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Report to the Chairman, Subcommittee on Trade, Committee on Ways and Means, House of Representatives

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TRADE LIBERALIZATION

Western Hemisphere Trade Issues Confronting the United States

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The Honorable Philip M. Crane
Chairman, Subcommittee on Trade
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

As you requested, we are providing information on efforts to liberalize trade among the countries of the Western Hemisphere. The United States and other Western Hemisphere countries have been moving forward in various ways to liberalize trade. Almost all countries in the hemisphere, including the United States, are proceeding with discussions aimed at creating a Free Trade Area of the Americas (FTAA) while at the same time various subregional agreements and arrangements have been formed.

Specifically, this report (1) describes the principal existing subregional trade arrangements in the Western Hemisphere; (2) outlines the current status of FTAA discussions; and (3) identifies certain recent developments in regional trade liberalization outside the FTAA process since "fast track" authority[1] lapsed in December 1994, and possible implications of these developments for the United States. Executive branch officials have indicated that the President will seek fast track authority this fall, but the administration has not yet submitted a fast track legislative proposal.

Background

The U.S. economy has become increasingly oriented toward international trade, with exports and imports together representing about one-quarter of U.S. gross domestic product (GDP) in 1996. As the largest regional market for U.S. products, accounting for approximately $242 billion or 40 percent of U.S. exports in 1996, the Western Hemisphere is of growing importance to U.S. commercial interests. Canada and Mexico are by far the largest U.S. trade partners in the hemisphere, accounting for approximately two-thirds of total U.S. exports of goods to the region. Countries in the Western Hemisphere also constitute about 30 percent of total U.S. foreign direct investment.

[1]In the past, the Congress has enacted fast track authority to implement trade agreements with other countries. Fast track authority provides for a congressional vote within a limited period of time to accept or reject the implementing legislation for a negotiated agreement without making any changes to it.

During the 1960s and 1970s, most countries in Latin America and the Caribbean experimented with various arrangements to promote subregional economic integration and free trade. These initiatives were generally frustrated by trade and investment restrictions characteristic of these countries' protective economic development strategies. By the late 1980s, faced with stagnant economies and mounting external debt, countries in the region began to move away from these restrictive policies and initiated market-oriented reforms to stimulate economic growth. Although these reforms were primarily intended to address domestic economic problems, they also facilitated trade liberalization efforts. Moreover, the U.S.-Canada Free Trade Agreement in 1988 signaled a new commitment on the part of North American countries to regional trade liberalization. By the early 1990s, almost all countries in the hemisphere were engaged in multilateral or bilateral efforts to liberalize trade. After a decade of economic decline, Latin American economies have rebounded in the 1990s, and the region now represents the second fastest growing area in the world after Southeast Asia.

The 1994 Miami Summit of the Americas gave new impetus to trade liberalization efforts in the region. At Miami, the 34 democratically elected leaders of countries in the Western Hemisphere agreed to conclude a free trade agreement no later than 2005, with concrete progress by the turn of the century.[2] The summit declaration committed participating governments to negotiate, among other things, the elimination of barriers to trade in goods and services as well as investment and to provide rules in such areas as intellectual property rights and government procurement. The plan of action adopted at Miami called for two meetings of trade ministers ("ministerials") to reach agreement on the key principles upon which to base the FTAA. These two ministerials, held in Denver, Colorado (1995), and Cartagena, Colombia (1996), established a series of working groups to gather data and make recommendations to the ministers in preparation for FTAA negotiations. A third ministerial took place in Belo Horizonte, Brazil, earlier this year.

Results in Brief

Almost all countries in the region participate in at least one subregional trade grouping. There are now six major subregional multilateral trade groupings among countries in the hemisphere. The two most significant trade blocs, the North American Free Trade Agreement (NAFTA) and the Common Market of the South, known as Mercosur, were both established

[2]Since the Miami Summit was limited to democratically elected governments in the Western Hemisphere, Cuba was the only country in the region that did not participate.

during the 1990s. NAFTA, the only one of these arrangements to which the United States is a party, created the world's largest free trade area and is the most comprehensive trade agreement in the region. Mercosur has followed a different approach than NAFTA to economic integration through the creation of a customs union.[3] In addition to the major multilateral trade groupings, there are more than 20 smaller trade agreements in the region; most of these have been concluded during the 1990s.

U.S. Trade Representative (USTR), Organization of American States (OAS), and Inter-American Development Bank (IDB) officials note that the FTAA working groups have made significant progress to support the launching of formal negotiations. According to these observers, progress in the FTAA process thus far exceeds what had been achieved during the first 2 to 3 years of the Uruguay Round negotiations that led to the establishment of the World Trade Organization (WTO).[4] Substantial agreement has been reached on several key issues. For example, at the latest ministerial meeting in Belo Horizonte in May 1997, participating countries agreed on the right to negotiate independently or, if members of subregional trade groupings, as a unit. They also agreed on the establishment of a Preparatory Committee at the vice ministerial level to complete recommendations on the FTAA negotiations. At Belo Horizonte, the ministers further agreed to recommend that formal FTAA negotiations be launched by the Western Hemisphere leaders at their next summit scheduled to take place in Santiago, Chile, in April 1998, and reiterated the commitment to conclude a trade agreement encompassing the entire hemisphere by 2005. Disagreement remains, however, regarding the pace and direction of negotiations. The United States and most other countries favor immediate negotiations on all issues. In contrast, Mercosur proposes that negotiations on certain issues such as market access, which is a priority for the United States, be delayed until 2003.

Following the Miami Summit, the 1995 Mexican financial crisis raised concerns in the United States about pursuing further regional trade liberalization efforts. In the meantime, other countries have moved forward with their own trade liberalization efforts. For example, Canada

[3]A free trade agreement, such as NAFTA, entails, among other things, the elimination of tariffs among member countries. A customs union calls for not only the elimination of tariffs, but also the establishment of a common external tariff; that is, a common tariff applied to imports from third countries.

[4]All countries involved in the FTAA process, except the Bahamas, are members of WTO. WTO, established by the 1994 Uruguay Round agreements of the General Agreement on Tariffs and Trade (GATT), is a multinational organization that serves as a forum for international trade negotiations and oversees the administration of the Uruguay Round agreements. GATT, created in 1947, is the primary multilateral agreement governing international trade in goods.

and Chile recently reached a free trade agreement. Also, Mercosur has strengthened its position, concluding free trade arrangements with Chile and Bolivia, and is beginning trade negotiations with Mexico and the European Union (EU). These agreements have created disadvantages for some U.S. exporters' access to markets in the region. For example, the agreement between Chile and Canada grants tariff preferences to Canadian exporters that are not available to their U.S. counterparts. In fact, U.S. companies recently lost a bid for a telecommunications equipment contract in Chile to a Canadian competitor due in part to the tariff differential. Similarly, Mercosur is in the process of adopting product safety standards that may impair U.S. firms' access to markets in member countries. Representatives of several countries in the region generally agree that their countries will continue to advance their own regional free trade initiatives regardless of whether the United States participates in further regional trade liberalization. A complete understanding of the impact of these initiatives on the United States requires a consideration of their impact on U.S. import-competing as well as export sectors.

Western Hemisphere Trade Arrangements

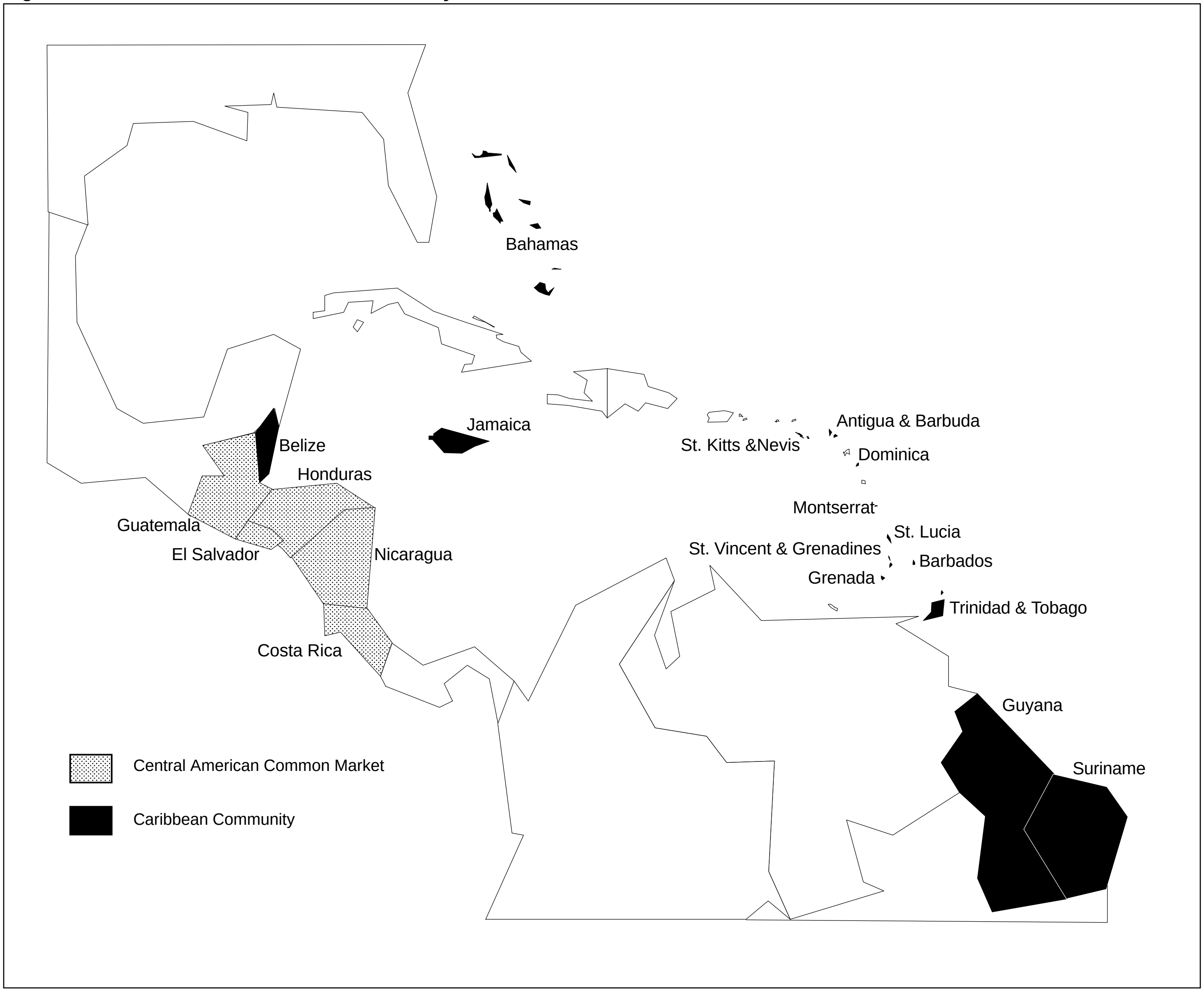
The six major multilateral trading arrangements[5] among countries of the Western Hemisphere are NAFTA, Mercosur, the Andean Community, the Caribbean Community, the Central American Common Market, and the Latin American Integration Association (LAIA). (See figs. 1 and 2.) The United States is a party only to NAFTA. There are also over 20 smaller multilateral and bilateral free trade accords among countries in the region.

[5]The appendix provides a general profile of each of the major Western Hemisphere trade arrangements, including membership, population, and GDP figures.

Figure 1: Members of NAFTA, Mercosur, the Andean Community, and LAIA

Sources: GAO and OAS.

Figure 2: Members of the Caribbean Community and the Central American Common Market



Sources: GAO and OAS.

NAFTA

NAFTA, the most comprehensive trade arrangement in the region, was concluded in 1992 by Canada, Mexico, and the United States and became effective in January 1994. NAFTA created the world's largest free trade area, with a combined population of nearly 400 million and a combined GDP of almost $8 trillion. NAFTA provides for the gradual elimination of tariff barriers on most goods over a 10-year period. It covers trade in services, provides protection for investment and intellectual property rights, applies rules to government procurement, and contains a dispute settlement system. A distinct feature of NAFTA is the two side agreements on labor and the environment, designed to institutionalize efforts to (1) improve working conditions and living standards in each country and (2) address and resolve environmental issues that may arise between the parties.

Mercosur

Mercosur was created in March 1991 by Argentina, Brazil, Paraguay, and Uruguay. Comprising a population of approximately 200 million and with a combined GDP of about $851 billion, Mercosur is the world's third largest integrated multinational market, after NAFTA and the EU. Mercosur currently functions as a customs union, providing not only for a free trade area but also for the establishment of a common external tariff.[6] The external tariff instituted in 1995 is not to exceed 20 percent for most imports. Today, approximately 85 percent of imports from outside the bloc enter under the common external tariff, and about 90 percent of all intra-Mercosur trade is duty free. Mercosur includes a commitment by member countries to coordinate more disciplined macroeconomic policies. Also, Mercosur countries are committed to agree on a common foreign trade policy. Unlike NAFTA, Mercosur lacks agreements on intellectual property rights[7] and government procurement. Further, while Mercosur calls for coordination on trade in services, the U.S. International Trade Commission reports that there is no fixed schedule for liberalization in this area.

Other Major Multilateral Agreements

Besides NAFTA and Mercosur, there are four older subregional multilateral trade groupings in the Western Hemisphere. Three of these groupings—the Andean Community, the Caribbean Community, and the Central American Common Market—are customs unions at varying stages of implementation. They have all recently taken steps to further liberalize

[6]According to a USTR official, the WTO's Committee on Regional Trade Agreements is currently reviewing Mercosur to ensure that it conforms with article 24 of the GATT. Article 24 lays out conditions under which member countries may form preferential trading arrangements, such as customs unions and free trade areas. This official noted, however, that without detailed information on Mercosur's implementation and schedule for liberalization, it is difficult to fully evaluate the agreement under the criteria set forth by article 24.

[7]An August 1995 protocol among Mercosur countries, however, provides limited common terms of reference on intellectual property rights.

trade and promote economic integration. The fourth subregional trade arrangement, LAIA, is a network of agreements granting tariff preferences for certain product categories to member countries.

Smaller Trade Arrangements Involving NAFTA Partners

In addition to the larger trade blocs previously discussed, there are more than 20 smaller multilateral and bilateral trade accords among the countries of the Western Hemisphere. Many of these were established during the 1990s. Five of these arrangements involve our NAFTA partners Canada and Mexico.

- Mexico-Chile Free Trade Accord (1992). This agreement calls for a phased tariff elimination between the parties. It excludes many product categories such as agricultural commodities. Mexico and Chile are currently in the process of renegotiating their 1992 agreement in an effort to broaden its scope.
- Mexico-Costa Rica Free Trade Agreement (1995). This agreement is generally modeled on NAFTA but excludes many agriculture and energy products.
- Mexico-Bolivia Free Trade Agreement (1995). This is similar to the Mexican agreement with Costa Rica.
- Group of Three Agreement—Mexico, Colombia, and Venezuela (1995). The Group of Three Agreement calls for the total elimination of tariffs over a 10-year period with some exceptions in the textile, petrochemical, and agricultural sectors. In addition, the arrangement includes agreements on services, intellectual property rights, government procurement, and investment.
- Canada-Chile Free Trade Agreement (1996). The Canada-Chile Free Trade Agreement provides for tariff elimination and contains side agreements on labor and the environment. However, it excludes, among other items, financial services and intellectual property rights.

Status of FTAA Discussions

At the FTAA ministerial meetings in Denver, Cartagena, and Belo Horizonte, 12 working groups were established for the purpose of collecting information in preparation for FTAA negotiations.[8] At Belo Horizonte, trade ministers issued a declaration calling for formal FTAA negotiations to be

[8]The FTAA working groups formed in Denver were (1) Market Access; (2) Customs Procedures and Rules of Origin; (3) Investment; (4) Standards and Technical Barriers to Trade; (5) Sanitary and Phyto-sanitary Measures; (6) Subsidies, Antidumping, and Countervailing Duties; and (7) Smaller Economies. The following groups were formed at the second ministerial in Cartagena: (8) Government Procurement, (9) Intellectual Property Rights, (10) Services, and (11) Competition Policy. At Belo Horizonte a group was established to deal with (12) Dispute Settlement.

launched by Western Hemisphere leaders at their next summit in April 1998. While the ministers agreed on several other key issues, there is still disagreement among participating countries on the approach formal negotiations should follow.

FTAA Working Groups

The areas of responsibility assigned to the 12 FTAA working groups reflect some of the priorities of the United States and other countries in the hemisphere (see table 1). For example, there are working groups on intellectual property rights and government procurement, issues of key interest to the United States; on subsidies, antidumping, and countervailing duties, areas of special concern to Argentina; and on smaller economies, a priority for Caribbean countries. The United States chairs the Working Group on Government Procurement. According to administration officials, there are also some issues of particular U.S. interest, such as labor and the environment,[9] that are not fully addressed by any of the existing working groups. USTR officials noted that the United States has participated in all of the meetings and other activities of each working group.

[9]The original Miami Summit declaration included commitments to convene specific high-level meetings to address, among others, topics such as labor and sustainable development—that is, the environment.

Table 1: FTAA Working Groups

Working group	Country chair	Meetings held to date	Work completed
Market Access	El Salvador	5	A comprehensive data base on market access barriers in the Western Hemisphere has not yet been fully completed
Customs Procedures & Rules of Origin	Bolivia	7	A "Guide to Customs Procedures in the Western Hemisphere" is in draft form
Investment	Costa Rica	7	Published two inventories: (1) "Investment Agreements in the Western Hemisphere" and (2) "Investment Regimes in the Americas: A Compendium"
Standards & Technical Barriers to Trade (SPS)	Canada	6	Published an inventory detailing national practices on standards, technical regulations, and conformity assessment in the Western Hemisphere
Sanitary & Phytosanitary Measures	Mexico	4	A mandated inventory of all SPS agreements in the Western Hemisphere and other technical work is progressing but not yet complete
Subsidies, Antidumping & Countervailing Duties	Argentina	6	Published the inventory titled "A Compendium of Antidumping and Countervailing Duty Laws in the Western Hemisphere"
Smaller Economies	Jamaica	6	Received paper presentations from the Tripartite Committee[a] and the World Bank on topics of importance to smaller economies
Government Procurement	United States	4	Published an inventory titled "Government Procurement Rules in Integration Arrangements in the Americas"
Intellectual Property Rights (IPR)	Honduras	3	An inventory is in draft form on all conventions and agreements on IPR to which Western Hemisphere countries are a party, as well as the main IPR provisions of these trade arrangements
Services	Chile	3	Published the report "Provisions on Trade in Services in Trade and Integration Agreements in the Western Hemisphere"
Competition Policy	Peru	3	Group meetings have encouraged networking and better understanding of competition policy
Dispute Settlement	Uruguay	0	First meeting scheduled for Montevideo (July 1997). OAS has prepared a draft compendium on regional dispute settlement mechanisms

[a]See following section for an explanation of the Tripartite Committee.

Sources: GAO and OAS.

The working groups were established to collect basic information on key issues in preparation for FTAA negotiations. U.S. and OAS officials explained that the working groups have been the mechanism for accelerating progress on the priorities of participating countries. Progress in meeting the information mandates set forth at the ministerials differs for each of the 12 working groups.[10] For example, the Working Group on Investment is particularly advanced, having prepared a comprehensive technical compendium on investment treaties in the region. This compendium was published at the Belo Horizonte ministerial in May 1997. According to both U.S. and OAS officials, the Working Group on Investment has also made considerable progress, exchanging views on elements that could be included in a FTAA investment chapter, including investor protection, national treatment, and dispute settlement.

Progress in other working groups has been more modest. For example, the Working Group on Market Access reported in February 1997 that many countries had yet to submit the schedules and statistics required to prepare a hemispheric data base on tariff structures and nontariff measures. Moreover, the Working Group on Dispute Settlement, which was only established in May 1997, has not yet met.

A Tripartite Committee, made up of the OAS, the IDB, and the United Nations Economic Commission on Latin America and the Caribbean, was formed after the first ministerial in Denver to provide analytical support to the working groups as requested. Each organization in the Tripartite Committee is responsible for providing technical support to the FTAA process through the working groups. For example, the IDB is collecting trade statistics to assist the Working Group on Market Access, while the OAS has provided support to other groups on trade policy issues, such as subsidies and competition policy. At this time, the Tripartite Committee's role in support of the FTAA is anticipated to be transitory. The countries are considering the possibility of establishing a temporary FTAA secretariat during the negotiations. At the Belo Horizonte meeting, ministers directed the Tripartite Committee to conduct a feasibility study based on the agreed functions of a temporary secretariat. This study is to be reported to the vice ministers at their meeting scheduled to take place in October 1997.

Different Strategies for Pursuing FTAA Negotiations

In preparation for the ministerial meeting in Belo Horizonte, various countries and subregional blocs involved in the FTAA process submitted proposals for the overall strategy they would like to see pursued in formal

[10]Generally, each working group was instructed to compile a basic inventory of data and identify possible approaches to negotiations for its area of responsibility. However, there is disagreement among countries involved in the FTAA process on whether working groups have been empowered to make recommendations on the content of the FTAA in their subject areas.

FTAA negotiations. At the ministerial, consensus was reached on several key issues advanced in these proposals. A joint declaration issued at Belo Horizonte called for formal FTAA negotiations to be launched by the next summit of Western Hemisphere leaders scheduled to take place in Chile in April 1998. In the declaration, countries agreed that the FTAA would be consistent with member countries' commitments under the WTO and the FTAA. Moreover, countries agreed that the FTAA would coexist with, rather than supplant, existing subregional trade arrangements, such as NAFTA or Mercosur, to the extent that rights and obligations under these agreements are not covered or go beyond rights and obligations under the FTAA. The declaration also recognized the right of participating countries to negotiate independently or as members of subregional trade groupings,[11] and the need to establish a temporary administrative secretariat to support future negotiations. Finally, the declaration reiterated the commitment of participating countries to conclude a trade agreement encompassing the entire hemisphere by 2005 at the latest.

At the Belo Horizonte ministerial, participating countries also agreed to set up a Preparatory Committee at the vice ministerial level that will make recommendations for FTAA negotiations. The establishment of a Preparatory Committee signals a new level in the FTAA process. It indicates participating countries expect concrete results in preparing for negotiations. The Preparatory Committee is supposed to meet at least three times between May 1997 and February 1998, when the next FTAA ministerial is scheduled to take place in San José, Costa Rica. At the San José ministerial, trade ministers are committed to reach agreement on the objectives, approaches, structure, and location of the FTAA negotiations, based on the recommendations of the Preparatory Committee.

Still, there is disagreement among participating countries on the pace and direction of formal negotiations. Most countries, including the United States, would prefer that formal FTAA negotiations on all issues commence during the next summit of regional leaders in 1998 and conclude no later than 2005. The members of Mercosur, however, have proposed that negotiations proceed in three phases: (1) in 1998 and 1999, countries would agree on and begin to implement “business facilitation” measures, such as adopting common customs documents or harmonized plant and animal health certificates; (2) from the year 2000 to 2002, work would begin on “standards and disciplines,” including antidumping and countervailing duty rules, and market access for services; and (3) from

[11]According to USTR, it appears at this time that most countries will negotiate individually, although Mercosur may negotiate as a bloc.

2003 to 2005, other disciplines and market access issues would be negotiated, including tariff reductions, a key concern of the United States. No other countries appear to support Mercosur's phased approach to negotiations.

Recent Developments in Regional Trade Liberalization Outside the FTAA Process

Adverse economic developments in Mexico in the months immediately following the 1994 Miami Summit raised U.S. concerns about pursuing further free trade initiatives in the region. While U.S. officials were debating the future course of U.S. involvement in regional trade efforts, other countries in the hemisphere began pursuing their own agenda, both deepening commitments under existing trade blocs and establishing new bilateral agreements. In principle, these efforts may be consistent with U.S. goals to promote free trade. In practical terms, lack of U.S. participation in shaping these agreements has created disadvantages for some U.S. exporters' access to markets in the region. These disadvantages are beginning to be felt in various sectors, including agriculture, telecommunications, pharmaceuticals, and the automotive industry. According to representatives of several Western Hemisphere countries, regardless of whether the United States resumes a more active role in shaping regional trade liberalization efforts, their countries will continue their own initiatives toward free trade and economic integration, even if these efforts do not coincide with U.S. interests. Moreover, these officials noted that it is essential for the U.S. administration to obtain fast track authority in order to make meaningful progress toward achieving the FTAA.

U.S. Reconsiders Further Regional Trade Liberalization

In launching the FTAA at the Miami Summit, the United States was building on the momentum for free trade generated by the passage of NAFTA a year earlier. NAFTA was more comprehensive than any other agreement in the Western Hemisphere. It not only covered traditional tariff and nontariff issues but also placed important obligations on member countries in matters such as investment, government procurement practices, customs procedures, and trade in services. At the time, NAFTA was generally regarded as a blueprint for further trade liberalization in the region. Moreover, U.S. leadership was evident in its support of negotiations on Chile's accession to NAFTA. Only days after the summit, however, Mexico was hit by a serious financial crisis, with spillover effects in other Latin American economies. The commitment by the U.S. government of significant resources to stem and resolve the crisis raised concerns in the United States about further regional trade liberalization efforts. In the intervening period, fast track authority lapsed. Although U.S. participation in the FTAA preparatory process continued, the executive branch has been constrained from pursuing other tariff liberalization negotiations in the region. Formal negotiations on Chilean accession to NAFTA, for example, were suspended in 1995.

Other Countries Have Moved Forward With Their Own Trade Initiatives

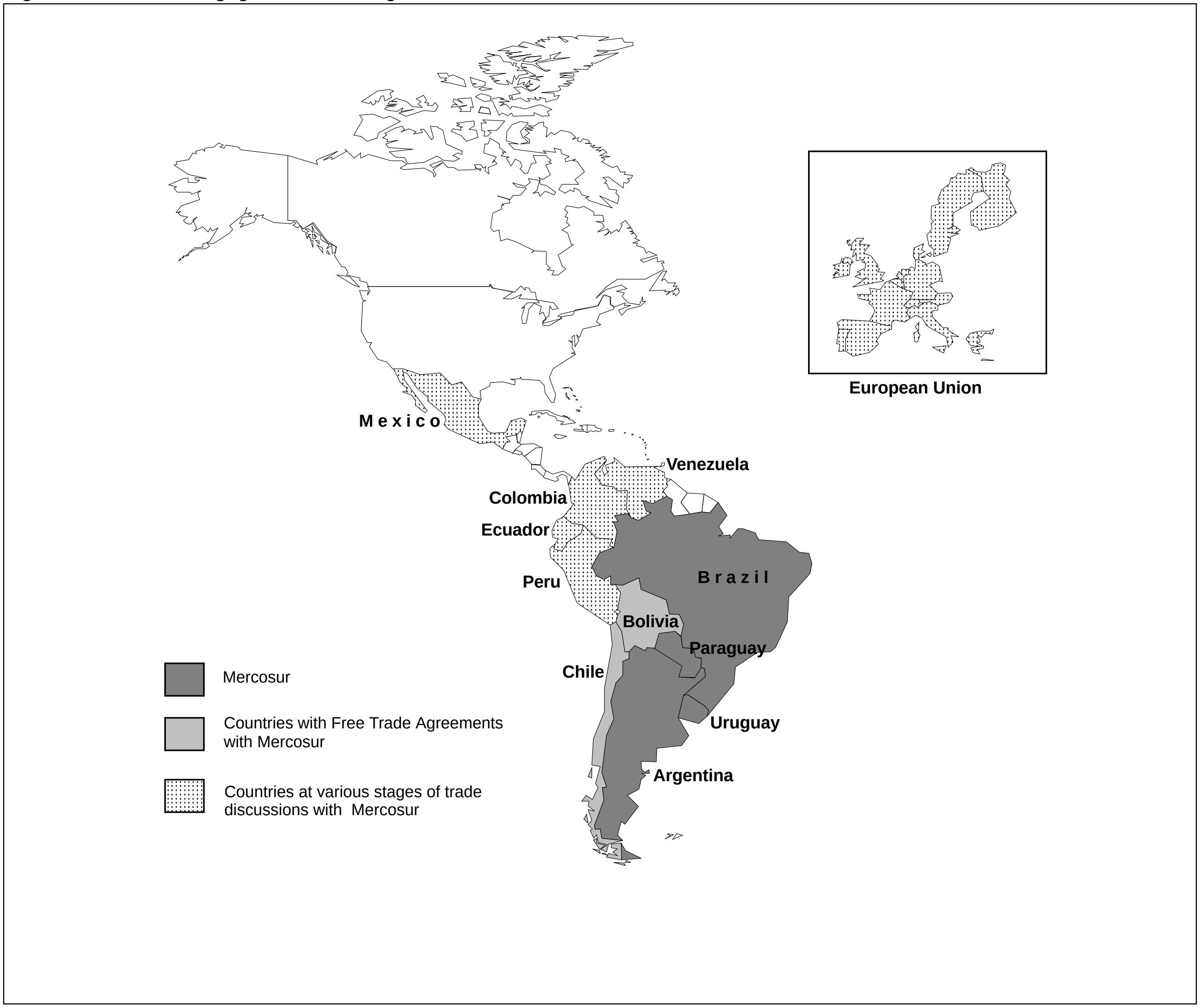
While debate continues in the United States regarding further regional trade liberalization efforts, other countries in the region have proceeded to negotiate new trade agreements and deepen their participation in existing arrangements. Chile has been at the forefront of this trend; it has negotiated a network of free trade agreements with several countries in the region, including Venezuela and Colombia. In 1996, Chile also concluded a free trade arrangement with Mercosur, becoming in effect an associate member of that trade bloc. Under this arrangement, Chile and the Mercosur countries will phase out tariffs on products traded among them, but Chile will not adopt Mercosur's common external tariff.

Chile's pursuit of free trade is not limited to South America. The Canada-Chile Free Trade Agreement, which became effective on July 1, 1997, is modeled on NAFTA and is intended as a provisional agreement to facilitate Chilean accession to NAFTA. Nevertheless, as noted earlier, there are some differences between this bilateral agreement and NAFTA, reflecting some of the areas where Chilean and Canadian interests differ significantly from those of the United States. For example, under their bilateral agreement, Chile and Canada are committed to forgo imposing antidumping and countervailing duties within 6 years after the agreement goes into effect. NAFTA, on the other hand, does not affect member countries' ability to unilaterally impose antidumping measures and countervailing duties. In addition to its trade negotiations with Canada, Chile has cultivated close commercial relations with Mexico, our other NAFTA partner. Currently, Chile and Mexico are renegotiating their 1992 free trade agreement to make it more compatible with NAFTA.

Mexico, in turn, has been extending its own web of bilateral trade agreements throughout the hemisphere. As noted earlier, Mexico has concluded bilateral free trade agreements with Costa Rica and Bolivia and has a trilateral arrangement with Colombia and Venezuela. Mexico is also negotiating free trade agreements with Ecuador, El Salvador, Guatemala, Honduras, Panama, and Peru. In addition, Mexico plans to negotiate a transitional agreement with Mercosur that will cover key areas, such as market access, government procurement, intellectual property rights, and investment.

Mercosur has been another focus of subregional trade initiatives since the Miami Summit. In addition to the arrangement with Chile, Mercosur has concluded a free trade agreement with Bolivia and is engaged in negotiations to widen its reach to other Andean Group countries. Mercosur and Mexico are also scheduled to begin trade negotiations later this year. Beyond the Western Hemisphere, Mercosur has concluded a framework agreement on trade with the EU and there are discussions aimed at establishing a free trade area encompassing the two trade blocs (see fig. 3).

Figure 3: Countries Engaged in Trade Negotiations With Mercosur



Source: GAO and Governments of Brazil and Mexico.

Mercosur has not only been broadening its network of agreements with other countries, it has also been deepening the level of economic integration among the four original member countries. As noted earlier, in 1995 Mercosur countries instituted the common external tariff, which is currently applied to about 85 percent of imports from outside the bloc. Trade among Mercosur member countries has almost tripled, from approximately $5 billion in 1991 to $14.5 billion in 1995—the last year for which figures were available.

Some U.S. Sectors Feel Impact of Other Subregional Trade Agreements

Lack of U.S. participation in shaping emerging Western Hemisphere trade agreements has created disadvantages for some U.S. exporters' access to these markets.[12] By lowering or eliminating tariffs among participating countries, subregional free trade agreements that exclude the United States result in comparatively higher duties for U.S. exports. For example, Chile's network of bilateral trade agreements has given Chilean agricultural products an edge over U.S. exports in South America. Thus, while Chilean apples enter many South American markets duty free, Washington State apples face 10 to 25 percent tariffs. In recent years, Washington growers have seen their share of these markets dwindle as Chile capitalizes on its tariff preferences.

Like Chile's arrangements with other South American countries, the Canada-Chile agreement has already yielded benefits for Canadian firms not enjoyed by U.S. companies. Recently, Canada's Northern Telecom won a nearly $200-million telecommunications equipment contract in Chile. According to the State Department, the choice of Northern Telecom over U.S. companies was at least in part due to the fact that buying from a U.S. producer would have meant an additional $20 million cost in duties relative to purchasing from Canada.

While U.S. exports to Mercosur countries have been growing, U.S. exporters will likely face increasing difficulties in penetrating markets in Mercosur countries as commitment to common bloc trade policies deepens. For example, a USTR official noted that Mercosur is currently considering adopting product safety standards that are quite different from U.S. standards. This official explained that if these standards are adopted,

[12]These examples of select sectors illustrate cases where U.S. export opportunities have been adversely affected by subregional trade agreements. A broader evaluation of the costs and benefits of increased trade and specific trade agreements requires a consideration of both U.S. export and import-competing sectors. While trade liberalization has historically created net benefits to the aggregate economy through improvements in efficiency, it creates costs that fall more directly on certain sectors of the economy and labor force.

U.S. auto manufacturers could be at a disadvantage in accessing the growing markets of Mercosur member countries.

Mercosur's position on the recent WTO Information Technology Agreement also provides an indication of how the bloc's common foreign trade policy will complicate U.S. efforts to promote its economic interests in the region. The Information Technology Agreement, which was signed by 28 WTO members in Singapore in December 1996, provides important tariff concessions in an industry in which the United States enjoys a considerable competitive advantage. Brazil did not join in the Information Technology Agreement, seeking to protect its own emerging information technologies industry. Brazil's position on the agreement has now been adopted as an element of Mercosur's common external trade policy, while other partners like Argentina, if acting individually, might have taken a different position.

The difficulties faced by the U.S. pharmaceutical industry in the Argentine market also illustrate some of the drawbacks encountered by U.S. firms as countries in the region drift away from the long-standing U.S. concern regarding intellectual property protection. In a recent statement before the Trade Subcommittee of the House Ways and Means Committee,[13] the President of the Pharmaceutical Research and Manufacturers of America estimated that annual losses by member companies due to patent infringement in Argentina amount to several hundred million dollars. He noted that NAFTA has the strongest safeguards for intellectual property rights of any trade agreement, and concluded that if Argentina had been brought into NAFTA, that government would have had to seek to curtail patent infringement more decisively than it does now. It is worth noting that Argentina's former Finance Minister favored joining NAFTA rather than integrating further within Mercosur. However, after NAFTA negotiations with Chile were suspended, it became clear that prospects for Argentine accession to NAFTA were rather distant, and Argentina proceeded to cement its position within Mercosur.

Regional Trade Liberalization Likely to Continue Regardless of U.S. Participation

Western Hemisphere leaders have indicated their countries will continue their own initiatives toward free trade and economic integration. For example, in statements during his recent visit to the United States, the President of Chile said that his country shares the U.S. interest in promoting free trade. Elaborating on his President's remarks, a Chilean government spokesman on trade issues explained that, like the United

[13]March 18, 1997.

States, Chile would like to see the widest and most comprehensive agreement possible on free trade for the Western Hemisphere. According to this official, whether through NAFTA or the FTAA, with or without the United States, Chile intends to continue to pursue trade liberalization because it is seen as furthering Chile's own interests. Chile still wants to join NAFTA, but NAFTA is now less critical to Chile than it was in 1995.

Like Chile, Canadian interests in regional trade liberalization generally coincide with those of the United States. However, the recent Canada-Chile free trade agreement demonstrates that Canada is pursuing its commercial interests in the region. Indeed, the Canadian Minister of International Trade recently indicated that his government is considering negotiating a trade agreement with Mercosur. According to a Canadian government spokesman on trade policy, Canada's free trade agreement with Chile was not only meant to expedite Chilean accession to NAFTA, but it was also intended to keep alive the momentum for free trade in anticipation of FTAA negotiations. Canada would like to see decisive U.S. participation in FTAA negotiations because the two countries share many interests with regard to trade. This official explained that it would be unfortunate if the United States lacked fast track authority by the time of the 1998 Santiago Summit, as it would be at a distinct disadvantage in shaping the FTAA.

It would appear that Mexico's interests in regional trade liberalization parallel those of Chile and Canada. However, some observers suggest that Mexico may be reluctant to surrender the current advantage it enjoys in terms of access to North American markets. Nevertheless, according to Mexican government trade officials, all of Mexico's agreements and negotiations with other countries in the hemisphere have sought to encourage the adoption of trade disciplines consistent with NAFTA. These officials explained that Mexico has actively supported Chilean accession to NAFTA and the concept of a free trade agreement that would encompass the entire hemisphere. Moreover, they noted that Mexico is committed to the principles of free trade and will continue to pursue free trade arrangements with other countries in the hemisphere and other regions.

In contrast to the NAFTA partners and Chile, the Mercosur countries' vision of the FTAA differs significantly from that of the United States. As the largest member of Mercosur, Brazil has sought to shape the FTAA process to make it consistent with its distinct trade priorities. Since the FTAA would entail broadening Brazil's ongoing market-opening efforts, Brazil favors a slower managed approach to hemispheric trade liberalization. This would give its industries more time to adjust to foreign competition.[14] Thus, Brazil has proposed that FTAA negotiations on market access be deferred until 2003, while the United States would like to see this matter addressed as soon as negotiations begin in 1998. A Brazilian government spokesman noted that if U.S. negotiators lack fast track authority in 1998, FTAA negotiations would still be able to reach agreement on business facilitation measures. These include items such as common customs documents, which would not require legislative approval. In this case, discussions on market access would be deferred, as favored by Mercosur in general and by Brazil in particular.

Scope and Methodology

In preparing this report, we relied on our past and ongoing work on Western Hemisphere trade issues.[15] Our description of existing subregional and bilateral trade arrangements is based primarily on a review of documents on these arrangements from academic and technical publications. For our discussion on the status of FTAA negotiations and recent trade developments in the region outside the FTAA process, we interviewed officials from the OAS, IDB, USTR, the U.S. International Trade Commission, and the U.S. Department of State; representatives from five other Western Hemisphere nations at the forefront of regional trade negotiations; and academicians and other experts on the process of regional economic integration.

We also reviewed documents on the FTAA prepared by the OAS Trade Unit and the FTAA working groups; declarations and supporting documentation from the Miami Summit and the three FTAA ministerial meetings that have taken place thus far; and reports from USTR, the U.S. Department of Commerce, the U.S. International Trade Commission and the Congressional Research Service. In addition, we attended several conferences and congressional hearings dealing with various aspects of the FTAA process.

In order to provide some indication of the relative size of markets in the region, we prepared tables on the principal Western Hemisphere trade groupings presented in the appendix. These tables are based on data for individual countries in the region from the International Monetary Fund's Publications International Financial Statistics and Direction of Trade

[14]Beginning in the 1990s, Brazil initiated a unilateral process of opening its markets to foreign competition. Subsequently, it has opened its markets further within the context of Mercosur. This process has put great pressure on Brazilian domestic producers, and the country has amassed sizable trade deficits in recent years.

[15]See the list of GAO reports related to this subject at the end of this report.

Statistics. We used 1994 figures for these tables because that is the latest year for which information was available for most countries in the region. For certain countries we used 1993 data, when 1994 data were not available.

We conducted our review from February to June 1997 in accordance with generally accepted government auditing standards.

Agency Comments

USTR provided technical comments on a draft of this report, and we have incorporated them in the text where appropriate. USTR did not provide any evaluation of the overall thrust of the report.

We are sending copies of this report to USTR, the Secretaries of Commerce and State, and interested congressional committees. We will make copies available to others on request.

Please call me at (202) 512-8984 if you have any questions concerning this report. Major contributors to this report were Elizabeth Sirois, Assistant Director; Juan Gobel, Evaluator-in-Charge; Emil Friberg, Senior Economist; and Patricia Cazares, Evaluator.

Sincerely yours,

JayEtta Z. Hecker, Associate Director
International Relations and Trade Issues

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Abbreviations

EU	European Union
FTAA	Free Trade Area of Americas
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
IDB	Inter-American Development Bank
IMF	International Monetary Fund's
IPR	intellectual property rights
LAIA	Latin American Integration Association
NAFTA	North Atlantic Free Trade Agreement
OAS	Organization of American States
USTR	United States Trade Representative
WTO	World Trade Organization

Principal Economic Indicators by Trading Bloc, 1994

Currently, there are six major multilateral trading blocs in the Western Hemisphere. Following is a general profile of each of these blocs, including information on membership, gross domestic product (GDP), per capita gross domestic product, and the bloc's total exports, using data from 1994, except as noted.

Andean Community

Established in 1969 (formerly Andean Pact or Andean Group).

Members: Bolivia, Colombia, Ecuador, Peru, Venezuela
Population: 75 million[1]
Combined GDP: $149 billion
Per capita GDP: $1,987
Total imports: $26 billion
Imports from the United States: $10 billion
Total exports: $31 billion
Exports to the United States: $14 billion

Caribbean Community

Established in 1973 as successor to the Caribbean Free Trade Association (CARIFTA, established in 1967).

Members: Antigua, Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat,[2] St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago
Population: 6 million[3]
Combined GDP: $20 billion[4]
Per capita GDP: $3,237
Total imports: $9 billion
Imports from the United States: $3 billion
Total exports: $6 billion
Exports to the United States: $2 billion

[1]Calculated using 1993 population data for Bolivia.

[2]No data were available for Montserrat.

[3]Calculated using 1993 population data for Antigua & Barbuda and Suriname.

[4]GDP data were not available for the Bahamas and St. Vincent & the Grenadines.

Central American Common Market

Established in 1961.

Members: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
Population: 29 million
Combined GDP: $34 billion
Per capita GDP: $1,174
Total imports: $11 billion
Imports from the United States: $5 billion
Total exports: $7 billion
Exports to the United States: $3 billion

Common Market of the South (Mercosur)

Established in 1991.

Members: Argentina, Brazil, Paraguay, Uruguay
Population: 196 million
Combined GDP: $852 billion
Per capita GDP: $4,346
Total imports: $61 billion
Imports from the United States: $12 billion
Total exports: $63 billion
Exports to the United States:$11 billion

Latin American Integration Association

Established in 1980 as a successor to the Latin American Free Trade Association (LAFTA, established in 1960).

Members: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela
Population: 401 million[5]
Combined GDP: $1.5 trillion
Per capita GDP: $3,801
Total imports: $183 billion
Imports from the United States: $83 billion
Total exports: $171 billion
Exports to the United States: $79 billion

[5]Calculated using 1993 population data for Bolivia.

North American Free Trade Agreement

Established in 1994.

Members: Canada, Mexico, United States
Population: 383 million
Combined GDP: $7.9 trillion
Per capita GDP: $20,643
Total imports: $920 billion
Canadian & Mexican imports from the United States: $157 billion
Total exports: $735 billion
Canadian & Mexican exports to the United States: $185 billion

Sources: International Monetary Fund (IMF) International Financial Statistics, March 1997, for population, GDP, and per capita GDP data; IMF Direction of Trade Statistics, April 1997, for import and export data.

Related GAO Products

Budget Issues: Privatization Practices in Argentina (GAO/AIMD-96-55; Mar. 19, 1996).

Mexico's Financial Crisis: Origins, Awareness, Assistance, and Efforts to Recover (GAO/GGD-96-56; Feb. 23, 1996).

NAFTA: Structure and Status of Implementing Organizations (GAO/GGD-95-10BR; Oct. 7, 1994).

U.S.-Chilean Trade: Pesticide Standards and Concerns Regarding Chilean Sanitary Rules (GAO/GGD-94-198; Sept. 28, 1994).

North American Free Trade Agreement: Assessment of Major Issues (GAO/GGD-93-137; Sept. 9, 1993; 2 vols.).

U.S.-Chilean Trade: Developments in the Agriculture, Fisheries, and Forestry Sectors (GAO/GGD-93-88; Apr. 1, 1993).

CFTA/NAFTA: Agricultural Safeguards (GAO/GGD-93-14R; Mar. 18, 1993).

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