1

The Road to Free Trade in the Americas

In April 2001, leaders of 34 democratic nations in the Western Hemisphere reconvened in Quebec City, Canada, for the third Summit of the Americas. More than six years had passed since the inaugural event in Miami in December 1994, which established a blueprint for hemispheric cooperation on a wide range of political, economic, and social matters. That meeting, the first of its kind in a generation, agreed on 23 initiatives to "advance the prosperity, democratic values and institutions, and security of our Hemisphere." The new spirit of partnership had four interrelated objectives:

- to preserve and strengthen the community of democracies of the Americas,
- to promote prosperity through economic integration and free trade,
- to eradicate poverty and discrimination in the hemisphere, and
- to guarantee sustainable development and conserve the environment (Summit 1994).

While the summit covered broad-ranging hemispheric goals, Latin American and Caribbean (LAC) leaders came to Miami with the economic agenda foremost in their minds. Negotiation of a hemispheric free trade pact was an integral component of their development strategies, and the prospective harvest of increased trade and investment in the region was vital to provide the resources needed to underwrite their economic growth. While the initiatives to strengthen democracy, promote education, and protect the environment also commanded attention, the free trade talks clearly were the driving force of the summit process.

Latin American interest in the trade agenda had been sharply focused by the results of a similar conclave of leaders of the Asia Pacific Economic Cooperation (APEC) forum in Bogor, Indonesia, in November 1994. Latin American leaders wanted to keep pace with their competitors in the APEC region who had three weeks earlier committed to achieve free trade with the United States by 2010 (for developed countries) and 2020 (for developing countries). Not to be outdone, the participants in Miami agreed to progressively eliminate barriers to trade and investment in the context of a Free Trade Area of the Americas (FTAA), and to complete negotiation of such an accord no later than 2005. Such a pact would "build on existing subregional and bilateral arrangements" and help to create a more integrated market in the hemisphere. By so doing, the leaders of the LAC countries expected to spur increased investment in their economies, which they considered "the main engine for growth in the Hemisphere" (Summit 1994).

In essence, the Miami Summit put forward a vision of free trade in the Americas similar to that in the APEC region, but with a more concrete and traditional negotiating approach. In both cases, the commitment was to achieve free trade within a decade or two after a lengthy implementation period for some politically sensitive sectors and for some developing country participants.[1]

To be sure, constructing a free trade area linking some of the richest and poorest, and largest and smallest, countries in the world is a daunting task. The US economy, for example, is 10 times larger than that of Brazil, the second biggest economy in the hemisphere, and almost 100 times larger than the *combined* total of all of the countries of Central America and the Caribbean (see table 1.1). The United States, Brazil, and Mexico together account for more than 85 percent of Western Hemisphere GDP and two-thirds of its population. In contrast, the citizens of several Caribbean islands number less than some small US towns; all the islands together have fewer people than sparsely populated Canada.

Moreover, since the Miami Summit, the gap between rich and poor in the hemisphere actually has widened, due in part to the cumulative effects of a series of financial and commodity shocks. Financial crises in Mexico immediately after the Miami Summit and in Brazil in late 1998 sent tremors that depressed growth throughout Latin America. As a result, only a few countries matched the robust growth of the United States between 1995 and 2000. South America's three most populous countries—Brazil, Colombia, and Argentina, which together account for 62 percent of

1. For a comparison of the origins and objectives of the FTAA and APEC free trade commitments, see Feinberg (2000).

Table 1.1 FTAA participants: Economic overview

Country	**Gross national product,[a] 1999** (in billions of US dollars)	**GDP growth rates, 1995-2000**	**Population, 1999** (millions)
NAFTA, total	**9,371.2**		**401**
Canada	591.4	3.6	31
Mexico	428.8	3.6	97
United States	8,351.0	4.1	273
Mercosur, total	**1,048.7**		**213**
Argentina	277.9	1.9	37
Brazil	742.8	2.6	168
Paraguay	8.5	1.7	5
Uruguay	19.5	1.6	3
Chile	**71.1**	**5.6**	**15**
Andean Community, total	**265.3**		**111**
Bolivia	8.2	3.7	8
Colombia	93.6	1.6	42
Ecuador	16.2	0.5	12
Peru	60.3	3.8	25
Venezuela	87.0	1.3	24
Central America, total	**55.5**		**35**
Costa Rica	9.8	4.6	4
El Salvador	11.8	3.6	6
Guatemala	18.4	4.1	11
Honduras	4.8	3.0	6
Nicaragua	2.1	5.1	5
Panama	8.6	3.2	3
Caribbean, total	**37.8**		23
Antigua and Barbuda	*0.6*	3.1	*0.1*
Bahamas	n.a.	n.a.	*0.3*
Barbados	*2.0*	3.3	*0.3*
Belize	*0.6*	3.9	*0.2*
Dominica	*0.2*	2.0*	*0.1*
Dominican Republic	16.1	7.7	8.0
Grenada	*0.3*	5.1*	*0.1*
Guyana	*0.7*	3.9	*0.8*
Haiti	3.6	2.5	8.0
Jamaica	6.0	−0.5	3.0
St. Kitts and Nevis	*0.3*	4.1*	*0.0*
St. Lucia	*0.6*	2.0*	*0.2*
St. Vincent and the Grenadines	*0.3*	4.5*	*0.1*
Suriname	*0.7*	5.8*	*0.4*
Trinidad and Tobago	*5.8*	4.5	*1.3*
FTAA, total	**10,849.6**		**798**

* Data for 1995-99; n.a. = not available
Mercosur = Southern Cone Common Market.
NAFTA = North American Free Trade Agreement.

a. Preliminary World Bank estimates calculated using the World Bank Atlas method.

Note: Figures in italics represent 1998 data.

Sources: World Bank, *World Development Report* 2000/2001; World Bank, *World Development Indicators,* 2000; ECLAC, *Balance Preliminar de las Economías de América Latina y El Caribe,* 2000: OECD, *OECD Economic Outlook,* no. 68, December 2000.

the people of Latin America—recorded much slower growth. To be sure, some smaller countries such as the Dominican Republic (with average annual growth of 7.7 percent) and Chile (5.6 percent) also performed well during this period, and Central America as a whole grew by about 4 percent. But other countries fell behind (e.g., Jamaica), or stayed behind (e.g., Haiti), their regional neighbors.

Given this diversity in size and wealth among the Western Hemisphere countries, is progress toward a free trade area possible? The next section explains why the goal is more in reach today than it was a decade ago.

Latin America's Economic Revival

Ten years ago, people were bemoaning the "lost decade" of Latin American growth due to the lingering effects of the debt crisis. Nascent democracies in Argentina and Brazil were beset by hyperinflation and crushing debt-servicing burdens, and only beginning to design the framework of the Mercosur from the failed sectoral initiatives of the late 1980s.[2] Civil strife burdened societies throughout Central and South America.

At that time, few observers could have imagined that Latin American governments would reverse course and unravel the statist economies that had evolved over several decades, or that moribund regional trade arrangements would revive, scrapping traditional import-substitution policies in favor of more outward- and market-oriented regimes. The transformation has been remarkable.

During the past decade, Latin American countries implemented a development strategy—following the policy guidelines of the "Washington Consensus"—that combined macroeconomic stabilization policies with increasing doses of trade and regulatory reform.[3] (Chile and Mexico had started this reform process earlier in the 1980s.) Privatization programs reinvigorated important sectors (particularly transport and utilities) with new capital, technology, and management skills, while providing governments with substantial funds to both retire debt and bolster infrastructure investments. The aim was in large part to encourage investment from both domestic and foreign sources to spur economic growth; indeed, fierce international competition for investment funds often pressured

2. Mercosur, the Southern Cone Common Market incorporating Argentina, Brazil, Paraguay, and Uruguay, was established in 1991. The four members agreed to create a customs union starting in 1995 (IDB 1997).

3. Williamson (1990) detailed a set of desirable economic policy reforms to guide Latin American development that was soon regaled as the "Washington Consensus". Since then a vast literature has analyzed the successes and shortcomings of that policy prescription, including Burki and Perry (1997, 1998), Williamson (1997), Stiglitz (1998), and Ffrench-Davis (2000).

governments to accelerate those reforms. Stronger growth in turn created new opportunities for trade and investment in the region. It is not an exaggeration to say that these domestic economic reforms continue to propel the integration process in the Western Hemisphere.

At the same time, regional integration arrangements evolved and solidified economic and political ties between previously quarrelsome neighbors in the Mercosur, Andean, Central American, and Caribbean communities. These regions are not only establishing customs unions among the partner countries, but also are expanding trade ties with countries in other regions in the hemisphere (and, more tentatively, with the European Union). The Inter-American Development Bank (IDB) has catalogued more than 20 preferential trade arrangements involving Latin American countries. These accords vary from simple tariff reduction pacts to comprehensive free trade agreements (FTAs) and customs unions.[4] The prospective FTAA is, of course, the most extensive example of this trend (IDB 2000; Salazar-Xirinachs and Robert 2001, table 1.1).

Globalization of economic activity has been a major catalyst of these new trade initiatives. Over the past two decades, liberalization of trade and capital markets, coupled with astounding advances in communications, transport, and information technologies, has created truly global markets for goods, services, and capital. Countries must now adapt quickly to changing conditions in world markets or fall sharply behind their trading partners in the global competition for market share and investment funds. Standing pat has become a prescription for falling down. Countries can no longer build regional fortresses to protect their industries from foreign competition; instead, they must use their regional pacts to reinforce domestic reforms and to prepare themselves to compete more effectively against foreign firms at home and abroad.

The policy mix of domestic economic reform and regional trade liberalization has produced notable dividends.[5] Despite the "tequila" and "samba" shocks of the past five years, Latin America recorded significant growth in the 1990s coupled with a sharp drop in inflation and rapid expansion of trade and investment:

- Real GDP growth in Latin America and the Caribbean recovered sharply, from an average annual rate of 1.7 percent during the 1980s to

4. For example, Mercosur is solidifying its customs union and has entered into or is negotiating free trade "association" arrangements with Chile, Bolivia, and countries in the Andean Community. In addition, Mexico and Canada have concluded free trade pacts with Chile and Costa Rica; Mexico also has agreements with many of its other Central American neighbors, Bolivia, Colombia, and Venezuela; and the Central American countries have forged trade pacts with the Dominican Republic and Chile.

5. For a good analysis of Latin America's economic reforms and the continuing development challenges, see Burki and Perry (1997).

3.4 percent in the 1990s. Importantly, per capita GDP grew 1.5 percent annually in the 1990s after falling the previous decade (World Bank 2001). Regional GDP increased almost 4 percent in 2000 but will likely record only 2 percent gains in 2001 due to slower growth in North America and energy and financial problems in Mercosur.

- The inflation tiger has been declawed in most countries.[6] Brazil achieved the most dramatic progress under its *Plano Real*, which brought inflation down from more than 2,000 percent in 1993 to less than 7 percent in 2000. For the region as a whole, inflation averaged about 9 percent in 2000 (ILO 2000).
- Trade has expanded sharply: Latin American and Caribbean merchandise trade (exports and imports) increased by 130 percent over the period 1990–99, totaling about $575 billion in 1999 (see table 1.2). Trade among regional partners (intraregional exports) grew sharply from a low base; it accounted for 15.5 percent of total exports in 1999, up from 12.4 percent in 1990.[7]
- Foreign direct investment (FDI) in Latin America and the Caribbean increased from an average annual level of $8 billion in the second half of the 1980s to $90 billion in 1999. As a result, the region now accounts for almost 44 percent of all FDI in developing countries (up from 26 percent in 1990). Argentina, Brazil, and Mexico together attracted almost 73 percent of these inflows (see table 1.3).

The progress of the past decade has been impressive. However, one need only look at the current economic and political problems throughout the region to appreciate that the gains of the 1990s are not irreversible. Weak financial sectors, overvalued currencies, underfunded social security systems, and high unemployment are but a few of the fundamental problems that threaten the sustainability of the reform programs in many Latin American countries. In this regard, the growing integration of the region is a two-edged sword, since, as the Brazilian crisis of 1998–99 demonstrated, economic problems in one country quickly can depress trade and growth throughout the region.

What can be achieved in the next decade? Ten years from now, people may be too busy building the Latin American economy to reminisce about the Brazilian crisis of 1998–99 and the political challenges facing countries

6. Ecuador is the main exception with inflation of 59 percent as of March 2001, though down from near triple digit levels in 2000 (IMF, *International Financial Statistics*, June 2001).

7. The value of intraregional trade would have been much larger but for the contraction related to the Brazilian crisis in 1998–99. Intra-Mercosur exports had quadrupled between 1990 and 1997 but fell by more than 25 percent in 1999. Though this trade recovered markedly in 2000, it remained below its 1997–98 peak (see IDB 2000, Annex tables 1 and 2).

Table 1.2 Latin American merchandise trade, 1990-99 (millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Annual average growth, 1990-99
Total Latin America and Caribbean											
Exports	136,177	135,333	145,173	154,529	182,545	220,411	249,332	276,962	267,019	281,745	8.4
Imports	111,770	130,965	155,785	169,836	200,292	223,531	247,943	297,919	309,872	292,470	11.3
Mercosur											
Exports	46,402	45,891	50,463	54,122	62,113	70,402	74,998	82,342	81,323	74,320	5.4
Imports	29,293	34,264	40,632	48,079	61,856	75,311	83,217	98,392	95,395	79,801	11.8
Andean Community											
Exports	31,751	29,232	28,107	29,137	34,243	38,259	45,687	47,655	38,742	43,207	3.5
Imports	17,315	21,111	26,919	29,040	30,590	38,303	36,965	43,971	44,013	35,175	8.2
CACM											
Exports	4,046	4,279	4,674	4,899	5,509	6,864	7,778	8,242	10,313	11,175	11.9
Imports	6,538	7,106	8,871	9,513	10,224	12,087	12,300	14,464	18,101	18,048	11.9
Caricom[a]											
Exports	4,647	4,139	3,970	3,215	5,069	5,531	5,439	6,008	n.a.	n.a.	3.7
Imports	5,526	5,941	5,985	5,275	6,294	7,835	7,708	9,584	n.a.	n.a.	8.2
Mexico											
Exports	27,167	26,945	46,497	51,760	60,882	79,541	96,000	110,431	117,494	136,391	19.6
Imports	30,014	38,098	63,337	65,365	79,346	72,452	89,471	109,808	125,190	141,975	18.8
Chile											
Exports	8,651	9,056	10,126	9,542	11,694	16,538	15,453	17,025	15,194	15,940	7.0
Imports	7,301	7,707	9,849	10,968	11,628	15,479	17,439	18,997	18,223	13,912	7.4

n.a. = not available
CACM = Central American Common Market.
Caricom = Caribbean Common Market.
Mercosur = Southern Cone Common Market.

a. Annual average growth rate calculated for period 1990-97.

Sources: Inter-American Development Bank, *Integration and Trade in the Americas,* December 2000; IMF, *Direction of Trade Statistics Yearbook,* various issues.

Table 1.3 Foreign direct investment inflows, 1990-99 (millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Cumulative 1990-99
World	211,425	158,936	175,841	217,559	255,988	331,844	377,516	473,052	680,082	865,487	3,747,730
All developing countries	34,689	41,696	51,108	72,528	104,920	111,884	145,030	178,789	179,481	207,619	1,127,744
Latin America and Caribbean	8,989	15,356	17,611	17,247	30,091	32,816	45,890	69,172	73,767	90,485	401,424
Argentina	1,836	2,439	4,045	2,555	3,490	5,315	6,522	8,755	6,526	23,153	64,636
Brazil	901	1,103	2,061	1,291	2,590	5,475	10,496	18,743	28,480	31,397	102,537
Mexico	2,632	4,762	4,393	4,389	10,973	9,526	9,186	12,831	10,238	11,233	80,163
Inflows to Latin America and Caribbean as percent of:											
World total	4.3	9.7	10.0	7.9	11.8	9.9	12.2	14.6	10.8	10.5	10.7
All developing countries	25.9	36.8	34.5	23.8	28.7	29.3	31.6	38.7	41.1	43.6	35.6
Inflows to Argentina, Brazil, and Mexico as percent of Latin America and Caribbean	59.7	54.1	59.6	47.7	56.7	61.9	57.1	58.3	61.3	72.7	61.6

Source: UNCTAD, *World Investment Report*, various issues.

in the Andean Community at the close of the 20th century. Alternatively, they may be bemoaning the failed summit vision and the lost opportunities for hemispheric integration that were squandered by governments more concerned with short-run political gain than national economic welfare. The outcome of the FTAA negotiations will determine, to a significant extent, whether the mood is festive or solemn.

FTAA: Learning from Experience

To better understand the FTAA process, it is useful to review its origins. Interestingly, the seeds of the new hemispheric trade talks were planted well before the Miami Summit in two important and related North American initiatives: the North American Free Trade Agreement (NAFTA) and the Enterprise for the Americas Initiative (EAI). NAFTA was the first reciprocal free trade pact to link a developing country as an equal partner with industrial countries (Hufbauer and Schott 1993). The EAI was the first initiative to link trade, investment, and debt issues in a coordinated approach to economic development in Latin America.

NAFTA and the EAI share a common heritage, dating back to the debt crisis of the 1980s. Both were put forward in recognition that economic and political problems in one country or region—be it debt-servicing burdens, unemployment, air and water pollution—also affected neighbors and required cooperative action by regional partners. Both have been closely related since their inception. President George Bush announced the EAI in June 1990, barely two weeks after the United States and Mexico agreed to pursue a bilateral FTA (which evolved into NAFTA when Canada joined the talks later that year).

NAFTA highlighted to US policymakers the great opportunities that can be created by closer trade ties with neighboring countries. US officials argued that NAFTA could yield important benefits not only for economic growth but also for a range of political objectives, including promoting democracy in Mexico and contributing to a long-term solution to immigration problems. The results to date in most respects confirm those optimistic appraisals. The Mexican economy has advanced despite its sharp setback during the 1995 peso crisis, democratic reforms have not only taken root but also yielded the first victory for an opposition party in the 2000 presidential election, and the three economies have worked more closely together to address regional environmental problems (Mutti 2001; Hufbauer et al. 2000).

However, NAFTA also exposed broad concerns among the American (and Canadian) public about the effect of free trade on the domestic economy, fed in part by wild and wildly inaccurate charges that the trade pact would cause massive job losses and the relocation of footloose plants to low-wage Mexico.[8] The NAFTA debate heightened political sensitivities to restructuring US trade and production and focused attention on the challenges of globalization. The FTAA has inherited some of these problems initially associated with NAFTA.

The initial impetus for the EAI derived from two concerns: (1) Latin American countries needed new and larger inflows of foreign capital if their debt crisis was to be resolved without prolonged economic stagnation; and (2) nascent economic and political reforms in the region would not be sustained without accelerated growth. In addition, US trade officials feared that preferences accorded to Mexico under the prospective free trade pact could disadvantage other Latin American countries, create commercial tensions, and distort regional trade and investment flows. Of course, those concerns were shared throughout the region, especially in the Caribbean Basin.

The EAI was therefore designed to support economic reforms in Latin America through a combination of trade, investment, and debt relief. On the trade front, the United States concluded 14 framework agreements on trade and investment with hemispheric trading partners in 1990–91 (in addition to earlier framework pacts with Mexico and Bolivia). These pacts laid the foundation for subsequent negotiations of more comprehensive agreements like NAFTA.

The debt and investment pillars of the EAI were closely related. The EAI aimed to supplement the Brady Plan for restructuring and reducing Latin American debt, which in turn would help attract new private foreign capital to the region (including repatriated "flight" capital). In particular, the EAI included relief for part of the $7 billion in debt under US Agency for International Development, Export-Import Bank, PL-480, and Commodity Credit Corporation programs.[9] The debt reduction provisions were linked to commitments to domestic investment reforms by the recipient countries. By January 1993, eight countries had undertaken such agreements and received funds under the EAI's Investment Sector Loan Program.[10] In addition, the United States also supported the establishment in February 1992 of a Multilateral Investment Fund (MIF) in the IDB (with an initial capitalization of $1.5 billion).[11]

8. These claims, advanced by Ross Perot during the 1992 US presidential campaign, have proven to be unfounded (see Hufbauer, Schott, and Kotschwar 1999).

9. For a summary of the progress made under the EAI initiatives, see US Department of Commerce, Office of Latin America, "Enterprise for the Americas: Fact Sheet," 15 January 1993.

10. The recipient countries were Chile, Bolivia, Jamaica, and Colombia in 1991, and El Salvador, Argentina, Paraguay, and Uruguay in December 1992 (Hufbauer and Schott 1994, 247–49).

11. Interestingly, the mandate of the MIF is quite similar to that of the North American Development Bank, which was created to spur investments in the NAFTA region and capitalized at $3 billion.

Soon after, however, the EAI was overshadowed by the NAFTA negotiations. The Clinton administration spent much of its first year supplementing the NAFTA accord with side agreements on labor and the environment. After the US Congress ratified NAFTA, however, Vice President Albert Gore proposed in December 1993 a hemispheric summit to discuss a broad range of political and economic issues, including hemisphere-wide free trade (Feinberg 1997). The United States offered to host the Summit of the Americas in Miami in December 1994.

The timing of the summit proved unfortunate for several reasons.

First, despite its initial support, the Clinton administration advanced the free trade initiative with great reluctance for fear of roiling its labor constituents before the November 1994 mid-term elections. By contrast, Latin American countries quickly endorsed the idea and regarded it as the linchpin of hemispheric cooperation in other areas. After much foot-dragging, however, the United States finally agreed to add the free trade initiative to the summit agenda.[12] Trade became the centerpiece of the Miami Summit and the initiative was rechristened the Free Trade Area of the Americas.

Second, the summit took place just as the bottom was about to fall out of the Mexican economy. The crash of the Mexican peso 10 days later put a cloud over the hemispheric initiative. In addition, the Mexican crisis re-energized US critics of free trade pacts, who—under the banner of "No More NAFTAs"—successfully blocked plans announced by the "four amigos" in Miami to negotiate Chilean accession to NAFTA.

The Miami Summit initiated a detailed work program to prepare for the eventual negotiation of an FTAA. After three years of consultation on the negotiating agenda—involving extensive pre-negotiations in 12 working groups, technical support from a Tripartite Committee of international organizations,[13] and four ministerial meetings—the terms of reference for the FTAA negotiations were finalized in the San José Declaration of trade ministers in March 1998. The following month, the summit leaders reconvened in Santiago, Chile, and officially launched hemispheric trade negotiations.[14]

The Santiago Summit yielded some notable results. First, it endorsed a comprehensive agenda for the FTAA covering all aspects of trade and investment in goods and services (as formulated in the San José Declara-

12. US support for the FTAA came after the APEC Summit in Bogor committed to free trade in the Asia-Pacific region and only a few weeks before the Miami Summit (Feinberg 1997).

13. Its members are the Organization of American States (OAS), the IDB, and the UN Economic Commission for Latin America and the Caribbean (ECLAC).

14. For a more detailed discussion of FTAA talks since the Miami Summit, see Salazar-Xirinachs (2001). Salazar, head of the OAS Trade Unit, was formerly trade minister of Costa Rica and a key architect of the San José Declaration.

tion). Nine negotiating groups were later established to address both market access and rulemaking provisions, and a consultative group on small economies was set up to ensure that concerns of the majority of FTAA participants were reflected in the work of each group. In addition, trade ministers created committees on electronic commerce and on the participation of civil society. Negotiations began in earnest in Miami in September 1998.

Second, the talks were organized so that the big and small, and the rich and poor, would share responsibility for the conduct of the negotiations. Countries agreed to rotate not only leadership of the talks but also the venue every 18 months.[15] Most importantly, the United States and Brazil were designated to cochair the final stage of the negotiations, from November 2002 to the end of the talks. This arrangement recognized that the leading economies of North and South America have to work together if a final deal is to emerge. Changing the venue of the negotiations could create problems, however. Locating the talks in Miami made sense for logistical reasons; moving the talks to Panama in March 2001 and then two years later to Mexico City could prove disruptive if participants fail to provide adequate resources to house and service the talks (which was a problem in Miami).

Third, the Santiago Summit charged negotiators with formulating business facilitation initiatives, to be approved at the November 1999 FTAA ministerial in Toronto and implemented while the negotiations were still underway. The Toronto meeting adopted 18 measures to improve the transparency of customs regulations and to facilitate customs clearance procedures (Toronto 1999). That session also instructed negotiators to assemble, by the next ministerial meeting in Buenos Aires in April 2001, a composite document reflecting the progress made to date by the FTAA negotiating groups. This draft would then provide the basis for more detailed negotiations of FTAA trade rules and market access commitments by participating countries.

Compared to high-profile negotiations in the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD) or the highly publicized trade disputes between global trading powers, the FTAA negotiations initially maintained a remarkably low public profile. As a result, work proceeded without significant distractions from protesters or inquisitive journalists. This situation now has changed.

Demonstrations at the Quebec Summit echoed the antiglobalization protests that marred the Seattle WTO ministerial in December 1999. While the summit talks were not impeded, the media attention has given the FTAA negotiations greater exposure and importance in public policy debates throughout the hemisphere. This is all for the good. While the glare

15. These arrangements were agreed to by trade ministers and contained in the San José Declaration.

of the spotlight will make the negotiators' task more complicated, it will also require their political masters to build public support to address the concerns of those who may be adversely affected by the prospective outcome. Without such political underpinnings, the FTAA negotiators will have great difficulty in reaching agreements that liberalize politically sensitive trade barriers protecting manufacturing, agriculture, and services.

FTAA: The Hard Road Ahead

The summit leaders who reconvened in Quebec City in April 2001 reviewed progress to date in the FTAA negotiations, authorized the public release of the draft of the agreement, and reconfirmed their commitment to conclude talks no later than January 2005. In addition, they agreed (except Venezuela) to ratify the pact expeditiously so that the FTAA could enter into force by January 2006.[16] Importantly, they gave political impetus to preparations for the critical market access negotiations that will begin in May 2002, even though the delay likely puts off hard decisions on reforms of their own trade barriers until after Brazilian and US elections in late 2002.

The FTAA talks have made substantial progress but still face serious obstacles. The absence of fast track authority has raised concerns about the US political commitment to reforms of its own trade barriers. Latin American economies have gone through two boom-bust cycles as financial crises in Mexico in 1994–95 and Brazil in 1998–99 sent shock waves through the region. More recently, political instability in the Andean region has evoked concerns about the durability of economic and political reforms in Venezuela, Ecuador, Peru, and Colombia, and continuing debt problems threaten to trigger new financial instability in Argentina.

Given the economic and political turmoil in the region over the past five years, are the countries of Latin America and the Caribbean ready and able to undertake free trade commitments with their industrial partners in North America? In particular, can the small economies in the region—the majority of FTAA participants—afford to join the free trade club? On the other hand, can they afford not to?

Equally important, do the 34 countries still want to complete the task? Has their attention been diverted to the demands of their regional trading arrangements? Are they expending all their energies on adjusting to the growing globalization pressures? Are they preoccupied with implementing previous liberalization commitments to regional partners and to members of the WTO?

16. The Quebec Summit documents are available at the OAS Web site, http://www.sice.oas.org.

Finally, do the summit leaders command the requisite support at home to ratify and implement a hemispheric free trade accord? Latin Americans question whether the United States has the political will to eliminate longstanding barriers to trade in agriculture and clothing, citing the seven-year impasse over fast track authority as evidence that the United States is unwilling to put its most valuable chips on the table. North Americans question whether Brazil prefers to limit the reach of the free trade zone to Latin America to avoid strong competition from the industrial countries in its large domestic market. The FTAA negotiations must address all these concerns and make concrete the commitment to hemispheric free trade.

Plan of the Book

This chapter has underscored the importance of continuing the process of economic reform throughout Latin America for those countries to be able to undertake, implement, and enforce the obligations of a prospective FTAA. The next chapter examines their state of readiness, based on updated indicators originally presented in Hufbauer and Schott (1994). Readiness indices are provided for each country, along with analysis of major developments in each region that could affect the ability to participate in the trade pact. The third chapter then examines the negotiating agenda and the interests of participating countries in the successful outcome of the talks. The final chapter details the challenges currently facing the FTAA process and the prospects for concluding it successfully by January 2005. The book concludes with recommendations on what needs to be done in the aftermath of the Quebec Summit to ensure that the FTAA talks progress toward a successful conclusion.