

COHA Research Memorandum:
Which Way the FTAA?

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Which Way the FTAA?
South American Regionalism Confronts American Unilateralism

- Washington could be in for the fight of a lifetime.
- Brazil could prove to be a master irritant for Washington's FTAA hopes.
- UN Security Council imbroglio over Iraq is likely to leave a damaging legacy for U.S. trade strategy.
- The rising strength of Mercosur raises the specter of a viable trading bloc that could provide the basis of an alternative to the FTAA for Latin America.

Though the Bush administration has up to now been able to find grounds to congratulate itself on a series of foreign policy "successes," however controversial some may have been, the creation of a Free Trade Area of the Americas-one of Bush's most treasured initiatives, which he placed at the top of his trade agenda at the beginning of his administration-now appears to be a distant, if not receding, goal. Recent actions by Brazil strongly suggest that a growing and increasingly integrated subregional bloc, of which it is at the center, is willing to do battle with Washington over its concept of hemispheric fair trade. This development has produced at best a slowdown in negotiations and at worst an uncertainty as to whether the concessions necessary for the successful completion of an agreement will be forthcoming at all. Moreover, the present FTAA controversy is only the opening wave of what can be expected to be a series of manifestations of increasing Latin American suspicion of the American international role in the aftermath of the Iraqi crisis. The rest of the hemisphere, which staunchly opposed both the belligerence and unilateralism characterizing U.S. policy towards Iraq, as well as the ruthlessness with which the Bush administration sought to impose its foreign policy views on UN Security Council dissenters, is likely to long nurse its wounds. The ill-will thus generated could very well overshadow hemispheric relations for years to come.

FTAA: A Dream Deferred

Several recent setbacks have highlighted the precariousness of Bush's FTAA negotiating strategy, the most important of which comes at the summit of G8 industrial nations in Evián, France that began on Sunday. There, President Luís Ignacio "Lula" da Silva of Brazil is proposing the creation of two new multilateral funds, one to support programs to eliminate world hunger and the other for needed infrastructure investment in Latin America specifically; Lula has hinted that American support for the latter fund will be a necessary quid pro quo for

Brazil's willingness to move forward in FTAA negotiations, which Brasilia and Washington now co-chair. This follows an earlier announcement on Monday, May 26, by Brazilian Deputy Minister for South American Affairs Luiz Macedo Soares that Brazil will shortly be setting out a "new calendar" for the completion of FTAA negotiations-presumably replacing the 2005 deadline for an agreement with a more protracted schedule of talks. Foreign Minister Celso Amorim had indicated previously that Brazil believed it necessary to extend negotiations in light of the apparent deadlock with the U.S. over such issues as intellectual property rights and especially, agricultural subsidies.

For the Bush administration and especially US Trade Representative Robert Zoellick, these latest challenges are yet another frustrating episode in the complicated diplomatic dance with Brasilia. The attitude of Brazilian trade negotiators towards the proposed FTAA was cautious at best even under the previous neoliberal-friendly administration of Ferdinand Cardoso. With Lula's election in October 2002, along with the concomitant changes in Itamaraty, the Brazilian foreign ministry, the attitude of its trade negotiators hardened further in a direction distinctly unfavorable to Washington. Indeed, Lula's choice to be secretary general of Itamaraty, the number two position, was Samuel Pinheiro Guimarães, a former head of the ministry's think tank, who had been fired in the last half of Cardoso's second term for consistently expressing negative opinions about the FTAA. The new head of the trade negotiation unit, able negotiator Clodoaldo Huguene, is likely to continue the Brazilian style of slow and cautious negotiations that seek a clear vision of what the final agreement would look like before a precipitous decision is made to bind Brazil more tightly to what is seen as a shaky US economy.

The other game in town: Mercosur resurgent?

Brazil's reluctance to accelerate FTAA negotiations is not merely a negative reaction to America's one-sided trade proposals, or a reflection of the increasing anti-American sentiment of the past two years, which was made apparent in the heated discourse displayed in several state and national-level campaigns in last year's Brazilian presidential elections. On the contrary, it is part of a broader Brazilian effort to facilitate greater economic and political integration among South American nations and particularly, Mercosur members, which would allow them to present a united front in negotiations with Washington. This change in policy is a reflection of the views of Lula's new foreign minister Celso Amorim, a key intellectual architect of the concept of South America as an operational geopolitical site.

Under Amorim's tenure, a subtle transformation has come over Brazil's subregional policy, one which sees Itamaraty as being increasingly happy not only to accept the mantle of leadership, but also the costs and obligations of such a position. Recent announcements that funds from the National Bank of Economic and Social Development (BNDES) are being used to fund infrastructure expansion in neighboring countries and that credit lines might be extended to assist Argentine economic regeneration by providing export financing suggest that Brazil is committed to creating a new, expanded role for itself.

The most visible component of the new emphasis on subregionalism, however, has been the diplomatic offensive launched by Lula to rebuild Mercosur (Mercado Común del Sur), the South American trading bloc formed in 1991, and composed of Brazil, Paraguay, Uruguay and Argentina, with Bolivia and Chile as associate members. In 2001, Mercosur was widely considered to be weak and almost fatally divided, having been serially hit by the 1999 currency devaluation in Brazil, Chile's announcement in late 2000 that it would pursue a unilateral trade agreement with the United States and delay full Mercosur membership until Mercosur tariffs were lowered further, along with a series of rancorous trade disputes between Brazil and Argentina, as well as the latter's complete financial meltdown. However, thanks to Lula's energetic personal diplomacy, Mercosur appears to be on the verge of a full-blown renaissance.

Venezuela Likely to Accede

On April 25, President Chávez confirmed Venezuela's intention to join Mercosur in a meeting with Lula; earlier in April, the latter signed a 'strategic alliance' with Peruvian President Alejandro Toledo setting out a blueprint for a free trade agreement with the Andean Community, South America's other major trading bloc. The indefatigable Brazilian president also sent letters to his counterparts in Mercosur-the presidents of Paraguay, Uruguay and Argentina-calling for the development of a joint position on government spending, services and investment, and even discussed with former Argentine president Duhalde the lofty (if distant) goal of establishing a common currency for the two nations.

However, significant uncertainty about the future of the bloc persisted through the Argentine presidential election, given that Menem, if elected, would certainly have returned Argentina to its staunchly pro-U.S. policies of the 1990s and remained lukewarm if not actively opposed to the strengthening of Mercosur. Thus the recent inauguration of Néstor Kirchner marks a significant moment for Lula and his cherished agenda of regional integration, as the Argentine leader gives all indications of being an eager partner in the attempt to strengthen intraregional ties. He has affirmed that Argentina's foreign policy priorities lie in the strategic alliance with Brazil and the deepening of Mercosur and its relations with its associated countries, and has stated that, "Our future lies in the political integration of Latin America, not in the automatic alignment to the U.S.A.."

Even more notable, the Lagos government in Chile-which because of its emphasis on separate trade negotiations with the U.S. appeared to be the least likely to prioritize regional integration-has been reacting positively to Lula's initiative and Kirchner's inauguration (concerning which Lagos stated that the same ideals now prevailed in the region as did in the early 1970s during the tenures of Presidents Salvador Allende and Hector Cámpora.) Though Chile remains unwilling at this point to follow Mercosur on tariff or trade policy, Lagos persists in affirming Chile's commitment to the evolution of Mercosur as a political, not merely a customs, union.

Certainly, many obstacles still lie ahead as momentum builds in Lula's quest for a "big house" concept of Mercosur, not least of which is the relatively weak domestic position of his diplomatic partners in Venezuela and Argentina. Nonetheless, these are heady days for Brazilian and other Latin American policymakers who have long hoped for a more united region vis-à-vis the United States. For Washington, on the other hand, the possible resurgence and even expansion of Mercosur must be profoundly troubling, because it raises the specter of a united Latin America willing and able to keep the U.S. at arm's distance. This could potentially lead to the evolution of a regional system that inverts the model mooted by academics in the 1990s to create a dual hub-spoke system with Brazil and Canada at the hub of two interlocking wheels-U.S. Trade Representative Robert Zoellick's greatest nightmare.

The American response: Playing Unilateralism Alone

Washington's reaction to developments in South America that potentially threaten the FTAA has been somewhat incoherent. It was hoped that the ratification of the bilateral trade agreement with Chile would smooth the way for a broader hemispheric deal by demonstrating to more reluctant partners the potential benefits of enhanced trade with the metropole while chipping away at any possible autochthonous South American consensus on the issue. This position was articulated by Zoellick at the beginning of negotiations with Chile; he stated in April 2001 that the initiation of this process was "sending a signal to Latin America [that] we want to move ahead on FTAA," and hinted at American willingness to negotiate a series of bilateral agreements like that with Chile that potentially could leave reluctant Brazil in the dust, isolated and spurned.

However, the strategy of using bilateral agreements to increase leverage for the FTAA was derailed by the explosive Iraq issue. During the debate in the UN Security Council, the two Latin American delegations holding seats there, Chile and Mexico, refused to fall in line with American policy and instead adopted a stance representative of the wider Latin American position, one which Brazil's Lula characterized as requiring explicit UNSC approval for any military action. The reaction from free traders in Washington was predictable. Speaking to the leading Chilean daily *El Mercurio* in mid-April, Representative Pat Toomey (R-PA) commented on potential fallout from the collapse of efforts to obtain a second UNSC resolution authorizing an attack against Iraq; more specifically, he indicated that Chile's refusal to toe the U.S. line had generated substantial congressional ill will that would make it very difficult to gain approval for any trade deal with that country, irrespective of how favorable it might be for this country. When the Chile deal was temporarily put on hold because of the fallout over Iraq, Bush was apparently left without an avenue for sundering the coalition of interests slowly growing around the position that Brazil had staked out in regional and international negotiations on foreign trade policy and other economic issues.

The Valdés Affair

Despite recent cosmetic changes that have led to increased optimism in Washington that hemispheric relations may be back on a more favorable track, the United States remains in an unenviable position: it now faces a growing subregional bloc of South American countries, led by Brazil and the indomitable Lula, which appears to be determined to prioritize regional integration and hold the United States and its FTAA plan at arm's length unless it works for them. Thanks to Santiago's humiliating replacement of Chile's representative to the UN, the distinguished diplomat Juan Gabriel Valdés, who vocally had opposed U.S. demands in the Security Council debates over Iraq, it now appears almost a certainty that the trade agreement with Chile will be signed and sent to Congress relatively soon, although an exact date is still to be set. (This sharp turn-around, based on a White House change of mood, is yet another example of Bush's tendency to personalize complex international issues.) However, the personal and political sacrifice that President Lagos has made by handing Valdés's head to the Bush foreign policy team is not necessarily what it seems and is playing out on several different levels.

First, suggestions that Valdés's replacement, Hernando Muñoz, will bring a dramatic change in Chile's foreign policy at the UN could well prove mistaken. A classmate of Condoleezza Rice at Harvard, Muñoz is well-known to Washington, having previously served a term here as Chile's ambassador to the OAS. However, the highly respected and much esteemed Muñoz has followed a different academic path than his hawkish classmate Rice. He has cast aside the outdated versions of the Cold War for the more complicated comprehension of the imperatives of political economy needed to help make up a meaningful response to the foreign and domestic challenges facing his country. The maintenance of a strong commitment to multilateralism is entirely logical for Chile, a small country exposed to the vagaries of the international economy and with long memories of its isolation from distant shipping lines during both world wars—a country entirely dependent on the strength of international law both to preserve its territorial security and to ensure the market access needed for its economic survival.

A Firing's Repercussions

Moreover, White House hopes that the revivification of the Chile deal might lead to increased U.S. influence in South America and the reining in of the moves toward independence by the Mercosur bloc may be overly optimistic at best. Chile is accorded a central role in the South American geo-economic space being developed in the thinking of Amorim, which seemingly has been embraced wholeheartedly by the current Lula administration; Chile's plans to enter into a

FTA with the US are being met with little substantive concern in Brasilia, precisely because foreign policy officials there have recognized for a decade that the Chilean economy is unique for the exceptionally high proportion of GDP accounted for by its exports. Lagos's recent comments about the importance of Mercosur and his warm welcome of his new counterpart, President Kirchner, suggest that Chile is by no means prepared to divorce itself from the rest of South America.

Most importantly, it is unlikely that the signing of the Chilean FTA will pave the way for either the conclusion of a series of bilateral agreements with other South American countries, as previously envisioned by Zoellick, or more rapid progress toward achieving the FTAA. Several other South American countries are under no illusion that they can inexorably prosper from the sort of trade agreement typified by the US-Chile FTA and are fully aware that several of its provisions-which would presumably be duplicated in subsequent bilateral or multilateral trade agreements-may be extremely disadvantageous to their own economies. These include full access into their domestic markets for American agricultural products and service industries, and, most galling, a provision that effectively forbids preferential purchasing of Latin American over U.S. goods for domestic projects. Though Chile may have been willing to swallow this rather sour pill, Brazil and a growing group of continental allies appear to find it far less palatable, and show every signs of being both willing and able to present a united regional bloc that will demand a FTAA that is fair to all of its members, both north and south of the equator.

Thus on the one hand, there is an increasing movement in South America, spearheaded by Lula in Brazil but also supported to differing degrees by Presidents Chávez of Venezuela, Lagos of Chile and Kirchner of Argentina, that seeks to prioritize greater continental, rather than hemispheric, integration and the strengthening of Mercosur prior to the coming on of the ultimate stages of FTAA negotiations. On the other, the Bush administration's hope that the negotiation of a bilateral trade pact with Chile would place more pressure on its neighbors to jump on the free trade bandwagon appears to be unfounded. This is especially true after Chile's recent crucifixion, in which President Lagos succumbed to pressure to sack his UN ambassador, an act that produced revulsion throughout Latin American capitals, and did no great service to the reputation of a pandering Lagos. Taken together, these developments suggest that prospects for the FTAA may be dimming as Brazil emerges as the center of a new consciousness of Latin American nationhood.

This analysis was prepared by Sean Burges, a research fellow, and Jessica Leight, a research associate, at the Council on Hemispheric Affairs. Issued 2 June 2003

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