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PUTTING TRADE WITH ASIA AND LATIN AMERICA ON A FAST TRACK

INTRODUCTION

The United States has made significant progress in the past two years toward expanding free trade. Both the North American Free Trade Agreement (NAFTA) and legislation implementing the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) have been approved by Congress and signed into law by the President. Yet, forces are at work in Congress to block further progress on free trade. Special-interest groups are mobilizing to subvert or block the legislation needed for the Administration to open foreign markets to U.S. goods and services.

This assault on free trade should be stopped. This can best be done if Congress grants the President "fast-track" authority to begin negotiating agreements with those countries that are next in line for free trade—namely, countries in Asia and Latin America. Only then can the U.S. benefit from the expansion of overseas trade relations that will enlarge economic opportunities and create new high-wage jobs for all Americans.

Despite the progress that has been made, a succession of events in Latin America has clouded the prospects for rapid trade liberalization. The collapse of the Mexican peso on December 20, 1994, not only devastated the Mexican economy, but also eroded investor confidence throughout Latin America. The economic crisis in Venezuela deepened as more banks collapsed and the inflation rate neared triple digits. A long-simmering border dispute between Ecuador and Peru flared up into fighting between the armies of both countries. Moreover, the alleged ties between the new government of Colombian President Ernesto Samper and cocaine traffickers have caused a serious chill in U.S.-Colombian relations.

The news from Asia has not been much better. The slow response of the Japanese government to the earthquake that devastated Kobe on January 17, 1995, highlighted the shortcomings of Prime Minister Tomiichi Murayama's administration. These shortcomings revealed a weakness that may hamper Murayama's ability to overcome bureaucratic resistance to develop a framework for trade liberalization in the forum for Asia Pacific

Economic Cooperation (APEC), which this year will hold its Leaders' Meeting in Osaka. Investor uncertainty about Mexico spilled over from Latin America and caused stock markets throughout Asia to fall. Although the Clinton Administration settled a nasty trade dispute with China over intellectual property rights on February 26, 1995, China's application to join the World Trade Organization still must be negotiated.

This bad news from Asia and Latin America has caused some congressional leaders to cast doubt on the viability of new free trade initiatives this year. At a February 8 Heritage Foundation conference, Representative David Dreier (R-CA), a leading proponent of both NAFTA and GATT, stated, "I would like very much to charge ahead with fast track. But at the same time, I think that it's not going to happen because of some questions that exist."[1] To his credit, however, President Clinton has confirmed that formal negotiations to make Chile the fourth member of NAFTA will continue. On February 28, 1995, trade negotiators from Canada, Mexico, and the United States met for the first time in Mexico City to decide the structure of the upcoming talks with Chile.[2] The decision to move forward with Chile to NAFTA is a good one. The irresponsible, politicized monetary policy pursued by the *Banco de Mexico*, not NAFTA, caused the Mexican crisis.[3] Chile should not be penalized for Mexico's mistakes.

Not all the trade news coming out of Asia and Latin America is bad. In fact, countries from these regions continue to form free trade agreements on their own. For example, Australia and New Zealand have their own free trade pact, known as the Closer Economic Relations Trade Agreement (CER). Moreover, the ASEAN nations agreed on September 23-24, 1994, to accelerate the implementation of their ASEAN Free Trade Area (AFTA). On January 1, 1995, the Southern Cone Common Market (Mercosur)—whose members include Argentina, Brazil, Paraguay, and Uruguay—became a customs union. Chile is negotiating an associate status with Mercosur even as it prepares to join NAFTA.

Rapid progress toward creating an APEC free trade and investment area and expanding NAFTA, first to Chile and then to other countries in both Latin America and Asia, is vital to America's economic future. The setbacks suffered by free trade, in fact, require that the U.S. redouble its efforts, providing strong leadership and a public reaffirmation of the U.S. commitment to free trade with Asia and Latin America through APEC and the expansion of NAFTA. The U.S. cannot allow past progress to be squandered. To expand free trade, President Clinton should:

✔ **Urge the Japanese government to devise an acceptable framework for APEC trade liberalization.** This would set firm deadlines for negotiating and implementing steps leading to an APEC free trade and investment area by 2020.

✔ **Ask Congress for fast-track negotiating authority unencumbered by harmful labor and environmental restrictions.**

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1 "House Republicans Warn Freshmen May Oppose New Trade Initiatives," *Inside U.S. Trade*, Vol. 13, No. 6 (February 10, 1995), p. 19.

2 "NAFTA Nations to Try to Agree Feb. 28 on Details of Chile's Entry," *Inside NAFTA*, February 22, 1995.

3 John Sweeney, "Don't Blame NAFTA for the Mexican Crisis," Heritage Foundation *Backgrounder Update* No. 239, February 13, 1995.

✔ **Start formal negotiations to extend NAFTA membership to Chile within 30 days of introducing the new fast-track request to Congress,** wrapping up a deal before December 31, 1995.

✔ **Identify additional candidates for NAFTA membership in Asia and Latin America.** Candidates could include Australia, New Zealand, and Singapore in Asia and Argentina and Trinidad and Tobago in Latin America. Formal negotiations with these countries should begin as quickly as possible.

WHAT IS "FAST TRACK"?

For free trade to progress this year, Congress must grant the President fast-track negotiating authority. Fast track allows the President to negotiate trade agreements with foreign countries which then will be subject to approval, without amendments, in an up or down vote. This approach gives the President more bargaining leverage since his negotiating partners will know that the agreement will not be drastically altered by Congress through the amendment process.

Beginning with the Reciprocal Trade Agreements Act of 1934, Congress periodically has authorized the President to negotiate and implement reciprocal tariff reductions with other countries. Presidents have used this authority to negotiate GATT agreements to reduce tariffs substantially around the world.[4] As tariffs have fallen, however, national governments have resorted to nontariff barriers to protect domestic industries from import competition. Some nontariff barriers are fairly obvious border measures, such as import quotas and so-called voluntary export restraints. Others are more subtle, arising from discriminatory domestic laws and regulations. To eliminate such discrimination, trade agreements must go beyond border measures and address many aspects of domestic policy.

In the Trade Act of 1974, Congress expressed its concern about the "growing importance and proliferation of [nontariff] barriers to the detriment of U.S. export trade and the need to develop new or more adequate international trade rules and mechanisms for their discipline." The Act charged the President to seek to reduce or eliminate these nontariff trade barriers in future trade agreements. Recognizing that such agreements would compel the United States to change some of its own domestic laws and regulations, Congress devised a new procedure, known as fast track, to preserve the constitutional role of Congress and fulfill its legislative responsibilities in shaping domestic policy while reducing the uncertainties of the legislative process for approving and implementing trade agreements.

Under the fast-track procedure, Congress sets the objectives for trade negotiations in an authorizing law before actual negotiations commence. Through authorization, Congress determines what countries and subjects may be included in trade negotiations. Once these negotiations begin, the Administration must keep Congress and the private-sector Advisory Committee on Trade Policy and Negotiations[5] informed on their pro-

4 Since 1948, there have been eight rounds of GATT negotiations. The last round, known as the Uruguay Round, began in 1986 and ended in 1993.

5 In the Trade Act of 1974, Congress established a formal mechanism for providing the United States Trade Representative

gress. Periodic updates allow American negotiators to address potential problems that a member of Congress or representative of an interested party may raise before a trade agreement is reached, rather than after a deal has been struck.

Before signing a trade agreement, the President must give the Congress at least 90 days notice. During this time, the relevant congressional committees may examine the proposed agreement, determine what changes in U.S. law may be required to implement the agreement, and work with Administration officials to develop an acceptable implementing bill. After signing the agreement, the President must submit its final text together with a draft implementing bill to Congress. Once these are submitted, the House Committee on Ways and Means and the Senate Committee on Finance have 45 legislative days in which to report a bill. Each house must vote either for or against the bill within 15 days of receiving the committee report. No amendments are allowed.

Some critics contend that fast track allows the President to ram a trade agreement through Congress with little examination and no opportunity for amendment. This criticism is unfounded. First, Congress sets the parameters for trade negotiations in an authorization act; a trade agreement that falls outside of these parameters is not eligible for the fast-track procedure. Second, regular reporting on the progress of trade negotiations allows members of Congress and the Advisory Committee on Trade Policy and Negotiations ample opportunity to offer suggestions and propose changes before an agreement is finalized. Third, the 90-day notice before the President signs a trade agreement gives members of Congress a final opportunity to press for changes.

THE FORUM FOR ASIA PACIFIC ECONOMIC COOPERATION

While fast-track authority is not absolutely necessary until a framework agreement is reached, recent progress toward creating a free trade and investment area in the Asia-Pacific region may slow unless President Clinton receives fast-track authority from Congress before the end of this year. President Clinton took an important first step toward expanding free trade by agreeing to the goal of "free and open trade in the Asia Pacific [region] no later than the year 2020." This commitment was made at the Leaders' Meeting of the Asia Pacific Economic Cooperation (APEC) organization in Bogor, Indonesia, on November 15, 1994. With this agreement and other accomplishments, APEC launched its long-term quest for free trade and investment in the Asia-Pacific region.

Many observers had doubted whether the APEC leaders could agree on a timetable for achieving free trade in the region. Prime Minister Datuk Seri Mohammed Mahathir of Malaysia strongly opposed trade and investment liberalization through APEC, preferring his own scheme for an exclusionary Asia-only trade bloc. The Chinese government had

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(USTR) with ongoing advice from the private sector on international trade matters. The Advisory Committee for Trade Policy and Negotiations (ACTPN) heads a three-tiered advisory committee system. The ACTPN, composed of 45 presidential appointees representing government, labor, industry, agriculture, small business, service industries, retailers, consumer interests, and the public, provides overall guidance on trade policy. In the second tier, policy advisory committees representing broad economic sectors (such as agriculture or service industries) confer with the USTR on the impact of trade measures on their respective sectors. In the third tier, industry advisory committees composed of various experts provide specific, technical information and advice on trade issues involving their industries.

threatened to block any agreement unless the U.S. and other APEC countries allowed the People's Republic of China to enter the World Trade Organization. Such other Asian countries as Japan and South Korea also were reluctant for APEC to set a firm date for free trade.

President Suharto of Indonesia, chairman of the Bogor APEC meeting, deftly overcame these obstacles and helped forge a historic agreement. Under the Declaration of Common Resolve, the APEC leaders pledged that industrial countries in APEC would achieve free trade by 2010 while developing countries would require another decade to complete their liberalization programs. To prevent any single country from blocking liberalization, APEC leaders agreed to a "consensus minus x" formula allowing members that "are not ready to participate" in an APEC trade agreement to "join at a later date." The APEC leaders charged their trade ministers with developing a framework within which to negotiate and implement a free trade agreement that could be approved at the next year's Leaders' Meeting in Osaka, Japan.

In Bogor, the APEC leaders also agreed to a voluntary Concord on Investment Principles. While its language was not entirely to the liking of the U.S., Trade Representative Mickey Kantor was "pleased on the substance"[6] of the nonbinding Concord.[7] Also at Bogor, the APEC leaders established an advisory council, the Asia Pacific Business Forum, to increase private sector participation in APEC. They also endorsed the ongoing work of the Committee on Trade and Investment to facilitate trade by standardizing custom procedures and harmonizing product standards.[8]

As host for the APEC Leaders' Meeting at Osaka in November 1995, Japan will supervise the development of the trade liberalization framework in APEC. Given Japan's political uncertainties and its reputation for closed markets, this responsibility will be a serious challenge for Prime Minister Tomiichi Murayama. New Zealand's Foreign Minister Don McKinnon noted, "I think this will be Japan's real chance to display real economic leadership. If they want a seat on the United Nations Security Council, they will have to take another major step to fulfill that broader leadership role."[9]

There are many disturbing signs that the Japanese government is either unwilling or unable to exercise leadership. The widely reported failure of Prime Minister Murayama and

6 "APEC Overcomes U.S. Reluctance, Agrees to Non-Binding Investment Code," *Inside U.S. Trade*, November 18, 1994, p. 10.

7 The U.S. government was disappointed with the provisions in the nonbinding APEC Concord on Investment Principles on national treatment and performance requirements. National treatment means that the government of a host country will treat foreign and domestic investors equally. U.S. officials felt that the national treatment section in the APEC Concord on Investment Principles which allows "exceptions [to national treatment] as provided in domestic laws, regulations, and policies" was too weak. Performance requirements are rules that force foreign firms to use locally made components in manufacturing their products, transfer certain technologies to locally-owned firms, or export some proportion of their production. U.S. officials feared that the performance requirement section, which admonishes APEC governments to "minimize performance requirements" rather than prohibit them, might be used by some APEC governments, particularly China, as an excuse for maintaining such rules.

8 The Committee on Trade and Investment, composed of representatives from each APEC member, carries on APEC initiatives between Leaders' and Ministers' Meetings.

9 John McBeth and V. G. Kulkarni, "APEC: Charting the Future," *Far Eastern Economic Review*, November 24, 1994, p.15.

his Socialist-Liberal Democrat cabinet to act decisively after the recent earthquake in Kobe suggests, at a minimum, a lack of political resolve. The government's performance raises similar questions about its resolve in developing an acceptable framework for APEC trade liberalization.

There is a wide disagreement among APEC members on how to implement the Bogor declaration. To devise and win approval for a trade liberalization framework, the Japanese government must exercise economic and political leadership. Unfortunately, the Japanese government so far has avoided making difficult decisions on the central issue of trade liberalization, expending its energy instead on peripheral issues of trade facilitation and development.[10]

To the dismay of the United States and other APEC members, Japan's first action as chairman of APEC was to propose creating a new APEC foreign aid conduit, to be known as Partners for Peace, to promote economic development in less-developed APEC countries. Other APEC governments criticized the Japanese government for focusing on what at best would be a duplication of existing foreign aid programs and urged Japanese officials instead to tackle the tough issue of devising a framework for trade liberalization. Under fire, Japan subsequently withdrew its proposal and suggested instead that APEC members accelerate the implementation of their Uruguay Round liberalization commitments. Nevertheless, this early effort suggests that Prime Minister Murayama may be unable to surmount bureaucratic resistance and protectionist elements in his own coalition to forge an acceptable framework agreement without the firm resolve of other APEC members. Therefore, President Clinton should:

✔ **Urge the Japanese government to devise an acceptable framework for an APEC free trade and investment area by 2020.**

EXPANDING NAFTA IN LATIN AMERICA

Held in Miami on December 9-11, 1994, the Summit of the Americas made history. For the first time, all of the nations of the Americas except Cuba were represented by democratically elected heads of government. More important, the heads of government established the policy framework for a new hemispheric partnership based on open markets, free trade, democratic governance, and respect for human and property rights. Significantly, all 33 heads of government agreed to make NAFTA the benchmark treaty for creation of a Free Trade Area of the Americas (FTAA) by the year 2005.

On the last day of the summit, President Clinton emphasized America's commitment to the expansion of NAFTA by announcing that formal talks with Chile would begin in 1995. Even though widely anticipated, this announcement generated a wave of enthusiasm throughout Latin America. Nine days later, however, the Mexican peso collapsed.

10 In the context of APEC, trade liberalization refers to reducing and eventually eliminating tariffs, quotas, and other border measures, as well as to modifying domestic laws, regulations, and policies that discriminate against foreign goods, service providers, or investors. Trade facilitation refers to standardizing customs procedures, harmonizing product standards, and accepting foreign product testing. Development refers to a range of policy issues to speed economic growth in the less-developed APEC countries.

Since then, the Mexican economic crisis and the Clinton Administration's questionable bailout scheme have commanded all of Washington's attention. Some members of Congress have suggested that the Mexican crisis may have derailed prospects for the approval of fast-track authority to expand NAFTA to Chile. Even one of NAFTA's strongest advocates, Representative Jim Kolbe (R-AZ), admitted that new fast-track authority would have to be put on hold "for the time being."[11]

Nevertheless, Republican leaders in Congress have pledged to support the Administration's request for new fast-track authority as long as it does not empower the Administration to impose labor and environmental standards on Chile or other countries. During a February 8 Heritage Foundation conference, Representative Phil Crane (R-IL), Chairman of the Trade Subcommittee of the House Ways and Means Committee, said he would move a "clean trade bill" to the House floor this year (1) granting fast-track authority for Chile's accession to NAFTA, (2) extending the Generalized System of Preferences (GSP),[12] and (3) providing trade parity to small Caribbean countries with NAFTA.[13]

On February 13, 1995, U.S. Trade Representative Mickey Kantor made clear that the Clinton Administration "intends to continue to link labor and environment to trade, and the linkage is particularly relevant in the upcoming negotiations to extend NAFTA to Chile."[14] Moreover, Kantor indicated that the "principle of including labor and environment should be carried forward in subsequent trade negotiations in Latin America and Asia as well."[15] The Republican leadership, however, bitterly opposes linking trade sanctions with labor and environmental issues. In a February 9, 1995, speech to the Chemical Manufacturers Association, Representative Bill Archer (R-TX) flatly stated, "there will be no inclusion of authority to monkey around with labor standards and environmental standards around the world."[16]

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11 "House Republicans Warn Freshman May Oppose New Trade Initiatives," *Inside U.S. Trade*, Vol. 13, No. 6 (February 10, 1995), p. 1

12 The Generalized System of Preferences is a system of unilateral grants of tariff relief by countries in the Organization for Economic Cooperation and Development (OECD), including the United States, for products from developing countries. GSP operates under a permanent waiver of the Most Favored Nation (MFN) clause of GATT, which mandates that trade must be conducted on a nondiscriminatory basis. GSP is designed to help economic sectors in developing countries that are not internationally competitive; products such as apparel and textiles, consumer electronics, steel, and leather goods that may be competitive are excluded. There are graduation requirements for GSP; such Asian "tigers" as Hong Kong, Singapore, South Korea, and Taiwan are no longer eligible.

13 The Caribbean Basin Initiative (CBI) is a similar unilateral grant of tariff relief and tax preferences by the United States to the non-communist Central American and Caribbean island countries. Products excluded under GSP, plus sugar, are excluded under CBI. The President also may deny CBI benefits to any country that denies access to American products, does not provide adequate intellectual property rights protection, provides export subsidies, or imposes performance requirements on foreign direct investment. At present, CBI countries are at a disadvantage compared to Mexico in trading with the United States. CBI parity with NAFTA would eliminate this disadvantage.

14 "Archer Sees No Deal with Administration, Democrats on Fast Track," *Inside U.S. Trade*, Vol. 13, No. 7 (February 17, 1995), p. 4.

15 *Ibid.*

16 *Ibid.*

Differences between Congress and the Administration over the scope of the new fast-track negotiating authority could delay or derail its approval. That would be unfortunate. Chile's quick accession to NAFTA is needed for several reasons.

REASON #1: It would reaffirm the U.S. commitment to expansion of free trade and democracy in the Americas and creation by 2005 of a hemispheric free trade area.

REASON #2: It would help to restore investor confidence in all of Latin America, including Mexico. In the wake of the Mexican peso's collapse and the financial fall-out this has caused throughout Latin America, the region's democracies are waiting for the U.S. to raffirm its commitment to expanding NAFTA to all of the Western Hemisphere.

REASON #3: Chile would anchor NAFTA in South America. For the Free Trade Area of the Americas to become a reality, NAFTA and Mercosur must converge over time into a single free trade area, with NAFTA serving as the benchmark agreement. Argentina and Brazil are two of three "Big Emerging Markets" in Latin America.[17] Mexico is the third. All three are critical elements in the Clinton Administration's export strategy and are essential if the Summit of the Americas' central goal of creating an FTAA within the next decade is to be achieved.

REASON #4: Chile's economy is the freest and the best-managed in Latin America. Over the past decade, Chile's gross domestic product has grown by an average of six percent per year. Chile has even privatized its social security system. As a result, the assets of Chile's private pension funds are equivalent to 50 percent of the country's annual Gross Domestic Product of slightly more than $40 billion. Chile has achieved a remarkable and painful transition from socialism to military dictatorship and, finally, to stable democracy.

REASON #5: U.S. exporters and investors would benefit immediately. The tariff reductions Chile would make under a NAFTA agreement, plus the transparent rules of the game established by NAFTA, would spur increased U.S. investment in Chile.

Clearly, the national interests of both the U.S. and Chile would be served by having Chile join NAFTA as quickly as possible. Chile not only would provide a bridge for strengthening U.S. relations with Argentina and Brazil, but also would serve as a commercial gateway for U.S. trade with Asia by U.S. companies established in Chile and the Mercosur countries.

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17 The term "Big Emerging Markets" or BEMs was coined by the U.S. Department of Commerce to describe large emerging markets which are considered vital to U.S. strategic interests worldwide, and to U.S. commercial diplomacy. Ten BEMs have been identified to date, including Mexico, Argentina, Brazil, China, Indonesia, South Korea, India, South Africa, Poland in Central Europe, and Turkey in Southern Europe. These BEMs share a number of important attributes. They are all physically large. They have significant populations and represent considerable markets for a wide range of products. Virtually all have strong rates of growth, or clearly hold out the promise of economic expansion in the future. Virtually all are of major political importance within their region, and are considered "regional economic drivers"—their growth will promote expansion in neighboring markets. U.S. exports to these BEMs totaled $102 billion in 1992, approximately a quarter of all U.S. exports

President Clinton committed the U.S. to a timetable for Chile's admission to NAFTA at the Summit of the Americas. American, Canadian, and Mexican trade negotiators have laid the groundwork for formal negotiations. Chile already has its negotiating team in place and is ready to get started.[18] Any delay would be interpreted as a failure of American resolve and international leadership. It would also be a blow to democracy, free trade, and free-market reforms in the Americas. To avert this delay, the Clinton Administration should:

- ✔ **Ask Congress for fast-track negotiating authority unencumbered by harmful labor and environmental restrictions.** Some members of Congress have announced their support for new fast-track authority, provided that labor standards and environmental issues are excluded. President Clinton must realize that insisting on negotiating authority on labor and environmental issues will kill fast track. The Clinton Administration therefore should drop labor and environmental provisions from any trade bill submitted to Congress.

- ✔ **Start formal negotiations to extend NAFTA membership to Chile within 30 days of introducing the new fast-track request to Congress, wrapping up a deal before December 31, 1995.** With NAFTA already in place, negotiations can reach agreement quickly with Chile on the terms of accession. Both Canada and Mexico enthusiastically support Chile's membership in NAFTA.

- ✔ **Identify additional candidates for NAFTA membership in the Asia and Latin America. Candidates could include Australia, New Zealand, and Singapore in Asia and Argentina and Trinidad and Tobago in Latin America.** Formal negotiations with these countries should begin as quickly as possible. NAFTA must not be seen in Asia or elsewhere in the world as an exclusionary trade pact. It should be open to any country willing and able to abide by its standards. Therefore, the Clinton Administration should move quickly to identify other qualified countries and invite them to join NAFTA. Expanding NAFTA to the Asia-Pacific is not a substitute for an APEC free trade and investment agreement, but an interim step that would accelerate the trade liberalization process in APEC. Recent history suggests that trade liberalization at one level can hasten trade liberalization at other levels. The willingness of the United States to pursue a subregional approach in NAFTA is widely credited with motivating the European Union and other countries to press for the successful conclusion of the Uruguay Round. Likewise, expanding NAFTA to some countries in Asia may prompt other countries to accelerate APEC trade liberalization so their economies will not be left out of a free trade area.

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18 Chile has been waiting in line to join NAFTA since 1990. In the past five years, the U.S. government has officially promised the government of Chile five times, including President Clinton's announcement of formal talks at the Summit of the Americas in Miami, that Chile was next in line after Mexico for speedy entry into NAFTA.

CONCLUSION

The Clinton Administration has committed the United States to expanding NAFTA by extending membership first to Chile and then to other countries in Asia and the Americas as quickly as possible. In the wake of the Mexican crisis, Chile and the rest of Latin America need a strong reaffirmation of the U.S. commitment to democracy, open economies, and free trade. Some populist demagogues and greedy special interests want to argue that the Mexican crisis should derail the expansion of NAFTA and the creation of a Free Trade Area of the Americas by 2005 and an APEC free trade and investment area by 2020. Such arguments are without merit. Delaying these trade liberalization initiatives would be a mistake. Free trade based on fair rules of the game for all participants is the surest road to economic prosperity, jobs, and democratic stability.

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