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The Politics of U.S. Trade Relations with Latin America

I know that you have already heard from senior trade officials from Panama and Peru, so I plan to talk a bit about the political dynamics driving U.S. trade policy toward Latin America.

While the United States has had a long and sometimes controversial history of relations with Latin America, our current trade policy is an extension of policies begun in the 1980s that had as their goal, economic development and diversification in Latin America and integration of the region into the global economy.

Gradually the U.S. has sought to move from a client-patron trading relationship to granting unilateral tariff preferences to our more recent effort to create bilateral free trade agreements, which recognize that Latin American nations are competing in the global economy on a more equal footing.

Creating a stable, open business environment in Latin America is the bottom line trade policy goal of my organization's members, which are U.S. based companies that operate globally. We want it to be as easy to do business in Mexico as it is in Canada, in Panama as it is in Mexico and so on. This goal is reflected in the mosaic of Free Trade Agreements and preference programs that we have sought in the region over the last fifteen years. Unfortunately, despite some successes, we are as far from achieving that goal as we have ever been.

In economic terms, the goal makes eminent good sense, but some in Congress and a growing segment of the public are taking a different view. They view these agreements as exporting American jobs to the south.

The political reality we all have to face is that trade accelerates change and creates winners and losers. However, the gains tend to be long term and diffuse and the losses short term and specific. And in politics, whether you are in Washington, Caracas, or Buenos Aires, long term and diffuse gains are generally overshadowed by short term and specific pain. And let me be clear: the pain is not imaginary. Real jobs are being lost, and a growing segment of our population is uncertain about its future. What is missing in the public equation is cause and effect. Trade grows; jobs are lost, but that does not mean the former caused the latter, although none of our countries are short of politicians making that link.

NAFTA

That debate has ironically come full circle in the current attacks on NAFTA, which, to quote Robert Pastor of the Center for North American Studies at American University, has become a “piñata” for everyone’s frustrations.

NAFTA links 439 million people producing $15.3 trillion worth of goods and services annually. The dismantling of trade barriers and the opening of markets has led to economic growth and rising prosperity in all three countries. U.S. exports to Mexico have risen by 228 percent since NAFTA's approval, opening new opportunities for dozens of U.S. industries. In turn, Mexico's exports have risen by 428 percent, mostly by shipping parts that have allowed U.S. industries to be more competitive worldwide, as well as finished products that have helped bring down costs to American consumers. Overall trade among all three NAFTA parties has tripled since 1994.

NAFTA has always been controversial. With the perspective of fourteen years, we can say that while its benefits were oversold by its proponents, its costs were grossly overestimated by its opponents.

The Democratic Presidential primaries have raised NAFTA bashing to a new level – both candidates have pledged to reopen the agreement and have blamed it for the loss of approximately 235,000 manufacturing jobs in Ohio since 2000. They ignore the fact that when NAFTA took effect, Ohio had 990,000 manufacturing jobs. Two years later it had 1.3 million and only began to decline after the economic downturn in 2001, losses due more to automation, increases in productivity and the rise of China. This, by the way, is not just the story of Ohio. America has been losing manufacturing jobs for more than thirty years, largely as a result of productivity improvements. We are manufacturing more than we ever have – output up 58% between 1993 and 2006 – but with fewer workers.

Despite the facts, our inability to put this debate to bed says a lot about the state of our economy and the state of economic uncertainty Americans are living with. The Democratic presidential candidates have made things worse, although I do not foresee material changes in NAFTA should either be elected. There is nothing wrong with a good review of the agreement – after 15 years it will be overdue – but our next President will quickly learn that NAFTA negotiations go three ways, not one, and for every change we propose, you can expect Canada and Mexico to put several of their own on the table. The most likely result would be minor tweaking.

The truly unfortunate thing is that this is the wrong debate. We should be discussing the future of North America and of the entire hemisphere, and instead we’re locked in a useless debate about the past rather than the future.

FTAA

After NAFTA, our most significant stab at regional economic integration, the Free Trade Area of the Americas, has foundered less because of American public opinion but because of the reluctance of several governments, particularly Brazil, to make concessions on agriculture and other issues in advance of dealing with them in the Doha Round – where the same issues are also stalled. From one point of view this is the triumph of multilateralism over regionalism, but from another it is one more example of nations being unable or unwilling to take bold steps to expand growth in the face of inevitable complaints from short term victims.

This failure has, however, had a significant effect on U.S. policy because it has encouraged us to move in the direction of bilateral and smaller regional agreements to create as much of a network of trade liberalization as we can. After several successes, we now appear to be once more running into difficulty.

Chile

Chile is an excellent example of the benefits of bilateral open trade. Since that FTA went into effect, bilateral trade has expanded by more than 160%. It reached nearly $17 billion in 2007, nearly triple what it was only four years earlier.

CAFTA

After a bruising political fight in Congress, the Dominican Republic-Central America-U.S. Free Trade Agreement or DR-CAFTA passed Congress in the summer of 2005 almost completely along partisan lines. Opposition to CAFTA focused on the lack of specific enforceable minimum labor standards in the text of the agreement, arguing that without them more manufacturing jobs will be exported from the U.S. to poor nations where the workers who take those jobs have few labor rights. Implementation is only just beginning, so it is too soon to measure results, but we are optimistic it will lead to a win-win expansion of trade for both sides.

Peru, Colombia, and Panama

In 2004, the U.S. began negotiations with Colombia, Ecuador and Peru on an Andean FTA. Ultimately, talks with Ecuador faded after its government breached our bilateral investment treaty and annulled a contract with Occidental Petroleum. FTAs with the other two were signed in 2006, and a similar one with Panama in 2007.

The agreements were initially essentially the same as CAFTA, but now majority Democrats in Congress insisted on changes. Last May 10, the Bush Administration and Congressional Democrats reached a deal in which the Administration agreed to clearly spell out labor commitments in the text of the agreement and made other concessions related to environment, IPR, investment, and government procurement that forced renegotiation of the agreements.

That was the *quid*. The *quo* remains in dispute. The Administration believes it was a promise to produce sufficient Democratic votes for Peru, Colombia, and Panama, while many House Democrats believe it only covered Peru, which indeed passed last year with respectable bipartisan support.

The House Democratic leadership has signaled that it will not consider the Colombia FTA until violence against union members in that country decreases, and it has yet to be persuaded by President Uribe's argument that significant progress has already been made.

Organized labor in the U.S. has been adamant in its opposition and has rejected all evidence of progress and has opposed all attempts to find a compromise. The Administration, in turn, running out of time and patience, forced the issue by sending the agreement to Congress and starting the clock to force a House vote in 60 days.

This put the leadership in the difficult position of having to fight the President or abandon labor, and both of them are gleefully shutting every third door the leadership tries to open. Ultimately, the Speaker chose to amend the House rules to avoid a vote while holding out an olive branch in the form of an offer to negotiate a new price for Colombia – expanded Trade Adjustment Assistance and other things. That makes the most sense, but it is running up against both labor's refusal to deal and the Administration's likely refusal to pay a sufficiently high price. The result so far has been posturing by both sides, although I continue to believe we have several acts left in this soap opera.

Unfortunately, the Speaker's action brings collateral damage. By changing the rules, she has cast doubt on Congress' willingness to consider any future trade agreements, including the Doha Round, by signaling that Congress is unwilling to stand by its own fast track procedures.

To say the leadership is uncomfortable would be an understatement, since it knows full well the strength of the national security and foreign policy arguments for this agreement as well as the economic arguments. It also knows that both its Presidential candidates, despite their opposition to the agreement, will want it disposed of this year so they don't have to deal with it next year.

At this point I remain an optimist – perhaps a naïve one – because I think the agreement will ultimately be approved but I cannot, today, describe a clear path for getting there.

Preferences

While free trade agreements attract the most controversy, our preference programs also matter. The economic impact of tariff elimination can be significant. For example, in 2006 the U.S. provided $52 million in aid to Nicaragua; yet we collected $105 million in duties on Nicaraguan goods entering the United States. Likewise, we provided $53 million in aid to Guatemala at the same time we were collecting $169 million in tariffs.

The Generalized System of Preferences (GSP), the Caribbean Basin Initiative (CBI), and the Andean Trade Preference Act (ATPA) all encourage the development of job creating industries in poor countries and help to ensure a supply of low cost raw materials and intermediate components to help U.S. manufacturing compete. From 1996 to 2007, Latin America's exports to the U.S. under GSP were $52.4 billion. When CBI began in 1983, the majority of U.S. imports from those countries consisted of traditional primary products like bananas, coffee, and sugar. By 2006, those were down to 37 percent.

Ironically, Democrats have generally supported these programs, largely because they perceive the benefits going primarily to poor people in poor countries. In other words, they view them more as aid than trade. However, when a country pursues policies we oppose, some members have not been shy about seeking revenge through changes in preferences.

Brazil's experience with GSP is a prime example of how politics influences these programs. As Brazil has developed, the number of products eligible for duty free status has shrunk, but now it is subject to efforts to eliminate its GSP status altogether because of its outspoken opposition to the U.S. in the FTAA and the Doha Round. Brazil has resisted opening its markets to a range of U.S. services, has disagreed with the U.S. on IPR protection, and is one of the most vocal critics of U.S. agricultural subsidies and other protection.

Congress fired a shot across the bow last July by removing from GSP one or two tariff lines of auto parts, thus costing hundreds of millions of dollars of Brazilian exports their duty-free status. In 2007 imports from Brazil under GSP fell for the first time since 2001, and imports of those specific parts declined by around $20 million.

All of these programs expire at various points this year, so Congressional review is guaranteed. While I expect their further extension, there will be controversies – Brazil being one of them. Another will be the extension of ATPA preferences for Ecuador and Bolivia because of the policies the new governments there are pursuing.

One of the lessons here is that Congress is a master of linkage – using action in one area to leverage action in another. You see this currently in Congressional calls for an Olympics boycott because of Tibet, and you will see it in preference renewals for countries where we have other disagreements.

Conclusion

Nations that invest in the physical and institutional infrastructure that supports trade will integrate further into the global economy. Building modern port facilities, roads, and telecommunications networks as well as investing in the regulatory infrastructure that modernizes customs procedures, protects intellectual property and ensures the free flow of investment capital is what both the United States and Latin American nations must do to succeed.

That will support the mechanics of trade. And that may suffice for increased commercial ties with most of the world. However, in the long term, countries that address income inequality and successfully bring their entire populations into the mainstream of their economy will be the most successful. That means trade liberalization must support – and be an integral part of – job creation policies, increased access to education and health care and access to the financial system. And that is true as much in the United States as it is anywhere else.

During the debate over the U.S. – Peru free trade agreement, Peruvian economist Hernando de Soto told Members of Congress that Peru had the same goals as Congress for its workers but disagreed on the methods to achieve them. Improving worker rights meant more than just mandating additional rules that business must follow because in many cases, businesses would just go back underground into the informal economy, leaving workers with no recourse at all. Many of Peru's recent reforms have been focused on bringing workers and companies back into the formal regulated economy.

That discussion highlighted two key issues. One is that Congressional review of trade agreements will continue to focus on labor commitments framed by U.S. organized labor and not on crafting policies that are appropriate for conditions in the other country.

Second, we are likely to see different levels of long term success among the countries of Latin America depending on how they reinvest the gains achieved from trade liberalization. Those who focus not only on the physical and institutional trade infrastructure but also on education, healthcare, financial services and integrating their entire country, not just segments of their population, into the global economy, will ultimately be most successful.

This is not that different from what we must do in the United States to re-establish a bi-partisan consensus on trade. We can do that by making sure that those hurt by global economic integration are helped through domestic policies that deal with adjustment assistance – worker retraining and help in finding find new opportunities quickly. Wrapped up in that is the need for reform that separates the loss of a job from the loss of health care not only for the primary worker but for their entire family, and through education to train the next generation for what lies ahead in a globally integrated world.

Until Americans who receive the economic benefits that come with open trade realize what is at stake, and until those bearing the cost see light at the end of the tunnel, there will not be a pro-trade constituency as loud as the anti-trade forces, and our efforts to promote global economic integration will continue to founder.