US has sent troops to topple governments in Central and South America and in the Caribbean. It has used its political clout and military might to secure ownership of natural resources for North American companies. Current talk in Washington and in Europe about a “New American Empire” resonates with the people of Latin America because they feel that they have been on the receiving end of force and brutality dealt by the “Old American Empire.” The result is an undercurrent of anti-US sentiment not very far from the surface in many Latin American countries, an undercurrent of discontent that can easily be mobilized and manipulated by politicians opposed to a US-dominated Free Trade Area of the Americas.

—will make any project of hemispheric integration unique.

No other major regional integration project has been driven by such a dominant country. In the European Union, Germany is most populous and has the largest economy. But Italy, France, and the United Kingdom each have populations and GDPs that are about three-quarters of Germany’s. Moreover, France and the UK have much more potent militaries than Germany, assuring that it will be unable to secure the dominance over its neighborhood that it sought in the 20th century.

Table 2: Populations and GDPs of EU Member Countries

EU Country	Population (in millions)	Pop. as % total EU	GDP (in $ Billions)	GDP as % total EU	Per capita GDP
Austria	8.1	2.2%	$189	2.4%	$23,310
Belgium	10.2	2.7%	$227	2.9%	$22,110
Denmark	5.3	1.4%	$162	2.1%	$30,420
Finland	5.2	1.4%	$122	1.6%	$23,460
France	59.2	15.7%	$1,294	16.5%	$21,980
Germany	82	21.8%	$1,873	23.9%	$22,800
Greece	10.6	2.8%	$113	1.4%	$10,670
Ireland	3.8	1.0%	$94	1.2%	$24,740
Italy	57.5	15.3%	$1,074	13.7%	$18,620
Luxembourg	0.4	0.1%	$19	0.2%	$43,090
Netherlands	15.9	4.2%	$365	4.7%	$22,910
Portugal	10	2.7%	$105	1.3%	$10,500
Spain	39.9	10.6%	$559	7.1%	$14,150
Sweden	8.8	2.3%	$227	2.9%	$25,630
UK	59.4	15.8%	$1,415	18.1%	$23,680
Total	**376.3**		**$7,838**		**$20,828**

Similarly, the Association of South East Asian Nations (ASEAN) has some countries that are much larger than others. The population of Indonesia is to the three hundred-some thousand residents of Brunei as the United States is to the population of St. Kitts and Nevis. But Indonesia's poverty compared to its wealthier neighbors in Singapore, Malaysia, Thailand, and elsewhere in ASEAN assure that the Indonesians cannot dominate the less populous countries around it. No one worries about Indonesian imperialism (except perhaps the East Timorese and some of the non-Javanese people of Indonesia).

Table 3: Populations and GDPs of ASEAN Member Countries

ASEAN member	Population (millions)	Pop. % ASEAN total	GDP (billions US$)	GDP as % ASEAN total GDP	GDP per capita
Brunei	0.35	0.06%	6.2	0.31%	18,000
Cambodia	12.78	2.34%	18.7	0.93%	1,500
Indonesia	231.38	42.40%	687	34.30%	3,000
Laos	5.78	1.06%	9.2	0.46%	1,630
Malaysia	22.66	4.15%	200	9.98%	9,000
Myanmar	42.34	7.76%	63	3.15%	1,500
Philippines	82.53	15.12%	335	16.72%	4,000
Singapore	4.45	0.82%	106	5.29%	24,700
Thailand	62.35	11.43%	410	20.47%	6,600
Vietnam	81.1	14.86%	168	8.39%	2,100
Total	**545.72**		**2003.1**		

CIA World Factbook, 2002, at: www.cia.gov/cia/publications/factbook/geos/cb.html

The poorer countries of the Americas crave access to markets in the US—

The size and wealth of the United States focuses the attention of the developing countries of LAC. But not all of them require exporting to the US equally. Roughly speaking, the closer a country is to the United States geographically, the greater the share of its exports it sends to the US. By the time one reaches the Southern Cone of South America, Brazil receives a greater share of its neighbors' exports than does the US. This gives the South Americans greater leverage in negotiating with the US than the tiny countries of Central America and the micro-states of the Caribbean … although it also reminds the Brazilians and others that they could possibly greatly expand their exports to the world's largest market, if only they are given access.

—even though US tariffs are already low—

As US Trade Representatives frequently remind their counterparts, average tariffs into the United States are already among the lowest in the world. Nevertheless, some tariffs in the US are quite high … especially in many of the sectors in which Latin American countries specialize. US government policies such as the Generalized System of Preferences, the Caribbean Basic Trade Partnership Act (CBTPA), and the Andean Trade Promotion Act (ATPA) provide many of the poorest countries access to the US market that avoids the highest tariffs. So why are these countries still clamoring about access to the US market?

—powerful domestic interests can lobby for the imposition of other restrictions on trade.

Unilateral preferential access can always be revoked, which produces a profound sense of vulnerability to small countries whose poor economies depend on the political whims of a political culture in the US that has shown itself ambivalent about free trade. The US Congress showed its skepticism about free trade when it denied President Clinton "fast track authority" to negotiate new trade agreements (including FTAA). The current Bush Administration, LAC leaders feel, showed its true colors not by preaching the gospel of unfettered market access but rather when it imposed onerous anti-dumping penalties on steel producers and when it embraced the largest package of agricultural subsidies in US history. Add the "anti-globalization movement," which in 1999 demonstrated in Seattle that it could push to the top of the political trade agenda issues of environmentalism and corporate accountability, to still potent North American trade unions, which see the low-wage workers of Latin America and the Caribbean as direct threats to their jobs and incomes. All combine to make the door to the lucrative American market seem not very wide open, and prone to being slammed shut on short notice.

At the same time that it is carrying out global trade negotiations—

In the early 1990s the negotiations establishing the North American Free Trade Association were conducted and concluded at the same time as the Uruguay Round of negotiations established the World Trade Organization. Likewise, today the Doha Development Round of WTO negotiations are scheduled to conclude at the same time that the FTAA negotiations wrap up. The US is willing to make demands and concessions in its Western Hemisphere negotiations because it also has an eye on its larger rivals such as the EU, Japan, China … and Korea.

—the US wants to secure its dominance in its southern neighbors' markets—

As it has for a very long time, the US sees the countries of Latin America and the Caribbean as its "backyard." In the past decade or two, at the same time that it has cemented relations with its NAFTA partners, the United States has seen companies from the European Union and Asia make trade and investment inroads in South America. This is not to say that it is trying to shut the Europeans and Asians out of the Western Hemisphere in some economic version of the Monroe Doctrine. It does mean that as the regional as well as global economies evolve, the US wants to be actively engaged in defining the news rules of the game.

—which includes preventing political instability from spilling into the US.

The motives of the US in promoting a Free Trade Area of the Americas are political as well as economic. Governments in Washington have usually proclaimed that they desire a democratic and prosperous Western Hemisphere … although all too often the people of Latin America and the Caribbean feel the US has been willing to sacrifice democracy in their countries in the name of goals such as fighting communism or maintaining in power compliant local despots. Today, even though Cuba continues to obsess many policymakers connected to the Bush Administrations in Washington and Florida, communism has receded as a danger. "Instability" is viewed as the biggest threat: civil war in Colombia spreading to its neighbors, terrorism, drug traffic, Argentine-style economic melt-downs, the return of military or civilian dictatorships, and floods of illegal immigrants and refugees into the US all are fears that are mentioned when politicians in the US discuss the advantages of an FTAA. For now, leaders in the US and countries in Latin America and the Caribbean agree that political stability, increased democratization, and freer trade will reinforce each other … although this may change if, for instance, the process of negotiating the FTAA generates political discontent in Latin American countries such as Venezuela or Brazil.

While the important recent economic story in LAC is liberalization—

Within just a few years in the 1980s and 1990s, the economies of Latin America and the Caribbean went from being among the most closed (outside what was then the communist world) to being among the most open to trade and investment. This liberalization was in large part unilateral, a result of the shift toward democracy across the region (trade restrictions were seen as a form of power wielded by unaccountable government officials, and thus something to be dismantled) and of the "Washington consensus" about what poor countries around the world should do to escape from the economic traumas of the 1980s. The unilateral opening of Latin American and Caribbean economies was reinforced by further liberalization negotiated through multilateral forums such as GATT and within the subregional institutions and bilateral preferential trade arrangements that were blossoming around South America, Central America, and the Caribbean.

—the big political story is democratization—

Even more remarkable than the opening of trade and investment in the countries of Latin America and the Caribbean has been the sweep of democracy across the Hemisphere. A bit more than two decades ago, full-fledged democracies south of the United States could be counted ion the fingers of one hand: Costa Rica, Venezuela, Colombia, and possibly a couple of tiny Caribbean countries. Today, Cuba is the one country in the hemisphere that is not at least trying to cling to democracy.

Table 4:
Freedom House Ratings of Political Freedoms in the Americas, 1980 and 2002

1980

Bahamas Barbados Canada Cos. Rica U.S. Venezuela	Antigua & Barbuda Columbia Dominica Dominican Rep. Ecuador Jamaica Peru St. Vin. & Gren. St. Lucia Trin. & Tobago	Mexico	Brazil Guyana Honduras Panama	Grenada Guatemala Nicaragua Paraguay Uruguay	Argentina Chile El Salvador Haiti	Bolivia Suriname
1 = Free	**2**	**3**	**4**	**5**	**6**	**7 Not free**
Bahamas Barbados **Belize** **Bolivia** Canada Cos.Rica **Dom. Rep** **Grenada** **Panama** **Peru** **St. Kitts &** **Nevis** **St. Lucia** **Suriname** U.S. **Uruguay**	**Chile** Dominica **El Salvador** **Guyana** Jamaica **Mexico** St. Vin. & Gren.	**Argentina** **Brazil** Ecuador **Guatemala** **Honduras** **Nicaragua** Trin. & Tobago Venezuela	Antigua & Barbuda Columbia **Paraguay**		Haiti	
1 = Free	2	3	4	5	6	7 Not free

2002

(**Bold print** means improved political rights since 1980)
[Antigua & Barbuda, Belize, and St. Kitts & Nevis were not in the 1980s survey]

Web address: www.freedomhouse.org/ratings/index.htm

Explanation of Mission and Survey:

Freedom House publishes an annual assessment of the state of freedom by averaging their political rights and civil liberties ratings. The Survey attempts to judge all countries and territories by a single standard and to emphasize the importance of democracy and freedom. Freedom represents the opportunity to act spontaneously in a variety of fields outside the control of the government and other centers of potential domination.

The survey rates countries and territories based on real world situations rather than governmental intentions or legislation alone. Freedom House does not rate governments, but rather the rights and freedoms enjoyed by individuals in each country or territory. The Survey does not base its judgment solely on the political conditions in a country or territory (i.e., war, terrorism, etc.), but by the effect which these conditions have on freedom.

Explanation of Methodology of Survey:

To reach its conclusions, the Survey team employs a broad range of international sources of information, including both foreign and domestic news reports, NGO publications, think tank and academic analyses, and individual professional contacts.

The *Survey's* understanding of freedom uses two general sets of characteristics: political rights and civil liberties. Political rights enable people to participate freely in the political process and civil liberties include the freedoms to develop views, institutions, and personal autonomy apart from the state.

The *Survey* employs two series of checklists, one for questions regarding political rights and one for civil liberties, and assigns each country or territory considered a numerical rating for each category. The political rights and civil liberties ratings are then averaged and used to assign each country and territory to an overall status of "Free," "Partly Free," or "Not Free."

The *Survey* rates political rights and civil liberties separately on a seven-category scale, 1 representing the most free and 7 the least free. A country is assigned to a particular numerical category based on responses to the checklist and the judgments of the Survey team at Freedom House. According to the methodology, the team assigns initial ratings to countries by awarding from 0 to 4 raw points per checklist item, depending on the comparative rights or liberties present. Almost without exception in the Survey, countries and territories have ratings in political rights and civil liberties that are within two ratings numbers of each other.

Freedom House Ratings of Civil Liberties in the Americas in 1980 and 2002

1980

1 = Free	**2**	**3**	**4**	**5**	**6**	**7 Not free**
Barbados Canada Cos. Rica U.S.	Bahamas Dominican Rep. Ecuador St. Vin. & Gren. Trin. & Tobago Venezuela	Brazil Columbia Dominica Honduras Jamaica Peru St. Lucia	El Salvador Guyana Mexico Panama	Argentina Bolivia Chile Grenada Nicaragua Suriname Uruguay	Guatemala Haiti	
Bahamas Barbados Belize **Bolivia** Canada Cos.Rica **Dom. Rep** **Grenada** **Panama** **Peru** **St. Kitts & Nevis** **St. Lucia** **Suriname** U.S. **Uruguay**	**Chile** Dominica **El Salvador** **Guyana** Jamaica **Mexico** St. Vin. & Gren.	**Argentina** **Brazil** Ecuador **Guatemala** **Honduras** **Nicaragua** Trin. & Tobago Venezuela	Antigua & Barbuda Columbia **Paraguay**		Haiti	

2002

(**Bold print** means improved political rights since 1980)
[Antigua & Barbuda, Belize, and St. Kitts & Nevis were not in the 1980s survey]

—but neither story is finished yet.

Despite their economic and political achievements in the past decade and a half, most of the countries of Latin America and the Caribbean still have far to go before they can be considered fully consolidated democracies and fully open market economies. In many countries in the region, individuals' civil rights political freedoms are still subject to abuse by the government or by non-governmental forces … especially if these individuals are poor or agitate for social change. Likewise, despite the impressive degree of opening of most of the economies of the region to international trade and investment, almost all of the countries in the region still are distorted by significant barriers that reduce the growth of their economies and reinforce the power of unaccountable elites in the public and private sector. (For a sense of what remains to be accomplished in continuing the liberalization of trade in the Americas, see Appendix I-A: An Assessment of Economic Freedom in the Americas.)

This worries Washington—

If, as many social scientists believe, political democratization and economic liberalization reinforced each other in LAC, the converse might occur in the future. Politicians and activists in recent years have blamed economic problems in their countries on the "neo-liberal" reforms forced up them by the IMF, the WTO, and the United States … which means that democracy might contribute to the adoption of populist or isolationist economic measures that will cause the economies to worsen further. In the end, economic pain could cause an erosion of popular support for democracy and the rise of opportunistic demagogues who promise much, if only they can strike out against the enemies of the nation and of the people. This may the path upon which Venezuela is headed, and other countries in the region may follow. Anti-Americanism is likely to be a crucial ideological and political component of this slide toward social disorder, political authoritarianism, and economic backsliding.

—and drives its push for a Free Trade Area for the Americas.

Fear of regional instability and increasing antipathy toward the United States perhaps explains the desire of the past three presidential administrations in Washington to form a hemisphere-wide trading pact as much as US corporations' desire for access to the markets of Haiti and Belize, or even the markets of Brazil and Argentina. The hope is that a Free Trade Area of the Americas will "lock in" reform, make it very unlikely that countries in the region will slip back into their previous patterns of weak democracies, incompetent military dictatorships, and hyperinflationary stagnation. An example of how this has worked might be the southern members of the European Union — Greece, Portugal, and Spain — whose membership cements in place democracy and economic openness. Or perhaps an example could be Mexico.

Despite controversies in the US over its adoption—

Passing NAFTA was hard work, and absorbed much of the energies and political capital of President Clinton, the Congress, and a wide array of NGOs and special interest groups. Labor unions, environmentalists, anti-sweatshop human rights activists … all predicted dire consequences for Mexico and the US after free trade. As NAFTA enters its second decade, it is clear that its consequences for the US have not been as bad as critics predicted.

—and triple Mexican crises coincident with its launching—

On January 1 1994, the day NAFTA went into effect, a guerrilla movement in the impoverished state of Chiapas erupted onto the national scene, setting off the largest wave of armed rural conflict since the Mexican Revolution. Two months later, in the highest level Mexican assassination in a century, the hand-picked successor of President Raul Salinas was shot, unexpectedly thrusting Ernesto Zedillo Ponce de León into the presidency. Almost as soon as he was Zedillo was inaugurated in December, the peso collapsed and set off what, without active intervention by the US Treasury, could easily have been the most serious economic collapse in Mexican history. None of these crises could be said to have been caused by NAFTA. The Zapatista National Liberation Army is recognized as the most media-savvy revolutionary movement in history, so they carefully selected the date for their assault to coincide with NAFTA. The ruling Mexican party, PRI, had been decaying for decades. And the overvaluation of the Mexican currency was unrelated to the trade agreement. But for all three highly visible catastrophes to have occurred simultaneously with NAFTA have reinforced many doubts inside and outside Mexico about the value of such a free trade agreement.

—NAFTA's successes have made it a model for a Hemisphere wide free trade area.

NAFTA is credited with improving economic performance in the US slightly, although the fact that its trade barriers were already very low limited how much would change. It's a different story for Mexico. NAFTA is credited with dramatically increasing Mexican trade and unleashing a torrent of foreign direct investment (FDI) into Mexico. The reality is a little more complicated than that. Mexico began a process of unilateral liberalization in 1986 when it joined GATT, and this is what set off its increased exports; the US is unlikely to have been interested in contemplating a free trade agreement with Mexico if it hadn't itself begun liberalizing. Perhaps NAFTA's most significant effect was not prying open closed markets to the north, but rather to signal to potential investors outside and inside Mexico that liberalization and other reforms would be permanent. It "locked in" Mexico's commitment to increasing participation in the global economy. Even before negotiations on NAFTA had been completed, President George H. W. Bush ("Bush 41") proposed a hemisphere-wide free trade zone. At the time few took the proposal seriously.

But successful subregional organizations in Latin America and the Caribbean—

Operating in many ways below the radar screen of analysts and policymakers in Washington was the fact that south of Mexico, Latin American and Caribbean countries were sorting themselves into subregional preferential trade arrangements (PTAs). The largest and most influential, the Common Market of the South (MERCOSUR, to use its Spanish abbreviation; Mercosul to use the Portuguese), was newly established. Others — the Caribbean Community and Common Market (CARICOM), the Andean Community, and the Central American Common Market (CACM) — were decades old, and had been assumed to be moribund or defunct. Unlike previous efforts at regional or subregional integration, this “new wave” of preferential trade arrangements avoided — or at any rate did not limit themselves to — grandiose declarations about a United States of Latin America that would rival the USA. Instead, these new and reinvented PTAs focused on concrete policy that could be implemented and would yield observable results. They established themselves as customs unions (CUs), which means establishing a common external tariff (CET) that members use for exports coming into the area; then reducing the internal tariffs among members toward zero. As will be discussed below, this is a very different arrangement than a free trade area such as NAFTA or the network of FTAs that have been linking countries and CUs in the Americas.

—and an increasingly dense network of bilateral preferential trading arrangements—

These subregional customs unions did not coalesce in isolation from one another or from neighboring organizations. The two continents have increasingly been criss-crossed by bilateral and plurilateral free trade agreements, economic complementation agreements, and other preferential trade agreements. Three countries — Chile, Panama, and the Dominican Republic — remain outside of the five main subregional organizations. Chile, in particular, has aggressively pursued a course of negotiating bilateral FTAs with its neighboring organizations, MERCOSUR and the Andean Community, and with countries in the region and around the world. Mexico has followed a similar course. (As a member of the North American Free Trade Area rather than a customs union like most of the other Latin American and Caribbean countries, Mexico is not committed to maintain a common external tariff with Canada and the United States, and so can more easily negotiate separate preferential trade arrangements than can members of CUs.)

Network of Subregional Organizations and Preferential Trade Arrangements in the Americas (Part 1)

Subregional Organization's Preferential Trade Arrangements	Subregional Organization	Member Country	Country's Preferential Trade Arrangements
Bolivia Economic Complementation Agreement (ECA) (1997) Chile ECA (1996) European Community Interregional Framework Cooperation Agreement (1999) Mexico ECA (2002)	**MERCOSUR**	**Argentina**	Chile ECA (2002) Ecuador ECA (1991) Andean Community ECA (2002)
		Brazil	Andean Community Partial Scope ECA (1999) Mexico ECA (2002)
		Uruguay	Ecuador ECA (1985) Mexico ECA (2001)
		Paraguay	Ecuador ECA (1995)
Colombia, Ecuador, Peru, and Venezuela (as Members of the Andean Community) Partial Scope ECA with Argentina (2000) Colombia, Ecuador, Peru, and Venezuela (as Members of the Andean Community) Partial Scope ECA with Brazil (1999)	**Andean Community**	**Bolivia**	Chile ECA (1993) Mexico FTA (1995) MERCOSUR ECA (1997)
		Columbia	Group of Three FTA (Colombia, Mexico, Venezuela) (1995) Argentina Partial Scope ECA (2000) Brazil Partial Scope ECA (1999) Chile ECA (1994) Costa Rica Partial-Scope Agreement (PSA) (1985) El Salvador PSA (1985) Guatemala PSA (1985) Honduras PSA (1985) Nicaragua ECA (1985) Panama PSA (1995) CARICOM Preferential Arrangement (1995)
		Ecuador	Argentina Partial Scope ECA (1993) Chile ECA (1995) Paraguay ECA (1995) Uruguay ECA (1994) Argentina Partial Scope ECA (2000) Brazil Partial Scope ECA (1999)
		Peru	Argentina Partial Scope ECA (2000) Brazil Partial Scope ECA (1999) Chile ECA (1998)
		Venezuela	Group of Three FTA (Colombia, Mexico, Venezuela) (1995) Argentina Partial Scope ECA (2000) Brazil Partial Scope ECA (1999) Chile ECA (1993) Guatemala PSA (1986) Guyana PSA (1992)
Canada-Costa Rica FTA (2002) Central America-Chile FTA (2002) Central America-Dominican Republic FTA (2001) Costa Rica-Mexico FTA (1995) Mexico-Nicaragua FTA (1998) Mexico-Northern Triangle (Honduras, Guatemala, El Salvador) FTA (2001)	**Central America Common Market**	**Guatemala**	Northern Triangle (Guatemala, El Salvador, Honduras)-Mexico FTA (2001) Central America-Chile FTA (2002) Central America-Dominican Republic FTA (2002) Columbia PSA (1985) Panama FTA and PTA (1975) Venezuela PSA (1986)
		El Salvador	Northern Triangle (Guatemala, El Salvador, Honduras)-Mexico FTA (2001) Central America-Chile FTA (2002) Central America-Dominican Republic FTA (2002) Columbia PSA (1985) Panama FTA and PTA (1974)
		Honduras	Northern Triangle (Guatemala, El Salvador, Honduras)-Mexico FTA (2001) Central America-Chile FTA (2002) Central America-Dominican Republic FTA (2002) Colombia PSA (1985) Panama FTA and PTA (1974)
		Nicaragua	Central America-Chile FTA (2002) Central America-Dominican Republic FTA (2002) Mexico FTA (1998) Colombia ECA (1985) Panama FTA and PTA (1974)
		Costa Rica	Mexico FTA (1995) Canada FTA (2002) Central America-Chile FTA (2002) Central America-Dominican Republic FTA (2002) Colombia PSA (1995) Panama FTA and PTA (1973)

Network of Subregional Organizations and Preferential Trade Arrangements in the Americas (Part 2)

<table>
<tr><td rowspan="14">Colombia (1995)</td><td rowspan="14">CARICOM</td><td>Antigua & Barbuda</td><td>CARICOM-Columbia Preferential Arrangement (1995)</td></tr>
<tr><td>Bahamas</td><td rowspan="5"></td></tr>
<tr><td>Barbados</td></tr>
<tr><td>Belize</td></tr>
<tr><td>Dominica</td></tr>
<tr><td>Grenada</td></tr>
<tr><td>Guyana</td><td>Venezuela PSA (1992)</td></tr>
<tr><td>Haiti</td><td rowspan="7"></td></tr>
<tr><td>Jamaica</td></tr>
<tr><td>St. Kitts & Nevis</td></tr>
<tr><td>St. Lucia</td></tr>
<tr><td>St. Vincent & Grenadines</td></tr>
<tr><td>Suriname</td></tr>
<tr><td>Trinidad & Tobago</td></tr>
<tr><td rowspan="3"></td><td rowspan="3">NAFTA</td><td>Mexico</td><td>Group of Three FTA (Colombia, Mexico, Venezuela) (1995)
Bolivia FTA (1995)
Chile FTA (1999)
Costa Rica FTA (1995)
EFTA (2001)
European Union FTA (2000)
Israel FTA (2000)
Nicaragua FTA (1998)
Northern Triangle FTA (Honduras, El Salvador, Guatemala) (2001)
MERCOSUR ECA (2001)
Brazil ECA (2003)
Panama PSA (1986)
Uruguay ECA (2001)</td></tr>
<tr><td>Canada</td><td>Chile FTA (1997)
Costa Rica FTA (2001)
Israel FTA (1997)</td></tr>
<tr><td>United States</td><td>Jordan FTA (2001)
Chile FTA (2003)
Singapore FTA (2003)</td></tr>
<tr><td rowspan="3"></td><td rowspan="3">Full members of no subregional organization</td><td>Chile</td><td>Canada Free Trade Agreement (FTA) (1997)
Mexico FTA (1999)
Central America FTA (2002)
Argentina ECA (2000)
Bolivia ECA (1993)
Colombia ECA (1994)
Ecuador ECA (1995)
Peru ECA (1998)
Venezuela ECA (1003)
Korean FTA (2003)</td></tr>
<tr><td>Panama</td><td>Colombia PSA (1995)
Costa Rica FTA and Preferential Trade Agreement (PTA) (1986)
Dominican Republic Trade Agreement (1897)
El Salvador FTA and PTA (1974)
Guatemala FTA and PTA (1975)
Honduras FTA and PTA (1974)
Mexico PSA (1986)
Nicaragua FTA and PTA (1974)</td></tr>
<tr><td>Dominican Republic</td><td>Central America FTA (2002)
Panama Trade Agreement (1987)</td></tr>
</table>

Source: SICE Foreign Trade Information System, at http://www.sice.oas.org/tradee.asp

—mean that rather than creating an entirely new organization—

The initial idea among some policymakers in Washington was to create an entirely new pan-American trade structure. It was, after all, a time of limitless imagination as a Cold War no one ever expected to end ended, as various visions of a "New World Order" were floated. Starting from scratch received little support from Latin American and Caribbean countries, which tend to view US proposals of hemispheric organizations with skepticism, either as less than serious promises that are rarely fulfilled or as efforts for Washington to dominate the region in the name of preserving stability or fighting an external foe such as communism. Besides, the prospect of opening entirely new negotiations among 34 countries of such differing backgrounds and levels of economic and social development was daunting. Thus the idea of a completely new creation never went anywhere.

—or simply expanding NAFTA to encompass the Western Hemisphere—

The position of the US shifted from creating a new organization to maintaining a momentum begun with NAFTA, which had begun in the 1980s as a free trade agreement between Canada and the US, then absorbed Mexico after the liberalizing reforms it adopted in 1986 took root. It seemed possible to continue that pattern with other countries in the region, to add new members to a NAFTA (rechristened FTAA) as they adopted reforms that would allow their integration with existing members. Chile, which was busily negotiating other FTAs at the time, was the logical next candidate. From the perspective of the US, conducting bilateral negotiations with the series of Latin American and Caribbean countries guaranteed it an optimal bargaining position. But this idea of NAFTA was opposed by members of the four customs unions in the region, and by MERCOSUR in particular, and by Brazil even more particularly.

—the FTAA will be a framework linking existing institutions—

Brazil's idea was for FTAA to leave the sub-regional groupings in place, for it basically to serve as a network connecting NAFTA, the four big customs unions in the region, and the three countries (Chile, Panama, and Dominican Republic) that belong to none of the above. It argued that admitting individual countries to an ever-expanding NAFTA would require dismantling MERCOSUR and the other customs unions that were solidifying in South and Central America and in the Caribbean. This argument was not (only) Brazil's attempt to appeal to the justified pride felt by many in the region that they had, after so many decades of frustrated attempts, finally on their own begun to organize their economies in meaningful and productive ways. Nor was it (only) a ploy to ensure that Brazil would have the strongest possible bargaining position vis-à-vis the US (short, that is, of Brazil leading a unified bloc of the 30-some Latin American and Caribbean countries … which, given suspicions toward Brazil from some of its neighbors is unlikely to take shape in the foreseeable future). Brazil made the argument that custom unions, with their common external tariffs, have to negotiate as a unit, not as individual countries. Free trade areas such as NAFTA allow members to set their own external tariffs, but have no barriers on goods within the Area. NAFTA thus cares a lot about complex rules of origin (otherwise it would be possible for non-members to export their goods to whichever member has the lowest external barriers, then to move them barrier-free into the US). Rules of origin make no difference whatsoever to MERCOSUR and other CUs. Added to this argument that negotiating between existing subregional organizations would simplify the FTAA process, at least half of the 34 countries are too small to possess the critical mass of legal, financial, and negotiating expertise to participate fairly in an entirely open process. Bringing in CARICOM and CACM as blocs allows those countries to pool their resources; in fact, the FTAA negotiating structure has been designed in part to help these countries develop the negotiating expertise they will require with extensive conferences and tutorials.

—which adds a distinct flavor to negotiations.

Brazil's argument was, in essence, that subregional groups should be strengthened before and in parallel with the creation of the FTAA. And so it has happened. The FTAA negotiations are not exactly 34 independent bargainers sitting around very big tables. Nor is it exactly the hyperpower United States carrying out talks with 33 separate countries, or with 33 countries joined together in a contra-US bloc. Nor is it the US and Brazil dividing up the Hemisphere into spheres of interest (a fear expressed early on by many of the small countries). Instead, the negotiations can primarily be seen as between seven or eight blocs or countries.

The US remains the dominant player in the process—

It is tempting for some to look at the size of the US and its market, and to conclude: "It wins automatically." But many obstacles stand in the way of Washington winning automatically. Not least of these obstacles is the question of what counts as a "win." Under the US constitution, the executive branch negotiates treaties, and a main consideration driving any US presidential administration (including, of course, Bush 43) is re-election. Depending on circumstances, a successful FTAA could provoke a backlash by labor, environmentalists, human rights activists … but they are unlikely to vote for the Bush administration under any circumstances. More important is the constitutional requirement that Congress approve treaties. President Clinton was hamstrung in his efforts to promote an FTAA by the fact that Congress denied him "fast track authority" (the ability to submit a trade treaty to Congress for a simple "yes or no" vote): some members of Clinton's Democratic Party hated the idea of free trade negotiations; some members of the Republicans liked the idea of free trade negotiations, but hated the very idea of doing anything nice for a president they despised. Although President Bush does have "trade promotion authority" (TPA, which is what "fast track" is called today), he did not obtain it from Congress without a struggle.

Text box 1:
The United States government's positions on the FTAA:

- FTAA should provide a framework that is fully consistent with the WTO. The US believes that the phasing out of tariffs should take no more than ten years, which is consistent with Article 24 of the General Assembly on Tariffs and Trade 1994 and its Uruguay round understanding.
- The US has proposed that the base rate from which tariffs are phased out be the lower of a product's most favored nation (MFN) applied rate in effect during the FTAA negotiations of the WTO bound rate at the end of the FTAA negotiating process.
- The US thinks that because some industries will need more time to adjust to an open market that the FTAA countries should establish three different categories or "baskets" for tariff reduction. Each FTAA country would include the same proportion of its imports (by value) in each of these categories, and the determination of what products fall into which baskets would be the result of request-offer bargaining process.
- The FTAA should prohibit export and import price requirements, import licensing conditioned on the fulfillment of a performance requirement, and voluntary export licensing conditioned on the fulfillment of a performance requirement, and voluntary export restraints not allowed under the WTO.
- The US proposes using the "specific tariff shift" approach to determining rules of origin. This was the predominant approach used in NAFTA. The US believes that the FTAA Agreement should avoid using complicated or ill-defined value tests as the basis to determine origin, in order to minimize burdens and the uncertainties for traders. Value tests, which confer origin on the basis of the percent value added in a country (or group of countries if the FTAA were to allow accumulation), can be simple in concept, but difficult for governments and businesses to apply.
- The US does not advocate using a "uniform tariff shift" approach, which would confer origin on any transformation of a product which causes it to shift HS tariff categories at a particular level of digits (which is what the textile industry wants to use.)
- The US is offering to eliminate its import duties on the majority of industrial and agricultural imports from the Western Hemisphere immediately upon entry into force of the FTAA. In addition the US is offering that textiles and apparel imports from the region would be duty-free in the US just five years after the FTAA takes effect, provided other countries reciprocate. This is offered in key sectors such as chemicals, construction and mining equipment, electrical equipment, energy products, environmental products, information technology, medical equipment, non-woven fabric, paper, steel, and wood products; along with 56% of agricultural imports from the Hemisphere being duty free immediately.

Source: Hudson Institute intern interviews

—as it pursues a global trade policy agenda—

Another constraint on the US as it negotiates among the countries in the Americas is the fact that it is carrying out negotiations in the WTO Doha Development Round at the same time. This parallels the situation in the early 1990s, when NAFTA was being negotiated simultaneously with the Uruguay Round of GATT, which established the WTO. At that time observers noted how adeptly US negotiators shifted proposals from one forum to the other as it sought to obtain as much leverage as possible. Something similar is taking place today. For instance, the US declines to negotiate as part of the FTAA process issues such as agricultural subsidies, which the countries of Latin America and the Caribbean care about greatly. It argues that its main disagreements over agricultural subsidies are with the European Union, Japan, Korea, and other countries, so any agreement about subsidies would have to be reached at a multilateral level. At the same time, US negotiators have let their counterparts from the EU, Japan, and Korea know that it might be willing to establish the Western Hemisphere as a “subsidy free zone” as a way of putting pressure on these counterparts to accepts Washington’s position in the Doha Round. This could be good news or bad news for the countries of Latin America and the Caribbean, depending on whether they are caught in the crossfire between the US and its developed country rivals or whether they can use their leverage at this crucial dual negotiating moment for the United States as leverage.

—but can’t force its will on the others against their resistance—

Even apart from internal political constraints, Washington has limits on how much it can push around its neighbors in the Western Hemisphere. The decision on the Free Trade of the America’s final form will be made consensually. No one thinks that Granada or Barbados has a voice equal to the US, but they do have a voice, and in the end their voice might say, “No thank you.” Besides, the US has interests in the Americas other than free trade, and in pursuing these interests it might make concessions to its counterparts. So far, this Bush Administration has bungled Latin America … surprising perhaps since this was the only region of the world that seemed to interest George W. Bush before he became president, not surprising perhaps when one considers the extraordinary changes since in the world since September 11. Afghanistan, Iraq, and the Middle East have thrust themselves in the president’s and the world’s attention, with the effect that Latin American countries have felt neglected. No one has felt that more than Mexican President Vicente Fox, who has not received the improved treatment for Mexican migrants in the US that he expected as part of his vision of “NAFTA-plus.” (Few American politicians these days want to call explicitly for “open borders.”) Rather than offer concessions on trade to countries in order to enlist their support for the US war on terrorism, the Bush Administration has used trade to punish countries that don’t support its foreign policy. The most notable example was its decision to delay the ratification of the US-Chile Free Trade Agreement in or to punish the Chilean government for not supporting the US in the US Security Council during the lead-up to war in Iraq.

—and in addition to being aware of the anti-globalization voices—

It may be true that the Bush Administration’s re-election prospects in 2004 will not be hurt by the opposition of labor unions, environmentalists, human rights activists, and others who oppose the FTAA as part of the sweep toward anti-democratic global capitalism. But these activists can disrupt the process in other countries across the hemisphere, mobilizing discontent from Brazil and Argentina to Mexico and Canada. (One aspect of globalization is the rise of an opposition that itself effortlessly organizes across borders.) To hear (and perhaps defuse) these opponents, the FTAA structure has taken the unprecedented step of creating a “Committee of Government Representatives on the Participation of Civil Society” … but few hard-line opponents of FTAA have chosen to participate.

Text box 2:
Some US businesses' views about FTAA (part 1)

Textiles. The National Textile Association (NTA) says:

- Qualifying goods must be made from components formed in the countries that are partners to the agreement. They oppose a large exemption from the rules of origin for cotton and man-made fiber textiles because this tariff preference level (TPL) would permit third-party products to receive the duty free benefit of the FTA.
- They are concerned that the TPLs in the US-Chile FTA will be used as a precedent for similarly high TPLs in trade agreements with other Latin American countries, or with other major shippers of textile and apparel products.
- They also worry that the general rule of origin appears to apply only to the outer shell fabric that imparts the essential characteristics of the garment. The NTA has urged that all the fabrics that go into production of a garment be considered in determining origin. The NTA likes the rules of origin for brassieres because it requires that the product be 75% US or Chilean fabric to be duty free.
- "It is vital for the survival of the domestic US textile industry that any future trade agreements contain strong and consistent rules of origin for textile and apparel products that require that significant value-added fabric manufacturing processes take place in the partner countries, not in non-partner third countries."
- The NTA wants a trade agreement that has reciprocal market access.

Steel and Iron Industry. Interviewed steel company executives say:

- Major issue with the anti-dumping and countervailing duties. Do not want the US to do anything that would weaken US trade laws.
- Eliminate trade-distorting subsides, and remove steel tariffs as soon as possible.
- Preserve what they say are WTO-legal "Buy American steel" rules (This rule was declared illegal by the WTO, but the steel industry thinks that it would be valid for all of the countries in the FTAA because they would be in "America").
- NAFTA stands as a model on how to make additional, incremental progress on these rules. They support the NAFTA rules of origin.
- The industry sees potential gains in the FTAA market, and believes that with free and fair trade in the area both the steel industry but mainly the US steel-using industry can expand the US trade surplus for steel in Latin America.

Source: Hudson Institute intern interviews

—the US government must balance very different US business interests.

Perhaps the trickiest obstacle for an administration in Washington that is notoriously business-friendly is the fact that US businesses are themselves divided about the sort of Free Trade Area the would like to see in the Americas. Hudson Institute researchers interviewed officials from major trade organizations about the relatively straightforward issue of rules of origin. For a member of an FTA, this is important since without clearly defined rules of origin, non-member countries can simply export to whichever member country has the lowest external tariffs, then send the product tariff-free to other members of the bloc. The US cares about rules of origin much more than other countries in the Americas. But even within the US, businesses such as textile manufacturers and the logging and wood industry seek very stringent rule for their protection; the National Association of Manufacturers, on the other hand, sees these rules as an obstacle to doing business.

Text box 3:
Some US businesses' views about FTAA (part 2)

Food, Beverage, Tobacco. The Grocery Manufacturers of America calls for:

- A comprehensive approach to tariff reductions that will lead to the rapid elimination of tariff peaks and tariff escalation. The Swiss Formula (used to cut tariffs during the Tokyo Round) could be an appropriate model to follow.
- Tariff reductions from applied rather than bound rates in order to ensure commercially meaningful and timely reductions.
- There should be no product or policy exemptions during the negotiations. It is particularly important to the processed food sector that reforms and disciplines apply to all commodities equally, including sugar, dairy and peanuts.

Forest, Paper, and Wood Industry. According to the American Forest and Paper Association:

- The AF&PA supports the process of creating a single free trade area in the Western Hemisphere. The region is expected to be an expanding market for wood and paper products.
- They support the early elimination of tariff barriers and the phase-out of non-tariff barriers. The group urges the use of the NAFTA rules of origin. For solid wood products, raw materials may be purchased from a foreign country and subsequently processed or remanufactured into another wood product. The secondary product would then be reclassified under the Harmonized Tariff Classification Schedule at the four-digit level. The use of weight or percentages to determine rules of origin is not consistent with the rules of origin negotiated under NAFTA.

Manufacturing. The National Association of Manufacturers:

- The final goal of the FTAA should be to create a single uniform group of FTAA rules of origin, which with time will replace the rules of sub-regional origin in order to establish the requisites to obtain preferential customs duties. To create rules of origin at hemispheric level that embrace the multiple groups of existing sub-regional rules of origin does nothing but add another layer of complexity to trade activities in the Americas.
- The rules of tariff variation to determine origin are simpler and facilitate compliance more than content calculation methods. They think that the FTAA should adopt rules of origin based on the methods used within the NAFTA.
- They are not in favor of proof of value. When proof of value is inevitable, they are not in favor of tracking. Accumulation should be allowed with the purpose of establishing hemispheric origin, since it will contribute to a real force for economic integration.
- The base tariffs from which tariffs would be gradually eliminated should be the rates applied and not the ceiling according to the WTO. NAM wants many of the products listed above in the US position to be included in the first basket for immediate tariff elimination.

Source: Hudson Institute intern interviews

Canada maintains an independent stance especially on symbolically significant issues.

Since nothing in the structure of FTAs (unlike CUs) push members to stand together in negotiations, Canada is not bound to negotiate side-by-side with the United Stares. It does shares a production structure more similar to the US than to any of the developing countries in the south, and many of its interests in the FTAA parallel those of Washington. But Canadian voters are traditionally reluctant for their governments to cede too much power to their gigantic neighbor in the south, such as cultural trade and intellectual property rights.

Mexico could see its special NAFTA relation with the US diluted but fears being left behind.

Likewise, nothing about its membership in NAFTA forces Mexico to bargain from the same point as the US. In fact, as he had grown frustrated at being neglected by the Bush Administration, Mexican President Fox has displayed an increasing coolness toward a Free Trade Area of the Americas. But the real reason for its distance was economic, not because its markets would be flooded with cheaper products from even lower wage economies to the south, but rather because it has benefited from being the only Latin American country possessing a bilateral FTA with the US, unlike the preferences the US unilaterally extends to the countries of the Caribbean, Central America, and the Andes. But with the Chile-US FTA, Mexico has seen the future. If a FTAA is never put into effect, the US will just negotiate bilateral FTAs with countries or subregional blocs. So Mexico has decided that it will support the FTAA process in order to secure better access to markets in the other Latin American and Caribbean economies.

Text box 5:
The Andean Community of Nations (CAN)

Est. by Cartagena Agreement May 26, 1969
Original Countries: Bolivia, Columbia, Ecuador, Peru, Chile (left the agreement October of 1976), Venezuela (entered February-1973)

Summary: In response to CARICOM and MERCOSUR, the Andean community, in hopes of developing their nation in order to compete on equal grounds with their neighbors, chose to combine their strength into the Andean Community. The member countries looked to create a trading bloc that could compete with the other Latin American trading blocs. CAN covers a territory that is one and a half times as large as that of the EU[1]. Its population is 1/3 as large as that of the EU and accounts for 40% of the total area of Latin America.

Goals[2]:

- Promote development in member countries
- Accelerate growth of Andean countries
- Create new jobs within member countries
- Facilitate participation in the regional integration process with the aim of gradually creating a Latin American common market
- Reduce the external vulnerability of the Member Countries and improve their position in the international economic context
- Strengthen subregional solidarity and reduce the differences in development that exist among the Member Countries
- Define social policies oriented toward improving the quality of life of different subregional groups and improving their access to the benefits of development

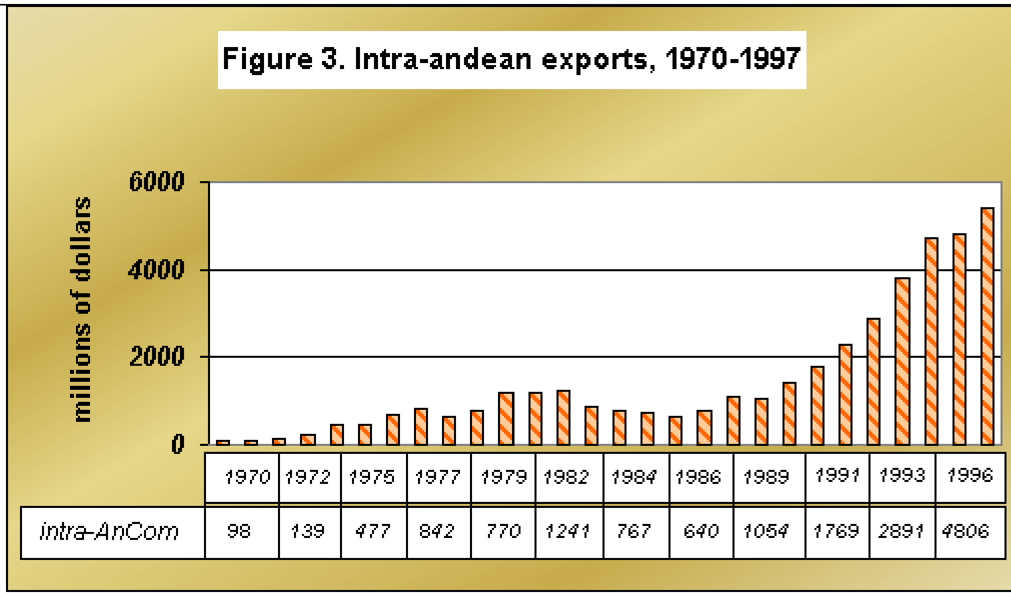
Institutional Infrastructure[3]:

- The Andean Presidential Council is the highest-level body of the SAI.
- The Andean Council of Foreign Ministers and the Commission of the Andean Community are the policy-setting and decision-making bodies.
- The General Secretariat of the Andean Community is the executive body of the Andean Community which, starting on August 1, 1997, took on, among other things, the functions of the Board of the Cartagena Agreement.
- The Court of Justice of the Andean Community is the judicial body of the Andean Community.
- The Andean Parliament is the deliverative body of the SAI.
- Andean Development Coporation (CAF) and Latin American Reserve Fund (FLAR) are financial institutions.
- Hipolito Unanue Agreement and Simón Rodríguez Agreement are social institutions.
- Simón Bolívar Andean University is the educational institution of the Andean Community
- Andean Business Advisory Council and Andean Labor Advisory Council are the two consultative institutions.

Success:

- Increased trade within Andean community

[1] http://europa.eu.int/comm/external_relations/andean/rsp/02_06_en.pdf
[2] http://www.comunidadandina.org/ingles/who/crono.htm
[3] http://www.imf.org/external/np/sec/decdo/acuerdo.htm



http://www.sice.oas.org/geograph/south/MRod_e2.asp

	United States	South American Countries	Europe
Bolivia	US 32%	Colombia 18%, Brazil 15%, Peru 6%	UK 15%
Colombia	US 43%	Andean Community of Nations 22%	EU 14%
Ecuador	US 38%	Peru 6%, Chile 5%, Colombia 5%	Italy 3%
Peru	US 28%	N/A	UK 8%, Switzerland 8%
Venezuela	US 60%	Brazil 5.5%, Colombia 3.5%	Italy 3.5%, Spain 3.4%

The World Factbook. 2002

- A free-trade zone is established in Nov. of 1990 and is in full operation for Bolivia, Colombia, Ecuador and Venezuela by January of 1993
- In November of 1994 a Common External Tariff is approved
- Trujillo Protocol (signed and put into effect in September of 1996) strengthened the internal cohesion of the Andean integration process by placing all its institutions and mechanisms under a new umbrella, the SAI System.
- Duties and other barriers to internal trade have been eliminated

Weakness:

- The Andean Community is an "incomplete" customs union
- The CET and the free trade area are still subject to a number of exceptions-of countries, sectors and/or products
- Negative balance of trade with neighboring trade blocs

http://www.comunidadandina.org/ingles/stadis/CanMer9201.htm

The Andean Community seeks institutionalized access to US markets.

Bolivia, Colombia, Ecuador, Peru, and Venezuela—the Andean Community—do not face significant trade barriers from the US. The US has granted them unilateral preferential access to the US markets, which can be withdrawn at any time. Members of the Andean Community often echo positions taken by MERCOSUR and Brazil, although leaders such as Hugo Chávez, president of Venezuela, adopt more stridently anti-yanqui stances than any respectable MERCOSUR member would. In mid-2003, Andean Community leaders have floated the idea of a union of MERCOSUR with the Andean Community, perhaps as a bargaining ploy against the US.

The Caribbean Community and Common Market, CARICOM

Est. by Treaty of Chaguaramas August 1, 1973
Members[4]: Antigua and Barbuda, Belize, Grenada, Montserrat, St Vincent and the Grenadines, Turks, and Caicos Islands, The Bahamas, British Virgin Islands, Guyana, St. Kitts and Nevis, Suriname, Barbados, Dominica, Jamaica, Saint Lucia, Trinidad and Tobago.
Observers: Anguilla, The Cayman Islands, Haiti, Puerto Rico, Aruba, Colombia, Mexico, Venezuela, Bermuda, Dominican Republic, Netherlands Antilles.

Summary: CARICOM was developed in response to the failures of CARIFTA. Its goals are similar to that of CARIFTA however seeks to expand its boundaries beyond that of the Caribbean nations. CARICOM is still actively developing agreements between the nations, as well as pursuing new agreements among other South American Nations, the United States and Canada. In 1989 CARICO was revised to the CARICOM single market in order to create a common market between the communities.

Goals:
- Establishing free trade
- Integrating markets
- Create collective foreign policy for the region
- Promote cooperation between the CARICOM regions
- Developing education, health and technical training with the region

Institutional Structure[5]:
- Head of Government Conference, Common Market Council of Ministers, Caribbean Community Secretariat; Each member has a right of veto and thus retains much of its national sovereignty
- The **Heads of Government Conference** is the supreme decision- making body. Each member state has one vote, and a unanimous vote is required to legislate decisions or to make policy recommendations. The conference determines the policies to be pursued by CARICOM's related institutions. This conference also is responsible for concluding all treaties, making financial disbursements, and maintaining relations with other international organizations.
- The **Common Market Council of Ministers** is the second principal body of CARICOM and the principal body of the regional Common Market. The Common Market Council consists of one ministerial representative from each nation. Decisions are also made by unanimous vote, with minor exceptions. This council resolves problems and makes proposals to the Heads of Government Conference to achieve efficient development and operation of the regional common market.
- The **Caribbean Community Secretariat** is CARICOM's principal administrative component. The Secretariat operates to serve the interests of the region rather than those of each government. Although the Secretariat has no decision-making power, its discussions, studies, and projects have made it a dynamic element in the integration process.
-

Success:
- Development of inter-island transport and shipping
- Strengthening of education, specifically the University of the West Indies and
- Establishing communication between neighboring countries
- Reviewing and developing initiatives in light of recent large agreements, including NAFTA
- Growth of intra-CARICOM trade in the 1990's
- In CARICOM developed a common external tariff, with a goal of lowering external tariff ceiling to around 20%
- Single market economy led to protocols that included the right to provide services, move capital, and services for any CARICOM nation

Failures:
- Intra-CARICOM trade still accounts for a small part of the countries export (22% in 1998)

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4 http://www.sice.oas.org/TRADEE.ASP#CARICOM
5 Library of Congress / Federal Research Division / Country Studies / Area Handbook Series / Guyana / Appendix C

- Despite changes in tariff changes, agricultural imports continue to face high avg. tariffs
- Too many variations and exceptions allowed within the common external tariff has diluted the effectiveness of the tariff
- Lack of mobility provision for most CARICOM citizens. The protocol est. in the Single Market Economy only allows university students to move around CARICOM countries w/o work permits
- CARICOM has not become an integral part of the political environment of its member states, thus leading to divergent objectives
- CARICOM lacks implementation and enforcement mechanisms to ensure protocols and treaties are enacted
- Difficulties in creating a unified monatery system. In the early 1970's all countries had est. their own central bank and developed separate currencies.
- The lack of export diversification & reliance on primary products & tourism has limited the ability of CARICOM nations to raise capitol.

Monatary issues[6]:

- In 1977 the CARICOM Multilateral Clearing Facility (CMCF). Its goal was to eliminate need for U.S. currency when member countries trade within each other. A credit agency was developed to ease flow of currency between the different nations, however when Guyana chose to move to the U.S. currency, creditor countries were unable to sustain the currency and the system collapsed.
- In 1992 there has been a push to develop a uniform Caribbean monetary fund similar to that developed by the European union.

[6] http://www.ryerson.ca/econ/ConferencePapers/henryMonetary%20Integration%20in%20Beautiful%20Places%20TABLES.pdf

CARICOM and the CACM share similar concerns—

Antigua & Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, and Trinidad & Tobago make up the Caribbean Community and Common Market or CARICOM. Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica comprise the Central American Common Market or CACM. These are by and large the smallest and poorest FTAA countries. Even though they negotiate separately, their interests tend to run parallel. All rely on the US Caribbean Basin Trade Partnership Act to avoid paying full tariffs for their exports to the US … which makes them nervous. All rely on tariffs for a large share of their governments' revenues, so the FTAA will require a redesign of their broader public finances. The US is conducting negotiations for a free trade agreement with Central America, just in case the FTAA falls through … at least that is the message it wants Brazil to hear.

Text box

"How to Trade Up," *The Economist* 15 February 2003, p. 36.

They are small, poor, vulnerable to natural disasters, and most suffered civil wars in the 1970s and 1980s. But the five republics of Central America have made some fragile progress in recent years. Now they have been picked by the United States as its latest preferential trade partners. Negotiations to create a Central American Free-Trade Agreement (US-CAFTA) were launched in San José Costa Rica's capital, last month. They continue later this month, in Ohio. The aim is to finish them by the end of this year, before presidential campaigning takes off in the United States. Given the huge inequalities between the two sides, that looks ambitious. Even so, Central American officials hope that the talks will provide the cement their own efforts at integration have lacked for so long.

The talks involve Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Since 1960, these five have been trying to create a Central American Common Market (CACM). Though Panama and Belize belong to some Central American bodies, they are not involved in the CACM. The Central Americans have been pressing for free-trade talks ever since Mexico gained preferential access to the American market under the North American Free-Trade Agreement in 1994. Last year, George Bush took the initiative. The rationale, says John Murphy, of the United States' Chamber of Commerce, "is more geopolitical than directly commercial."

The United States exports $9 billion of goods to the Central American five, but that is barely more than 1% of its total exports. With a total population of 36m and a combined GDP of just $60 billion, Central America is hardly a vast market. But there are two attractions in the talks for the Bush administration. The first is to try to make allies of vulnerable neighbors who are the source of illegal migrants.

The second is that a swift agreement with Central America, following one with Chile last year, would increase the pressure on Brazil, South America's largest economy, to sign up to the proposed Free Trade Area of the Americas. Talks on this are due to finish by 2005, and have reached a crucial stage. This week the United States unveiled a surprisingly bold offer to eliminate tariffs on imports of textiles and clothing by 2010; it also offered to phase out all tariffs on industrial and agricultural goods. But Brazil objected that under the American proposals, its exports would gain tariff-free access more slowly than those from smaller countries, and farm subsidies would not be touched.

For these reasons, the Central Americans have some leverage in their talks with the United States. They may need it: trade unions in the United States object to the labor conditions in clothing factories in El Salvador, for example. The biggest problem is the perennial one of farming. Hundreds of thousands of Central Americans scratch a living from just three crops, maize, coffee and sugar. Maize farmers, in particular, will need aid.

Over the past decade, the Central American countries have been liberalizing their economies; none has an average tariff higher than 10%. The United States is already their biggest market, and the source of remittances from migrants. So US-CAFTA would be "more of a consolidation than a brave new world," says Alberto Trejos, Costa Rica's foreign-trade minister.

Central American officials see two potential benefits from a free-trade agreement with the United States. First, they hope that it would increase the flow of investment to their countries, by, for example, strengthening intellectual-property rights. Second, the exercise might deepen co-operation between the five countries.

There are still many barriers to free trade within the isthmus. Inefficiencies and red tape at borders account for half the cost of transporting goods from one country to another, according to INCAE, a Central American business school. That is one of several issues that the five have been trying for years to deal with, in desultory talks aimed at making their supposed common market a reality.

These talks have foundered on national differences. Costa Rica has long been stable and relatively prosperous; it has been sniffy about sharing sovereignty with its neighbors. At the other extreme, Guatemala remains corrupt and backward. Last month, the United States bracketed it with Haiti as failing to fight drugs. According to the State Department, Guatemalan police "stole twice the quantity of drugs that they officially seized" and were involved in drug-related murders. Guatemala's human-rights record has deteriorated under President Alfonso Portillo. A presidential election in December may be won by Efraín Ríos Montt, a former dictator and Mr. Portillo's mentor. In that case, many Americans might oppose rewarding Guatemala with a trade agreement.

Much negotiating remains to be done. But many Central Americans may think a deal with the United States is the only way to keep their own neighbors in line.

Even though MERCOSUR has many problems—

MERCOSUR (consisting of Argentina, Brazil, Paraguay, and Uruguay) tends to adopt negotiating stances most outspokenly opposed to US proposals. The last several years have been difficult for the economies of MERCOSUR. In 1999 Brazil was shaken by the financial crises sweeping from Asia and Russia. Its competitive devaluations of the real almost led Argentina to walk away from the organization. The organization has been able to do little to help Argentina after its economy collapsed in 2001. Paraguay and Uruguay sometimes complain that their interests are ignored by their larger and more ambitious partners, whose economic problems have crippled the other MERCOSUR members as well. Thus, a large part of the energies for Brazil (and to a less degree Argentina) in the FTAA process involve trying to preserve and strengthen the bargaining unity of MERCOSUR. Add to this the recent rise to power of presidents who have sharply criticized the US and the FTAA process: socialist “Lula” da Silva in Brazil has made a political career condemning globalization, unfair “free trade,” and the arrogant dominance of South America by the US. Néstor Kirchner in Argentina takes the presidency of a bankrupt country with few policy ideas or options except to blame his predecessors for what he calls their “carnal relations” with the United States. Having only a negative agenda will not help solve their countries’ problems, nor will it be likely to generate productive ideas for hemispheric integration.

Text box 4:
Southern Cone Common Market, MERCOSUR

The Treaty of Asunción Established December 1994
Members: Brazil, Argentina, Uruguay and Paraguay
Associate Members: Chile, Bolivia,
Summary: MERCOSUR was initiated as a way of developing trade between the cone countries in South America. It began in 1991 with the gradual elimination of tariffs between neighboring countries Brazil and Argentina, and eventually grew to include Uruguay and Paraguay, as well as associate members Chile and Bolivia. Similar to CARICOM, MERCOSUR looks to develop intra continental trade between member countries as well as initiate treaties between the European Union, Canada, United States and neighboring South American and Caribbean nations.[1]

Goals[1]:

- Eliminate tariffs among member nations
- Adopt a partial customs union
- Adopt a common external tariff that would cover approx. 85% of the traded goods

Institution Infrastructure[1]:

- ***The MERCOSUR Council*** This council is composed of the Foreign and Finance Ministers of the member countries. Its primary functions are the formulation of policies and the negotiation of agreements with third countries and international organizations. The MERCOSUR Council already existed during the transition stage, however not as a legal body.
- ***The Common Market Group.*** Since the signing of the treaty in 1991, the Common Market Group has served as the executive body of MERCOSUR and is compromised of four representatives from the member nations. The Group's principal functions are to issue resolutions, adopt the necessary measures for achieving active resolutions, negotiate and sign agreements as delegated by the MERCOSUR Council and organize the meetings of the Council.
- ***The MERCOSUR Trade Commission.*** This body is in charge of administering matters related to trade and proposing new norms to the MERCOSUR Council. The Commission also modifies existing norms of trade and customs policies, and passes judgment on specific issues that arise in relation to the application of such norms and procedures. The Trade Commission has the authority to create technical committees - charged with analyzing specific topics and proposing solutions - which shall replace the trade-related Working Subgroups of the MERCOSUR Council and their numerous commissions that have functioned since the Treaty of Asuncion.

Success[1]:

- Regional trade among members of the bloc grew nearly 300% between 1991 and 1999, totaling US$ 18 million at the end of last year. In comparison, this same trade grew only 60% between 1980 and 1991
- Trade exchange between Brazil and its partners has been developing continuously at an average rate of 20% during the past six years.
- Considerable increase in the number of business partnerships in the four countries
- The common external tariff, with an average level of roughly 14%, is making MERCOSUR among the freest economic spaces in the world.
- Grants credibility as a politically and economically sound group of nations.
- In six years, intra-Mercosur trade more than quadrupled, from $4.1 billion in 1990 to $16.9 billion in 1996.

Failures:

- 97% of trade within the trade bloc is between Argentina and Brazil, making the agreement susceptible to the rise or fall of the economics in either country. Brazil's devaluations in 1999 and 2001 provoked Argentina to go outside the agreement and to raise tariffs on Brazilian good. Something similar happened with the Argentine meltdown.
- MERCOSUR has made little progress in applying a truly common external trade policy
- Despite the commitment to end all import quotas within the 'bloc' a certain amount still remain
- Inconsistent application of the agreements developed Ex. Argentina assesses tariffs for more than 600 textile items, while Uruguay assess tariffs for more than 100 textile items[1]

—it has achieved more than anyone expected—

That should not blind anyone to the very impressive accomplishments of MERCOSUR. The rivalry between Argentina and Brazil that long dominated the continent has been defused. (Defused literally, and not a moment too soon: thanks in part to the relations of trust and cooperation between the two countries, they have both pulled the plug on their programs to develop nuclear weapons.) MERCOSUR began with a commitment to strengthen and preserve democracy in the Southern Cone: when rumors of a coup began swirling in Paraguay, the presidents of the other three members immediately flew to Asuncion to throw their support behind the democratically elected civilian government. By simplifying cross-border investments, Argentina and Brazil have integrated their economies much more than would have occurred only with a customs union. Working together they managed to defeat the most destructive of scourges for the economies of South America, hyperinflation (and to the credit of their leaders, the crises of the past several years have not renewed inflation). And beginning with their common front in GATT/WTO negotiations, Argentina and Brazilian negotiators have proven they can work well with one another.

—and may find it easiest of all actors not to conclude an FTAA—

The ability to negotiate on several fronts at once is to MERCOSUR's advantage in hammering the details of the FTAA. They are working on another front, a very ambitious free trade agreement with the European Union. Signing a pact with Europe could provide the same sort of "seal of approval" that would signal to foreign investors that the countries of MERCOSUR are safe and stable places to do business that a FTAA would. Moreover, Moreover, econometric studies indicate that the economies of MERCOSUR would benefit more from an FTA with the European Union than they would with a comprehensive free trade pact covering the Western Hemisphere (although the modeling seems to compare an EU FTA that is very favorable to Brazil and a shape of the FTAA in which Brazil loses most things it cares about). If, in the end, he walks away from signing a deal on the FTAA, Lula's standing skyrockets with his populist supporters (who have been dissatisfied with his tight fiscal policies and constrained social agenda since taking the presidency). He will be hailed as a heroic leader, standing firm against Washington's pressure in the name of doing what is right for Brazil. Of course, the business community, which has grudgingly accepted his moderate policies since taking power, will immediately shift their investments elsewhere. An agreement between MERCOSUR and the EU could be very helpful for preventing capital flight.

—or at least to go slow.

Another angle MERCOSUR is playing is to revive the idea of uniting with the Andean community to form a South American Free Trade Area (SAFTA) that would stand as an equal (of sorts) with NAFTA. This had been Brazil's original idea for the Free Trade Area of the Americas: essentially a "docking" operation between a strong North American group led by the US and a strong South American group led by Brazil rather than a tight integration of South America (and Brazil) with the North American economy. Brazil dropped the idea of a SAFTA in 1999 when its currency crisis forced it to turn its attention inward to the Brazilian economy. Today, the strength of Brazil's economic recovery combines with the "Bolivarian" rhetoric of Hugo Chávez in Venezuela to reignite visions of a unified South American market. (Chávez frequently evokes Simón Bolívar, the liberator of South America from Spain, to express his antipathy toward the dominance of the new empire of the US in the Southern Hemisphere.)

We can see several possible shapes for a FTAA.

Given the distribution of power, interests, and resources across the region; given the political and ideological alignments between and within the various countries; given the significant trade distortions that remain throughout the economies of the Americas … we can sketch out a handful of possible future shapes for the FTAA. Three particularly important variables will determine which future actually comes true: (1) how do the Doha Round negotiations go? (2) how well can Brazil emerge as the leader of the South? (3) what sort of leadership does the US wish to exercise?

Scenario #1: The FTAA process breaks down—

It is possible there will be no FTAA at all. This would not the first time an ambitious scheme of pan-American integration had come to nothing. One can imagine that if it came to this, the US might focus on signing individual FTAs with particular countries in Latin America and the Caribbean.

—which might happen if South America collapses—

But probably the only way that the FTAA would be allowed to break down completely would be if order within Latin America were to break down as well. Drug-fueled civil war spills over from Colombia to its neighbors; several economies around the region experience Argentine-style collapses; Hugo Chávez imitators come to power in Brazil and elsewhere, unleashing escalating waves of civil conflict … these are the sorts of apocalyptic events that might cause the FTAA process to collapse.

—but is unlikely.

Simply spelling out this nightmare scenario illustrates how unlikely it is to take place. Too many political leaders, from President George W. Bush on down, have their prestige and political fortunes tied to reaching some sort of FTAA agreement for it to be allowed to stumble entirely. Recall that even Mexico's triple crisis that hit just as NAFTA was being implemented wasn't enough to derail NAFTA. It really would require a region-wide meltdown to stop some sort of FTAA from being signed by an American president who has committed himself completely, and a meltdown like this almost certainly won't happen.

Scenario #2: FTAA goes on as an expansion of NAFTA—

That doesn't necessarily mean that the FTAA will eventually be signed as it is currently being discussed. Even without an Americas-wide political and economic crisis, not all 34 countries currently negotiating need eventually sign the deal. Right now, Venezuela seems most likely to refuse to follow through with what its president has frequently called a US scheme to conquer South America. If Brazil were to pull out for populist or nationalist reasons, it is likely that the United States would continue to push the pact through to a completion. It is also likely, however, that it would do so in a form originally envisioned: an extension of NAFTA to most of the other countries of the hemisphere. So far the US has not exactly been working in that direction. The recent FTA with Chile was with the United States, not with NAFTA (although Chile had already signed FTAs with Mexico and Canada). NAFTA has only a few phrases that vaguely allow the possibility of expanding beyond the original three members, so this would need to be clarified first. Perhaps after Chile was made a full fledged member of this expanded NAFTA, the Central American Common Market (CACM) countries would be asked to join (again, they are negotiating an FTA with the US, but that could easily be shifted to NAFTA). It would be enough for an American president — as well as the presidents of other Latin American and Caribbean countries that have committed themselves to achieving a Free Trade Area of the Americas — to claim political credit.

—might happen if Brazil withdraws from the process.

The key component of this scenario — Brazil leaving the process all together — is what makes it unlikely to occur. Even if the EU offers a splendid deal for a free trade agreement with MERCOSUR (possibly in retaliation for the US recently exacerbating the division between “Old Europe” and “New Europe,” that is between the longstanding EU members and the generally pro-US former communist countries now joining the Union), to turn its back on the US so publicly and so completely would be economic suicide for Brazil. Moreover, it could mean the dissolution of MERCOSUR. Argentina’s new president Kirchner has been very critical of the economic policies his country adopted at the recommendation of the United States and has said that he desires to distance Argentina from the close embrace with Washington that his predecessors formed. But he also knows that if Argentina is eventually to climb out of the abyss within which it has tumbled, it will need more rather than less engagement with the American economy. The EU could not promise enough for Argentina to follow Brazil out of the FTAA negotiating hall, so this scenario too is not very likely.

Scenario #3: A minimalist FTAA—

Let’s ask what is from Washington’s perspective the basic question: What does Brazil (and MERCOSUR) want? On one level, their desires are the same as everyone else’s: offensive — access to North American markets — and defensive — protection for its own sectors from overly tough competition. MERCOSUR’s exports already face relatively low tariffs in the US and Canadian markets, although they encounter higher barriers in Mexico and the Andean Community … which makes negotiating FTAs with those two an alternative to a full fledged FTAA. In late May, Brazil was able to use its leverage to obtain what it considers a very good compromise on the issues to be discussed in closing FTAA negotiations. Says Finance Ministry International Affairs Secretary Otaviano Canuto:

> In the FTAA, the focus will be on the topics on which we can reach an agreement in the short term, and the defensive issues of the two sides will be thrown into the WTO. This is a perfect dovetailing. Before, the more aggressive demands of the

> United States in the FTAA were colliding with our defensive interests, which were the sections on services, investments, governmental purchases, and intellectual property. Our more offensive demands, on the subsidies to agriculture and the antidumping measures, were colliding with their defensive interests.7

This arrangement ought to ensure an FTAA close to the deadline in 2005, although it will be far from the comprehensive deal hoped for by some. It will allow the summit to be held with 34 heads of state signing an agreement that is hailed — with cause — as historic in its importance.

—leaves the tough issues for later—

As Canuto says, this would be the FTAA as framework, as an important step in a process of negotiating and compromise that continues well into the future. Left for the future will be touchy issues such as services, government procurement, intellectual property rights, and so on.

—and for Doha—

There is a reason to leave these tough issues off the table … they really are tough. They go to the essence of defining not only the Western Hemisphere, but the global economy of the 21st century. So perhaps they really ought to be negotiated as part of the WTO's Doha Development Round. An advantage of a multilateral forum of countries from around the world is that national prestige and honor is not at stake in the way they are among the cousins negotiating the FTAA.

—while establishing a framework—

Already the FTAA process has created a set of institutional mechanisms that are sure to continue operating. Take only two examples. First, the smallest countries of the Caribbean and Central America have benefited from the institutionalized technical assistance the FTAA machinery has provided to help them prepare for and conduct complicated negotiations; they will seek to keep these n place. And the special committees on topics such as e-commerce and civil society have acquired their own momentum.

—that allows ruling politicians to claim credit—

When reporters at the signing ask the collected heads of state when they will address agricultural subsidies, the collected heads will smile ruefully and say they have agreed to disagree, that they have made important strides toward reaching an agreement on the issue that satisfies everyone, and that they are confident that they will have made progress before the next summit. And they might even mean what they say.

—this is the most likely scenario.

[7] "Brazilian official discusses initiation of talks with US over FTAA," *O Estado de São Paolo* 1 June 2003.

We believe this minimalist — yet by no means only symbolic or content-less — form will be the most likely pattern of FTAA that will emerge.

Scenario #4: FTAA = SAFTA+NAFTA—

A slightly different minimalist FTAA is possible, however. Lately, Brazil and Venezuela have dusted off a proposal that was shelved when Brazil's economy fell into crisis in 1999. This would be first to unify MERCOSUR and the Andean Community in a single South American Free Trade Agreement (SAFTA), then to negotiate a limited set of linkages between NAFTA and SAFTA, probably along the lines of MERCOSUR's current negotiations with the EU. The Brazilians call this NAFTA-SAFTA relation not integration but "docking."

—perhaps Brazil's preferred scenario—

No wonder this is Brazil's first choice. It would confirm the manifest destiny Brazilians have long held, the assumption that they are destined to emerge as a superpower leading the continent to an equal status with the USA and Europe.

—but would require that the South accept rule by a new giant.

But even though Argentina and Brazil have astonished observers by cooperating so closely for more than a decade, there is no hint that Argentina is willing to subordinate itself to Brazil, or that other countries of the region will voluntarily give the status to Brazil that the US has had in the past. The cultural divide between Hispanic and Portuguese America remains very deep. This scenario is unlikely to happen. As is often said, Brazil is the next superpower … and it always will be.

Scenario #5: A New Deal for the Western Hemisphere—

It is at least worth considering what a maximalist (rather than minimalist) FTAA might look like. As many have noted, an FTAA is like NAFTA in being about much more than trade barriers (which are already lower than they have ever before been). It is about a deeper economic integration, both of the region and of the region and the global economy. But negotiators have not discussed the sort of political and social integration that might follow logically from an economic union such as that being contemplated. In the 1950s, however, no one in Europe imagined that the European Coal and Steel community might some day evolve into a United States of Europe stretching to the very borders of Russia.

—would be move toward an EU-style comprehensive regional integration—

A few of the elements that a deeper integration would require? Free movement of individuals throughout the hemisphere, which would first require a massive undertaking to bring well paying jobs to all the countries in the Area in order to keep the population of the US from doubling in a year. A monumental social safety net to protect those whose livelihood has been disrupted by the enormous economic changes that lie ahead. A program of retraining and continuing education that would thus reach hundreds of thousands of workers and peasants. No wonder negotiators are not talking about this scenario!

—and might be the ideal solution, except it requires a very high degree of trust and leadership.

There is much to recommend such a vision, which today seems utopian to an extreme. It would require a very large commitment of resources and energy by the United States (and by Canada and by other middle income countries as their economies grow). And it would require that the countries of Latin America and the Caribbean accept a role for American leadership that they would surely find very uncomfortable. So this scenario remains least likely of them all.