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Trade and the Americas

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Contents

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SUMMARY

At the 1994 Summit of the Americas, 34 hemispheric democracies agreed to create a "Free Trade Area of the Americas" (FTAA) no later than 2005. If created, the FTAA would be a $13 trillion market of 34 countries (Cuba is not included) and nearly 800 million people. The population alone would make it the largest free trade area in the world with nearly twice the 450 million population of the now 25-nation European Union. In the nearly ten years following the 1994 summit, Western Hemisphere trade ministers have met eight times to advance the negotiating process. At the last ministerial held from November 17-20 2003 in Miami, ministers agreed to a declaration that set a September 2004 deadline for the market access talks, created a two-tiered FTAA structure, and reaffirmed countries' commitment to complete the entire FTAA by January 2005. But since the Miami Ministerial, the negotiations have been stalemated due to serious differences between the United States and Brazil. Currently, new deadlines for concluding the talks may need to be agreed upon, as well as a new date for the next Ministerial, which had been scheduled sometime later this year in Brazil. If an FTAA is eventually reached, it is likely to be less comprehensive and ambitious than previously envisioned. Premised on the view that simultaneous negotiations serve as prods and stepping-stones to hemispheric free trade, the Bush Administration has also pursued free trade agreements (FTAs) with individual countries or groups of countries in the region. The first involves an FTA with Chile - an agreement which after a number of setbacks and long delays was concluded December 11, 2002. USTR Robert Zoellick signed the agreement June 6, 2003, and Congress approved the agreement last summer. The second free trade negotiation involves five Central American countries — Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. The Administration started formal negotiations on January 27, 2003, concluded an agreement with four of the original five countries (Costa Rica excepted) on December 17, 2003, and signed the agreement on May 28, 2004. A separate agreement with the Dominican Republic was reached on March 15, 2004, paving the way for this country to dock-on to the U.S.-Central American free trade agreement (CAFTA). Congress is not expected to consider CAFTA implementing legislation until after the November elections due to the fact that it is more controversial than the Chile agreement. In addition, the Bush Administration on May 18, 2004, began negotiating a free trade agreement with the three Andean countries of Colombia, Ecuador, and Peru. Free trade negotiations between the U.S. and Panama are also taking place this year. Congress is also monitoring implementation issues related to NAFTA and the Andean Trade Preferences Act (ATPDEA). NAFTA as the first free trade agreement the United States entered into with a lower-wage and lower income developing country remains controversial. Perceptions of its costs and benefits influence the debate on negotiating the FTAA or other free trade agreements with developing countries. The expanded ATPDEA will remain in effect until December 31, 2006, by which time the United States and its hemispheric partners, including the Andean countries, are due to have implemented the FTAA.

MOST RECENT DEVELOPMENTS

As of October 2004, negotiations to complete the Free Trade Area of the Americas remain stalemated, making it unlikely that negotiating deadlines agreed to last year will be met.

A U.S. trade official on October 6, 2004, warned Peru and Ecuador that their participation in a U.S.-Andean Free Trade Agreement was being jeopardized by lingering investment disputes.

U.S. Trade Representative Robert Zoellick and Senate Finance Committee Chairman Charles Grassley on September 23, 2004, indicated that they would withhold support for the Dominican Republic's inclusion in the CAFTA if it enacts a 25% tax on beverages made with high fructose corn syrup.

On July 23, 2004, U.S. trade officials announced that the Dominican Republic will sign the U.S.-Central America Free Trade Agreement on August 5, 2004.

On July 22, 2004, Senate Finance Committee Chairman Charles Grassley urged President Bush to submit implementing legislation for the U.S.-Central American Free Trade Agreement (CAFTA) this year.

On June 18, 2004, The United States and the Andean countries of Colombia, Ecuador, and Peru completed a second round of FTA negotiations.

On June 7, 2004, Argentina's top-ranking trade official warned that trade ministers will have to formally agree on extending the deadline for concluding the FTAA negotiations later this year.

On June 7, 2004, the U.S. Supreme Court opened the way for Mexican trucks to operate in the United States without the preparation of a lengthy environmental impact statement.

Summit of the Americas: Trade Results

At the Summit of the Americas held December 9-11, 1994 in Miami, 34 hemispheric democracies agreed to create a "Free Trade Area of the Americas (FTAA)." Under the Declaration of Principles, the countries committed to "begin immediately" construction of the free trade area and to complete negotiations no later than the year 2005.

The Declaration stated that concrete progress toward the FTAA would occur before the year 2000. Based on the view that substantial progress towards economic integration in the hemisphere has already been made, the declaration called for building on "existing sub-regional and bilateral arrangements in order to broaden and deepen hemispheric economic integration and to bring the agreements together." At the same time, the declaration recognized the need to "remain cognizant" of the "wide differences in the levels of development and size of economies" in the Hemisphere in moving toward tighter economic integration.

If created, the FTAA would have 34 members (Cuba is not included) and nearly 800 million people. This population would be nearly twice the 450 million of the now 25-nation European Union.

In the nine years following the 1994 Miami Summit, Western Hemisphere trade ministers have met eight times under the FTAA process. The first meeting was held in Denver in June 1995; the second in Cartagena, Colombia in March 1996; the third in Belo Horizonte, Brazil in May 1997; the fourth in San Jose, Costa Rica in March 1998; the fifth in Toronto, Canada in November 1999, the sixth in Argentina from April 6-7, 2001, the seventh in Quito, Ecuador from November 1-2, 2002, and the eighth in Miami from November 17-20, 2003. The next ministerial will be hosted by Brazil later this year.

At the San Jose meeting in 1998, the 34 Ministers responsible for trade in the Hemisphere unanimously recommended that the Leaders formally launch the negotiation of the FTAA at the Second Summit of the Americas in Santiago. As provided by the San Jose Declaration, ministers agreed that negotiating groups were to achieve considerable progress by the year 2000, with a conclusion set for December 31, 2004. The San Jose Declaration also provided recommendations on the initial structure, objectives, venues, and principles of the negotiations.

Canada was designated as the Chair of the overall negotiating process for the initial 18 months (May 1, 1998-October 31, 1999) and the United States and Brazil were named co-chairs during the final two years of the negotiations (November 1, 2002-December 31, 2004). As head of both the Ministerial and Trade Negotiations Committee (TNC), the Chair provides overall direction and management of the negotiations.

The Ministers elected to establish nine initial negotiating groups, which cover all the tariff and non-tariff barrier issue areas identified by the Leaders at the Miami Summit of the Americas. These groups are market access, agriculture, services, government procurement, investment, intellectual property, subsidies, competition policy, and dispute settlement. In addition, the Ministers created several non-negotiating groups and committees: the Technical Committee on Institutional Issues (TCI), the Consultative Group on Smaller Economies (SME), and the Committee of Government Representatives on the Participation of Civil Society (SOC).

The United States (Miami) provided the venue for the negotiating groups and the administrative secretariat supporting those meetings during the first three years. Panama hosted the administrative secretariat until May 2002 when it shifted to Mexico for the duration of the negotiations.

The San Jose Declaration contains General Principles for the Negotiations, as well as General and Specific Objectives. In addition to transparency during the negotiations, the Ministers agreed that the FTAA should improve upon WTO rules and disciplines wherever possible and appropriate. This provision was an attempt to ensure that any final agreement will break down the most serious trade barriers in the region and provide a single set of rules for hemispheric trade. It was agreed that bilateral and sub-regional agreements such as NAFTA and Mercosur can coexist with the FTAA only to the extent that the rights and obligations under those agreements are not covered or go beyond those of the FTAA. It was also agreed that the negotiations will be a "single undertaking," in the sense that signatories to the final FTAA Agreement will have to accept all parts of it (i.e. cannot pick and choose among the obligations.)

The sixth ministerial meeting, held April 6-7, 2001 in Buenos Aires, established a more precise time frame for conclusion and entry into force of the FTAA agreement. These deadlines, which included the provisions that the FTAA countries must agree on how to conduct the market-opening portion of the talks by April 1, 2002; start tariff negotiations no later than May 15, 2002; and produce an agreement that should enter into force no later than December 2005, were approved by 33 Heads of State at the Quebec City Summit. Only Venezuela declined to endorse the time-line, arguing that the leaders' declaration as worded did not reflect the process under its national laws for ratifying the agreement. The leaders also added a new pledge that only democracies would be able to participate in the trade bloc and agreed to make public the preliminary negotiated texts.

At the seventh ministerial meeting in Quito, trade ministers reaffirmed their commitment to a schedule of negotiations involving services, investment, government procurement, and agriculture and nonagricultural market access. Under the agreed upon time frame, initial offers would be tabled between December 15, 2002 and February 15, 2003, that requests for improvements in initial offers will occur between February 1 and June 15, 2003, and that the process for exchanging improved offers will take place no later than July 15, 2003.

At the FTAA trade ministerial held in Miami from November 17-20, 2003, the 34 countries accepted a compromise on the scope and ambition of the FTAA. As worked out by the United States and Brazil, that compromise would create a two-tier FTAA structure by January 1, 2005. The first tier would be comprised of a common set of rights and obligations on the nine negotiating groups for all 34 FTAA countries. The second tier would consist of a series of plurilateral agreements countries would voluntarily undertake to achieve deeper disciplines and further liberalization in these nine groups. The ministerial declaration did not make explicit whether plurilateral agreements will be undertaken for each of the nine negotiating groups, nor did it specify whether the common obligations negotiated would be linked to a countries' participation in any plurilateral agreements. Although no negotiating area will be left out of the agreement, because countries can take on varying obligations within the FTAA structure, it is a very different notion from the broad "single undertaking" principle that had initially been envisioned in the San Jose Declaration. Critics have derided the declaration's two-track approach as setting up watered-down FTAA or an "FTAA-Lite."

The 2003 Miami declaration also instructed the deputy trade ministers to define the common set of obligations. However, the details have not yet been worked out. The Trade Negotiations Committee (TNC) — made up of the vice ministers of the 34 Western Hemisphere democracies — failed to agree on the set of baseline commitments, including agriculture and market access, at a February 2-6, 2004 meeting in Puebla, Mexico. Subsequently, negotiators on three separate occasions have been unable to agree on what areas will be obligatory for all participants, forcing a suspension of the FTAA negotiations.

The suspension of the talks has led to another missed deadline (September 30, 2004) for completing the market access portion of the negotiations. Given that the negotiating groups have not met all year, completion of the FTAA by the January 2005 deadline appears to be out of the question. New deadlines, therefore, for concluding the talks may need to be agreed upon, as well as a new date for the next Ministerial, which had been scheduled for sometime this year in Brazil.

Vision of Free Trade in the Americas

The vision of free trade in the Americas was put forth initially by President George Bush in June 1990. Proposed as the cornerstone of the Enterprise for the Americas Initiative (EAI), President Bush envisaged the creation of a " free trade system that links all of the Americas: North, Central, and South ... a free trade zone stretching from the port of Anchorage to the Tierra del Fuego" (the southern tip of Chile). The free trade vision was enthusiastically received in Latin America.

Bush Administration officials at the time emphasized that the goal of hemispheric free trade was long-term, and could take a decade or more to come to fruition. Moreover, the hemispheric free trade vision entailed a variable pattern of economic integration, perhaps involving a number of free trade agreements with individual countries or with the region's economic groupings. Given that the timing, terms, and actual dimensions of the proposal were uncertain, its main significance was an offer of a special relationship with the countries of the Western Hemisphere.

Upon assuming office, President Clinton supported the hemispheric free trade concept. Like his predecessor, Clinton viewed movement towards hemispheric economic integration as supportive of U.S. economic and political interests.

Initially, Clinton Administration efforts to clarify the process by which it would work toward creation of a hemispheric free trade area awaited the outcome of the congressional vote on NAFTA, a trade agreement that was touted as a first step in moving towards the vision of hemispheric free trade. Since NAFTA was approved in late 1993, the Administration restated its intention of negotiating a free trade agreement with Chile first, but declined from naming other specific countries as candidates for future free trade agreements.

The 1994 Clinton Summit of the Americas in Miami helped create a political consensus in the Administration to take further steps in moving towards hemispheric integration. In remarks delivered at the Summit, President Clinton hailed the proposal to build a free trade area from Alaska to Argentina as producing more jobs in the United States and improving the quality of life for residents of the Western Hemisphere.

The 1994 vision of hemispheric free trade has been embraced by President George W. Bush and promoted by both the formal negotiations held as a part of the FTAA process, and by the expansion of sub-regional groups and the proliferation of bilateral free trade agreements. Under the former approach, the trade ministers of the hemisphere laid the groundwork for the formal launching of the negotiations, which was agreed to at the Second Summit of the Americas in Santiago. Under the latter approach, Mercosur (the Southern Cone Common Market) has expanded and the United States, Mexico, Canada, and Chile have been very active negotiating bilateral free trade agreements.

Movement Towards Hemispheric Free Trade

Most observers now view the movement towards hemispheric free trade as being "off-track." While there certainly have been a number of positive developments and considerable progress made since the 1994 Summit of the Americas, the current stalemate in the negotiations is the overriding reality. One certainly can point to a number of positive developments over the past years, including the San Jose Trade Ministerial and the Second Summit of the Americas in getting the FTAA negotiations off to an official start. The FTAA countries have reached agreement on a range of business facilitation measures that include temporary admission of certain goods related to business travelers, express shipments, simplified procedures for low value shipments, compatible data interchange systems, harmonized commodity description and coding system, hemispheric guide on customs procedures, codes of conduct for customs officials, and risk analysis/targeting methodology. The negotiations have produced three draft consolidated texts of the FTAA agreement, which is available at the official FTAA website, [http://www.ftaa-alca.org/alca_e.asp]. While last November's Miami ministerial declaration commits the countries to a more flexible agreement with fewer common standards, the declaration arguably still makes it possible for negotiators to secure an FTAA that substantially improves market access in the hemisphere.

Those who judge that the process is "off-track" make several points. The first is that the compromise agreed to at Miami last November was a major lowering of the ambitious aim of creating a truly comprehensive FTAA. Instead of a wide-ranging accord that would entail a "single undertaking" where signatories could not pick and choose among obligations, the Miami declaration expressly called for a two-tiered FTAA. Countries now will be able to choose different levels of obligations and commitments. Nor is it clear yet what minimum level of commitments all participants will have to agree to and whether or not these commitments go beyond existing WTO commitments. And for all practical purposes, the negotiations currently are at a standstill.

The compromise at Miami was mainly driven by differences between Brazil and the United States. Brazil did not want to open up its service industries or government contracts and many of its manufacturing firms were not supportive of the FTAA. Long protected by high tariffs and quotas, many Brazilian companies were wary that they would be overwhelmed by U.S. competition if an ambitious FTAA were to come to fruition. The United States, for its part, was determined to maintain protection in sectors most coveted by Brazil, including textiles, steel, citrus, and agriculture. Brazil, however, made it clear that agricultural domestic support programs and export subsidies need to be addressed in the FTAA. These support programs and subsidies not only have a major impact on Brazil's ability to export competitive food products into the United States and third countries, but also undercuts the ability of Brazilian farmers to compete at home. This same concern was echoed in many other Latin American countries. The United States, however, maintained that these issues must be dealt with in the WTO Doha Round because the United States would not "unilaterally" disarm its farm programs with respect to the European Union. These differences, in turn, prompted a somewhat ambiguous compromise.

The outcome at Miami — a less ambitious FTAA — could also have been driven by less than robust public support for the FTAA in the United States and in Latin America. Labor and environmental interest groups in the United States oppose free trade agreements that lack strong protections for basic labor and environmental standards and mobilized protests during the ministerial. And many Latin American businesses and citizens fear the effects of greater exposure to the competitive pressures of large U.S. companies. Moreover, after five years of economic stagnation in the region, many Latin American countries are taking more interventionist and state-directed approaches to economic development, often in conflict with more free market precepts implicit in the creation of an FTAA.

U.S. Interests and Concerns

Supporters view hemispheric integration as bolstering U.S. economic and political interests in a variety of ways. Movement towards freer markets is viewed as supportive of U.S. prosperity, while the strengthening of democratic regimes is viewed as supportive of U.S. values and security. Closer economic ties are also seen improving cooperation on a range of bilateral issues, including environmental concerns and anti-drug efforts.

In most general terms, a reciprocal reduction of trade barriers by two or more countries usually contributes to improved efficiency and higher living standards for both. As average tariffs in Latin America are roughly four times higher than U.S. tariffs (12% compared to 3%), supporters argue that the lowering of tariffs and other trade barriers should facilitate significant increases in U.S. exports.

Supporters point out that the FTAA countries (which includes Canada and Mexico) have become the largest regional destination for U.S. exports and imports. The region accounted for $716 billion or 36% of total U.S. trade in 2003, up from $293 billion or 33% of total U.S. trade in 1990. Excluding Canada and Mexico, the region accounts for about 6% of both U.S. exports and imports.

Supporters also believe that a higher degree of economic integration should contribute to the consolidation of economic and political reforms that have taken place throughout the hemisphere. They maintain that the reforms have not only contributed to an improved economic performance in Latin America overall, but they have also made Latin America a more attractive setting for U.S. foreign investment. Similarly, they maintain that the stronger Latin America becomes economically, the more likely democratic institutions will continue to proliferate and deepen.

U.S. opponents of an FTAA are concerned that hemispheric free trade would lead to the export of jobs that otherwise would be in the United States. Some domestic critics believe that an FTAA will induce an outflow of American capital to take advantage of much lower wages and weak safety and environmental standards. Many opponents of the FTAA have argued that free trade with poorer countries will put pressure on the United States to lessen its workforce protections and environmental requirements.

Other critics are concerned that an FTAA will inevitably involve the United States in the instabilities, class tensions, and economic turmoil of many southern hemisphere societies. Some cite Mexico's financial crisis in 1995 as an example of potential costs. According to this view, costs include a deterioration in the U.S. trade balance, an increase in immigration pressures, and the need to extend a large amount of credit.

From a very different perspective, some opponents also argue that hemispheric free trade could undermine the achievement of a stronger and more open multilateral trading system. According to this perspective, regional free trade agreements that may weaken the multilateral trading system do not serve the interests of the United States because it has major commercial interests in all regions of the world — Asia, Europe, and North America, and Latin America. Furthermore, this argument is that a multilateral agreement offers far greater economic benefits than regional agreements.

Latin American Interests and Concerns

Latin American nations made considerable progress in implementing far-reaching trade reforms and opening their economies to outside competition during the first half of the 1990s. . The prospects of hemispheric economic integration have spurred new sub- regional integration schemes and breathed life into sub-regional groups that had lost their stamina. Most importantly, the political commitment at the Miami Summit to create an FTAA by the year 2005 was a product largely of pressures from many of the countries in the region.

Since 1990, four sub-regional groups have made considerable progress breaking down intra-regional trade barriers. MERCOSUR, the Common Market of South, consists of Argentina, Brazil, Paraguay, and Uruguay and is the second largest preferential trading group in the Western Hemisphere. The Andean Community, consisting of Bolivia, Colombia, Ecuador, and Venezuela is the third largest preferential trading group in the Western Hemisphere. Acting unilaterally as well as under the auspices of the Community (formerly the Andean Pact), individual members have liberalized their own trade and investment regimes in recent years. In addition, MERCOSU and the Andean Community have been negotiating closer economic ties. The Caribbean Community and Common Market (CARICOM), consisting of 13 English-speaking Caribbean nations, has agreed to implement a common external tariff over a period of six years, although members will be allowed to maintain their own non-tariff barriers. The Central American Common Market (CACM), originally established in 1961, gained new stimulus after a 1990 summit of Central American Presidents. Within CACM, the Central American Group of four — El Salvador, Guatemala, Honduras, and Nicaragua — has taken measures to liberalize and harmonize their trade regimes.

The likelihood of eventual hemispheric free trade could provide a further boost to the economies of the region. Hemisphere-wide free trade could boost the region's economic growth through increased trade and inflows of foreign investment.

Most Latin American leaders generally support the establishment of a hemispheric free trade area, believing that an FTAA will help bring about greater prosperity, competition, and entrepreneurial activity. A number of critics, however, caution that the United States will benefit the most from the arrangement by demanding further opening of Latin American markets to U.S. goods and services while following a protectionist course for politically sensitive U.S. industries such as steel and agriculture.

Similarly, many Latin Americans understand that negotiating a free trade agreement with the United States opens themselves to increased trade competition and potential U.S. involvement in such issues as environmental standards, workers' rights, and intellectual property rights protection. Some worry that as tariffs fall, the United States would increasingly resort to other procedural ways (such as the imposition of anti-dumping or countervailing duties) to protect its producers and workers. Consequently some nations might not be willing to move as quickly as others toward the goal of free trade. And others, such as Brazil, may attach greater importance and priority to the consolidation and strengthening of sub-regional trade groups before moving towards a hemispheric free trade area.

Beyond that, opposition to hemispheric free trade could grow if the region's unemployment and staggering poverty does not begin to decline. Despite the overall improvement in economic growth in the 1990s, the number of people living in poverty (defined as less than $1 a day) has dropped from 41% in 1990 to only 35% by the end of the decade. As a result, too many Latin Americans have seen little evidence that the shift towards freer trade and more open markets has improved their living standards.

As a number of the countries of Latin America have experienced economic and political turmoil over the past two years, the environment conducive to free trade negotiations has also deteriorated. Economic growth in the region was less than 1% in 2001 and was barely positive in 2002 and 2003.

Policy Issues and Congressional Actions

U.S.-Chile Free Trade Agreement

Canada's former Prime Minister Jean Chretien was widely quoted at the conclusion of the first Summit of the Americas on the invitation to Chile from the United States, Canada, and Mexico to join NAFTA: "For one year we have been the three amigos. Starting today, we will be the four amigos."

Accession negotiations were formally initiated on June 7, 1995, in Toronto, but they remained preliminary due to the fact that the Clinton Administration lacked fast- track negotiating authority. Chile elected not to negotiate on any "sensitive" issues unless fast track authority is renewed to cover the negotiations (Chile subsequently negotiated an FTA with Canada and already had one with Mexico).

From 1995-1999, the significance of the inability of the Clinton Administration to carry through on its pledge to negotiate Chilean accession to NAFTA or to negotiate a bilateral free trade agreement was mostly political, not economic. In economic terms, NAFTA accession or a free trade agreement would unlikely have any demonstrable effect on the overall U.S. economy because trade between the two countries, although growing, is a minuscule percent of overall U.S. trade flows (approximately ½ of 1 percent). Two-way trade in goods between the United States and Chile totaled $6.4 billion in 2002, with the United States in deficit by $1.2 billion. As a country of only 13 million people, with an economy the size of Dallas, and located some 4,000 miles from the United States, Chile is unlikely to become a major trading partner of the United States.

In political terms, the Clinton Administration's inability to carry through on its promise to achieve a free trade agreement with Chile perhaps weakened its negotiating leverage in the context of the FTAA. The promise of Chilean accession to NAFTA, for some interest groups, was that NAFTA obligations and rules could be adopted to serve as the foundation for hemispheric integration. After Chile acceded, it was believed that other countries would be eager to join NAFTA when they were ready as well. Lacking fast-track, the Administration, however, arguably was forced to make a number of compromises concerning the objectives and structure of the FTAA negotiations as enunciated in the San Jose Declaration.

Despite the obvious set-backs and delays, the idea of free trade negotiations with Chile took an unexpected turn on August 10, 1999. On this day, Chile's then Foreign Minister Juan Gabriel Valdes announced that Chile was prepared to start preliminary discussions on a bilateral FTA with the United States without fast-track negotiating authority in place. The United States termed the proposal "constructive" and "positive" at the October 5-6, 1999 meeting of the U.S.-Chile Joint Commission on Trade in Investment in Santiago, Chile. And on November 29, 2000, President Clinton proposed that formal negotiations begin. Chile accepted and the negotiations formally commenced December 6-7, 2000 in Washington, D.C.

The Bush Administration continued the negotiations and after 14 rounds of meetings concluded an agreement on December 11, 2002. President Bush formally notified the 108th Congress on January 30, 2003, of his intention to sign the agreement. This began a 90-day review period prior to any submission of implementing legislation by the executive branch. On June 6, 2003 U.S. Trade Representative Robert B. Zoellick and Chilean Foreign Minister Soledad Alvear signed the trade agreement. The House on July 24, 2003, approved legislation (H.R. 2738) implementing the agreement by a vote of 270-156. Senate approval came on July 31 by a vote of 66-31. And President Bush signed the implementing legislation into law (P.L.108-77) on September 3, 2003. The FTA entered into force on January 1, 2004.

The agreement — the first comprehensive free trade agreement between the United States and a South American country — provides that more than 85% of bilateral trade in consumer and industrial goods becomes tariff free immediately, with most remaining tariffs eliminated within four years. More than three-quarters of U.S. farm goods will enter Chile tariff-free within four years, with all tariffs phased out within 12 years. U.S. service companies in banking, insurance, telecommunications, securities, express delivery, and professionals will gain increased access to Chile's market. New intellectual property protections are provided for U.S. digital products such as software and music, as well as new anti-corruption rules in government contracting.

U.S. Trade Representative Robert Zoellick said that the agreement is a "win-win state-of-the art FTA for the modern economy — it not only slashed tariffs, it reduces barriers for services, protects leading-edge intellectual property, keeps pace with new technologies, ensures transparency and provides effective labor and environmental enforcement." Chilean business and political leaders are also generally enthusiastic about the agreement,. hoping that it will help make its economy more competitive. In particular, many in Chile hope that the agreement serves to spur foreign direct investment.

In the first three months following entry into force of the FTA, total U.S. exports to Chile increased by 24% compared to the same period of 2003, growing from $617 million to $767 million. This compares to an increase of 13% in U.S. exports to the world in the first quarter of 2004. Chilean exports to the U.S. grew by 12% during this period.

U.S.-Central American Free Agreement

President Bush announced the administration's interest in exploring a free trade agreement with five Central American countries — Costa, Rica, El Salvador, Guatemala, Honduras, and Nicaragua — on January 16, 2002 in a speech before the Organization of American States. The President stated that "our purpose is to strengthen the economic ties we already have with these nations, to reinforce their progress toward economic, political, and social reform, and to take another step toward completing the Free Trade Area of the Americas."

On October 1, 2002, President Bush notified Congress of his intention to launch the talks. On January 8, 2003, the Bush Administration announced the launch of the negotiations. And on January 27, 2003 the first of nine scheduled negotiating rounds began in San Jose. The last round of the talks took place in Washington and an agreement was reached on December 17, 2003 with four of the five Central American Common Market countries (Guatemala, Honduras, El Salvador, and Nicaragua). Costa Rica, the fifth CACM member, requested more time to negotiate to resolve outstanding issues in insurance and telecommunications, and reached agreement with the United States on January 25, 2004. Trade ministers from the five Central American countries and the United States signed the agreement on May 28, 2004.

Under CAFTA, more than 80% of U.S. consumer and industrial exports would become duty-free immediately, with all tariffs removed within 10 years. Tariffs would fall to zero on information technology products and chemicals, among others. Over half of current U.S. farm exports to Central America would become duty free immediately, including "high quality" cuts of beef, cotton, wheat and soybeans. Tariffs on most U.S. agricultural exports will be phased out within 15 years. Virtually 100% of Central American nonagricultural goods will receive immediate duty-free entry to the U.S. market. At the same time, the U.S. provided slight increases in sugar quotas and made other concessions in the textiles and apparel sector. The United States also made the benefits CACM countries receive under the Caribbean Trade Partnership Act (CBTPA) permanent.

The Bush Administration decided not to send implementing legislation to Congress before the November election. Opposition to the accord from labor groups, environmental groups, and segments of the textile and apparel and sugar industries may need to be addressed in order to secure majority congressional support.

For the United States, these Central American countries comprise a relatively small trading partner. In 2003, both U.S. imports and exports to the region totaled $22.7 billion and accounted for only around 1% of total U.S. trade. But for each of these Central American countries, the United States is their most important trading partner. For Costa Rica, the United States accounts for 40% of total trade; for El Salvador, 47%; for Guatemala, 48%; for Honduras, 63%; and for Nicaragua, 43%.

U.S. direct investment in the CAFTA countries totaled $3.1 billion at the end of 2001. Central American leaders hope that the CAFTA will spur more U.S. investment in their economies. In addition, they also hope that the CAFTA will meet broader foreign policy objectives like strengthening democratic institutions in the region.

The U.S. completed FTA negotiations with the Dominican Republic on March 15, 2004. President Bush notified Congress of his intent to sign the agreement on March 25, 2004, and to integrate this FTA into CAFTA. In integrating or "docking on" to the CAFTA, the Dominican Republic accepted the disciplines of the CAFTA but has customized market access provisions in industrial goods, agriculture, government procurement, services, and investment. The agreement, for example, contains limited additional access for sugar exports from the Dominican Republic, and subjects key U.S. agricultural products such as pork, dairy, and rice to tariff phase out periods of up to 20 years.

Approval this September by lawmakers in the Dominican Republic of a 25% tax on soft drinks containing high fructose corn syrup has been challenged by U.S. policymakers and may jeopardize the Dominican Republic's participation in the FTA. The Dominican Republic is the largest economy in the Caribbean and has a population of 8.6 million and GDP of $22 billion.

NAFTA and Hemispheric Integration

The North American Free Trade Agreement (NAFTA) among the United States, Canada, and Mexico went into effect on January 1, 1994. It is the first free trade agreement that the United States entered into with a lower-wage and lower-income developing country. Its economic impact on U.S. communities and workers remains controversial and perceptions of its benefits and costs mirror and affect debate on extending NAFTA to other countries or negotiating similar free trade agreements such as the FTAA with developing countries. In addition, on-going implementation issues affecting specific industries remain controversial and dispute prone. Agriculture and trucking are two sectors that appear most prone to continuing disputes.

Most studies indicate that NAFTA has had a relatively small effect on the U.S. economy. In part because Mexico's economy is only 6% the size of the U.S. economy, NAFTA's impact in integrating the two economies more closely has had little consequence for U.S. wages, investment, growth, or aggregate employment levels. Most economists, however, believe that NAFTA has had a modest positive impact on productivity and a discernible impact on stimulating two-way trade.

Nevertheless, certain communities and industries have been adversely affected as a result of U.S.-Mexican economic integration. Although the number is small relative to the size of the U.S. workforce, the economic hardship and job losses are significant to those affected.

Debate over NAFTA that affects current and proposed trade negotiations centers mostly on implementation issues. The effectiveness of NAFTA's side agreements on labor and the environment are a source of considerable interest. Mexico's treatment of U.S. service providers (particularly telecommunications) and U.S. treatment of Mexican truckers is similarly controversial. In addition, agricultural trade issues continue to upset farmers on both sides of the border.

The Bush Administration on March 16, 2004, initiated a WTO dispute settlement case against Mexico for its 20% distribution tax on soft drinks sweetened by high fructose corn syrup and its 20% sales tax on such beverages. Senate Finance Committee Chairman Charles Grassley stated that he fully supported the filing of the case. At the same time, Senator Grassley vowed to pursue legislation (S. 1952) that would impose duties on Mexican imports, such as tequila, in retaliation for that country's trade barriers. This bill directs USTR to retaliate against Mexican imports unless Mexico eliminated the 20% soft drink tax. On August 20, 2004, Senate Finance Committee Chairman Charles Grassley urged the Mexican government to end its new inspection system for live hogs and its antidumping investigation into U.S. exports of hams and pork shoulders.

The United States and Canada also have on-going trade disputes. Two of the most prominent involve trade in softwood lumber and cattle. Canada continues to challenge in WTO and NAFTA fora the 27 percent antidumping and countervailing duty imposed by the U.S. on Canadian softwood in 2002. The Canadian cattle industry has also stepped up pressure on the U.S. to open the border to live cattle from Canada. The border has been closed since the May 2003 discovery of BSE in a cow from Alberta.

Andean Community Trade Issues

On November 18, 2003, U.S. Trade Representative Robert Zoellick notified Congress of the Administration's intent to negotiate a U.S.-Andean Free Trade Agreement. The first negotiating round occurred on May 18-19, 2004, between the U.S. and Colombia, Ecuador, and Peru. (Negotiations are eventually expected to include Bolivia). A second round of talks took place June 14-18, 2004, and a third round July 26-30. The fourth round took place from September 13-17 in Puerto Rico. This month's fifth round is taking place in Ecuador. While there is no deadline yet for concluding the negotiations, the expectation is that both sides will try to finish by early next year.

U.S. Trade Representative Robert Zoellick stated on May 3, 2004, that trade capacity-building would be a "core element" of the U.S.-Andean FTA. He announced that the Overseas Private Investment Corporation had approved, subject to congressional notification, a loan of $54 million for a "major micro-financing initiative" targeted to benefit Columbia, Ecuador, Peru, and Bolivia.

Tariffs on agricultural products and definitions of intellectual property rights, particularly for pharmaceuticals, could prove to be the most controversial issues in the negotiations. The Andean nations are also proposing that any agreement on intellectual property rights also deal with "bio-piracy," — the extension of property rights to bio-diversity to protect genetic resources and traditional indigenous knowledge.

A U.S. trade official warned on October 6, 2004, that investment disputes with Peru and Ecuador are endangering their continued participation in the FTA negotiations. Unless the disputes, which deal with alleged mistreatment of a number of U.S. companies are resolved, the U.S. may continue negotiations with Colombia only.

The four Andean countries — Colombia, Peru, Ecuador, and Bolivia — accounted for $9.6 billion in U.S. exports and $28.1 billion in U.S. imports in 2003. Two-way trade tends to be complementary. While the Andean countries export mainly oil, minerals, tropical agriculture products, and light manufactures, the United States exports higher-value added goods, computer and electronic services, and grains, corn, and wheat. The stock of U.S. foreign direct investment in the four countries was $4.5 billion in 2002.

The U.S. trade relationship with the Andean countries is currently conducted in the framework of the Andean Trade Preferences Act (ATPA). ATPA authorizes the President to grant certain unilateral preferential tariff benefits to Bolivia, Colombia, Ecuador, and Peru. The ATPA, which went into effect on December 4, 1991, expired on December 4, 2001. Often referred to as the trade component of then President Bush's "war on drugs," the ATPA attempted to encourage the economic development of Andean countries and economic alternatives to drug production and trafficking. Following a long debate, the 107th Congress reauthorized the program retroactively and expanded it in the Andean Trade Promotion and Drug Eradication Act (ATPDEA), Title XXXI of the Trade Act of 2002 (H.R. 3009), which was signed into law on August 6, 2002 by President Bush (P.L. 107-210).

As passed into law, the ATPDEA expanded the list of items eligible for duty-free treatment by about 700 products. (Currently, the ATPDEA allows the four countries to export more than 6,000 products to the United States duty free.) New products benefitting from the program include tuna in pouches, leather products, petroleum and petroleum products, and watches and watch parts. Preferential treatment was extended through December 31, 2006. In a recently released report on the impact after the first full year (2003) of implementation, the International Trade Commission found that the program "continued to have a small, indirect, but positive effect on drug-crop eradication and crop substitution."

10/01/04 — Negotiations to complete the FTAA remain stalemated, making it unlikely that negotiating deadlines agreed to last year will be met.

07/23/04 — U.S. trade officials announced the Dominican Republic will sign the U.S.-Central America Free Trade Agreement on August 5, 2004 in Washington, D.C.

05/28/04 — Trade ministers signed the U.S.-Central American Free Trade Agreement (CAFTA).

03/25/04 — President Bush notified Congress of his intent to sign an FTA with the Dominican Republic. The agreement, concluded on March 15, 2004, would integrate the Dominican Republic into an earlier signed FTA between the United States and five Central American countries.

01/25/04 — The United States concluded free trade agreement talks with Costa Rica that should allow Costa Rica to join the CAFTA.

11/20/03 — Ministers attending a Free Trade Area of the Americas ministerial in Miami issued a declaration that calls for the creation of a two-tier FTAA structure in an attempt to complete the negotiation by January 1, 2005.

09/03/03 — President Bush signed H.R. 2738, legislation implementing the Chile free trade agreement, into law.

06/06/03 — U.S. Trade Representative Robert Zoellick and Chilean Foreign Minister Soledad Alvear signed the U.S.-Chile free trade agreement.

11/02/02 — At the seventh FTAA ministerial held November 1-2, 2002 in Quito, Ecuador, trade ministers agreed to a 40-point declaration that established specific mileposts for the market access portion of the negotiations.

10/31/02 — President Bush signed a proclamation on October 31, 2002 to allow Ecuador, Bolivia, Colombia, and Peru to begin receiving benefits under the expanded Andean Trade Preferences and Drug Eradication Act (ATPA).

08/06/02 — President Bush signed into law (P.L. 107-210) legislation (H.R. 3009) that renewed fast-track or trade promotion authority and that re-authorized and expanded the Andean Trade Preference Act.

12/06/01 — The House approved a bill (H.R. 3005) by a vote of 215-214 to provide the President with trade promotion authority.

07/02/01 — A draft FTAA bracketed text of the nine chapters negotiated to date was released to the public.

04/22/01 — The Third Summit of Americas, held in Quebec City, concluded with an agreement to complete the negotiations by January 2005 and to implement the agreement by year-end 2005.

05/18/00 — President Clinton signed into law (P.L. 106-200) legislation aimed at expanding U.S. trade with African and Caribbean Basin Initiative countries. The conference bill (H.R. 434) was approved by the House on May 4, 2000 by a vote of 309-110 and by the Senate on May 11, 2000 by a vote of 77-19.

05/04/00 — By a vote of 309-110, the House approved the conference report on H.R. 434, the Trade and Development Act of 2000. Title II expands trade preferences for Caribbean Basin exports of apparel products.

08/10/99 — Chile's Foreign Minister Juan Gabriel Valdes announced that Chile was ready to start preliminary work on a bilateral free trade agreement without U.S. fast-track negotiating authority in place.

04/19/98 — 34 Leaders meeting at the second Summit of the Americas in Santiago, Chile agree to formally launch FTAA negotiations.

12/9-11/94 — Summit of the Americas held in Miami. Political commitment was made to negotiate a "Free Trade Area of the Americas" by the year 2005. In a separate action, the United States, Canada, and Mexico invited Chile to enter into negotiations to join NAFTA.

01/01/94 — The North American Free Trade Agreement entered into force.

For Additional Reading

CRS Reports

CRS Report RL30935. *Agricultural Trade in the Free Trade Area of the Americas,* by Remy Jurenas.

CRS Report RL31726. *Latin America and the Caribbean: Issues for the 108th Congress,* by Mark Sullivan.

CRS Report RS20864. *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues,* by J.F. Hornbeck.

CRS Report RL31144. *The U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues,* by J.F. Hornbeck.

CRS Report RL31870. *The U.S.-Central America Free Trade Agreement (CAFTA): Challenges for Sub-Regional Integration,* by J.F. Hornbeck.

CRS Report RS20864. *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues,* by J. F. Hornbeck.

CRS Report RL32322. *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States,* by J. F. Hornbeck.

CRS Report RL32540. *The Proposed U.S.-Panama Free Trade Agreement,* by J.F. Hornbeck.