UPDATE

Backgrounder

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PUTTING NAFTA'S EXPANSION BACK ON A FAST TRACK

(Updating *Backgrounder* 1027, "Putting Trade with Asia and Latin America on a Fast Track," March 23, 1995.)

A year ago, the United States had a clear vision of where it was going in Latin America. The U.S. was dedicated to spreading free trade throughout the Western Hemisphere by expanding the North American Free Trade Agreement (NAFTA). This vision has all but disappeared in the eyes of the Clinton Administration. Bent on cluttering trade bills with environmental and labor restrictions, the President has thrown up obstacles to the rapid accession of Chile to NAFTA, contrary to his own repeated promises. The result: NAFTA expansion has stalled.

Some in Congress want to approve a "fast-track" trade bill this year, but they do not want the environmental and labor restrictions demanded by Clinton.[1] On September 21, 1995, the House Ways and Means Committee reported out a measure that would renew fast-track negotiating authority for five years.[2] The Clinton Administration immediately announced that it would not support the bill, effectively blocking its approval by Congress. Without the President's support, no Democrats will vote for fast track, and Republican leaders in the House and Senate will not bring fast track to a floor vote if the bill does not enjoy solid bipartisan support. Making matters even more difficult, Senate Majority Leader Bob Dole (R-KS) has come out against extending fast track authority, arguing that President Clinton has failed "to explain to the American people why we need yet another trade agreement at this time."[3] A two-year delay in extending NAFTA to Chile would hurt U.S. economic interests in South America and diminish America's stature in Latin America.

If fast track is not renewed, and Chile's accession to NAFTA is pushed back two years, the biggest loser will be the United States. Without fast track legislation, the U.S. has nothing to offer Latin America. Without fast track, the U.S. cannot negotiate any agreements to expand NAFTA. In this vacuum, others such as Brazil will take the lead in shaping the future course of trade liberalization in South America, the U.S. will lose its trade privileges in the region, and the dream of a hemispheric free trade zone will be dead.[4] With

1 Fast track is the legal mechanism through which Congress authorizes the President to negotiate trade agreements with other countries. Congress sets the parameters for trade negotiations in the authorizing legislation. If a proposed agreement falls within the congressional set parameters, each House then will vote on the agreement in a straight up-or-down vote without amendments.

2 "Republicans may bring up fast track after Thanksgiving, Rep. Crane says," *International Trade Reporter*, Vol. 12, No. 43 (November 1, 1995), p. 1804.

3 "Dole opposition spells death for fast track bill, Senate aide says," *Inside NAFTA*, Vol. 2, No. 23 (November 15, 1995), pp. 2-3.

fast track legislation, however, Chile's accession to NAFTA in 1996 will be practically assured, and the U.S. will retain its competitive edge in South America's trade liberalization, benefiting U.S. exports and jobs. To ensure that the U.S. continues to lead the process of hemispheric trade expansion, the U.S. should:

✓ **Renew fast-track negotiating authority in 1995.** 1997 is too long to wait to acquire this indispensable tool to expand NAFTA.

✓ **Extend NAFTA to Chile in 1996.** Chile's membership in NAFTA would be a reaffirmation of U.S. leadership in creating a Free Trade Area of the Americas. Other Latin American countries are following the situation carefully. If the U.S. fails to honor its pledge to Chile, these countries may lose faith in America's commitment to hemispheric trade expansion.

✓ **Avoid trade sanctions.** The use of trade sanctions to pressure America's trading partners to open up their markets to U.S. exports rarely succeeds. Trade disputes between the U.S. and other countries should be settled by the World Trade Organization (WTO) of the General Agreement on Tariffs and Trade (GATT).

✓ **Deal separately with issues extraneous to free trade.** When policies and practices relating to labor, the environment, corruption, and bribery reduce market opportunities for U.S. exports, separate agreements may be negotiated and included with trade agreements whose implementation qualifies for fast track. However, trade sanctions should never form part of the enforcement mechanisms for such agreements.

✓ **Spread the benefits of free trade to the Caribbean Basin.** A congressional bill, the Caribbean Basin Trade Security Act, would grant the small countries of the Caribbean Basin the same access to the American market that Mexico has under NAFTA.

ADMIT CHILE TO NAFTA NOW

Chile is the benchmark against which the rest of Latin America will measure U.S. commitment to hemispheric trade expansion. If Chile's entry into NAFTA is pushed back to 1997, NAFTA will lose credibility. American policymakers should realize that postponing Chile's admission to NAFTA until 1997 could sideline the United States from playing a leading role in South American trade liberalization for as long as two years.

Chile has long been ready to join NAFTA. It has the strongest economy in Latin America. For the past 11 years, the Chilean economy has grown at an average annual rate of 6.3 percent. Inflation has been reduced to as low as 7.5 percent, and unemployment has been brought down to 5.5 percent. Chile has been reducing its tariffs unilaterally since the mid-1970s. The average tariff is now 11 percent. Chile's tax structure is efficient and provides a stable income flow to the treasury, as well as a positive incentive to increase domestic savings, which were equivalent to about 25 percent of GDP in 1994. These savings underpin investment levels equivalent to 27 percent of GDP and are an important factor in the country's economic and financial stability.[5]

4 Before negotiating with NAFTA to build a hemispheric free trade area, the Brazilians want to consolidate the South American Common Market (Mercosur, whose members include Brazil, Argentina, Paraguay, and Uruguay) into a South American Free Trade Area (SAFTA) that would include Chile and the Andean Pact countries (Colombia, Venezuela, Peru, Ecuador, and Bolivia). Meanwhile, Mercosur already has signed a framework trade agreement with the European Union.

5 See Ricardo Matte, "Chile Should Join NAFTA," Heritage Foundation *Committee Brief* No. 19, October 19, 1995.

As ready and willing as Chile is to join NAFTA, nothing can be done unless Congress gives the President "fast-track" authority to negotiate a trade agreement without the encumbrance of congressional amendments. Without fast track, Chile will give up its bid to join NAFTA and look elsewhere. Free trade in South America is very competitive. The U.S. is an important player in South America, but so are Brazil, Chile, the European Union, and Japan. Brazil plans to consolidate Mercosur[6] before giving serious consideration to joining NAFTA. Mercosur already has signed a framework trade agreement with the European Union. Meanwhile, Chile is negotiating an associate status with Mercosur and by 1997 is likely to sign an agreement with the European Union, upgrade its existing bilateral trade agreement with Mexico, and wrap up an agreement with Canada, which is keenly interested in Chile's enormous mining potential. Moreover, as a member of the forum for Asia Pacific Economic Cooperation (APEC), Chile is also exploring opportunities for free trade agreements with Asian countries, including Japan. Argentina wants to join NAFTA, but if Chile is spurned, Argentine President Carlos Menem may start looking elsewhere as well. In South America, no one will wait for the U.S. to catch up with the Latin American train of free trade.

PUTTING NAFTA EXPANSION BACK ON TRACK

For want of a nail, goes the old adage, a kingdom was lost. The failure to renew fast track quickly will deprive the United States of its most effective foreign policy instrument for promoting the economic and democratic transformation of Latin America and the Caribbean. Moreover, the pace of economic and democratic reform could slow in many Latin American countries where there still is much popular and political resistance to capitalist democracy.

Over the past decade, Latin America has been one of the fastest-growing regions in the world, and the United States has been one of the principal beneficiaries of this growth. U.S. exports to other countries in the Western Hemisphere have increased over 50 percent since 1990—from $137 billion in 1990 to nearly $207 billion in 1994—creating a total of 1.4 million new jobs in the U.S. in only five years. Of the total exported to Western Hemisphere markets in 1994, the U.S. exported nearly $98 billion to Latin America, directly supporting 1.96 million U.S. jobs. Total U.S. exports to Latin America now represent 19 percent of all U.S. exports, and Latin America is the fourth-largest market for U.S. goods.[7]

Many Americans and policymakers believe mistakenly that NAFTA caused the Mexican crisis. This is not true. NAFTA did not cause the Mexican peso crisis. Mexico's currency collapsed because Mexico's economy is unfree and its political system is undemocratic. Investors fled Mexico not because they feared NAFTA, but because Mexico's weak economic and political institutions failed to inspire confidence in the country's long-term stability. The truth is that NAFTA kept the Mexican crisis from becoming much worse. NAFTA prevented investor confidence in Mexico from evaporating completely and also provided Mexican President Ernesto Zedillo the institutional strength he needed to resist domestic political pressures to abandon its free market policies and raise tariff barriers.

The emerging capitalist democracies of Latin America and the Caribbean have embraced free trade and NAFTA without reservation. This is an historic opportunity for the United States. It would be a pity if the Clinton Administration allowed short-term concerns and ideology to stand in the way of expanding trade relations in the Western Hemisphere. To put NAFTA's expansion back on track, and to promote greater prosperity and more jobs in America, the U.S. should:

❶ **Extend fast-track negotiating authority in 1995.** Representative Phil Crane (R-IL), Chairman of the House Ways and Means Trade Subcommittee, hopes to put together a package of trade measures before the end of November 1995. This package would include:

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6 Mercosur's members include Argentina, Brazil, Paraguay, and Uruguay.

7 Data supplied by the U.S. Department of Commerce.

☞ **Renewal** of a "clean" fast-track negotiating authority that excludes environmental, labor, and other restrictions not directly related to trade;

☞ **Expansion** of trade benefits for Caribbean Basin countries;[8] and

☞ **Implementation** of an international agreement to curb shipbuilding subsidies.[9]

If President Clinton is serious about free trade and NAFTA's expansion, he will support this package. If the President refuses to compromise with Congress on fast track, American workers and businesses will lose.

Moreover, Senate Majority Leader Dole should rethink his opposition to extending fast-track authority this year. The Senator has been a defender of free trade in the past. His leadership will be no less needed in the future.

❷ **Extend NAFTA to Chile in 1996.** If Chile is not admitted to NAFTA in 1996, President Clinton will have reneged on a promise that he made at the Summit of the Americas. This will badly damage U.S. credibility in the region and cede the initiative for expanding hemispheric free trade to Brazil, the European Union, and other countries that may want to exclude the U.S. from Latin American markets.

❸ **Avoid trade sanctions.** The use of trade sanctions to pressure America's trading partners to open up their markets does not create jobs for Americans or benefit U.S. exports. Most of the time, trade sanctions imposed unilaterally by the U.S. have backfired. The principal U.S. law used to threaten trade retaliation is Section 301 of the 1974 Trade Act, which grants the President the authority to impose punitive trade restrictions on imports. Of the nearly 80 Section 301 cases initiated by the U.S. since 1974, only about 15 were successful. Even in these cases, American consumers were saddled with billions of dollars in higher prices caused by higher tariffs and special duties. In the end, all Americans lose when trade sanctions are utilized.[10]

Instead of resorting to such counterproductive tactics, the U.S. should rely on multilateral trade organizations such as the World Trade Organization to settle disputes between the U.S. and its trading partners.

❹ **Deal separately with issues extraneous to free trade.** Issues related to labor, the environment, corruption, and bribery should never be included in any free trade agreements. For example, the Congress should not pass fast track legislation that forces the President to require that Latin American trading partners meet U.S.-style environmental standards. Under certain circumstances, such extraneous issues may reduce market opportunities for U.S. exports and imports in countries with which the U.S. is seeking a trade agreement. In such cases, however, and only after the Administration consults with Congress and American industry, separate agreements should be negotiated and attached to a legislative package of free trade agreements whose implementation qualifies for fast track. Any agreements covering issues extraneous to free trade should include specific settlement procedures, such as those contained in the NAFTA side agreements on labor and the environment, but trade sanction provisions should never be part of such agreements.

❺ **Spread the benefits of free trade to the Caribbean Basin.** The Caribbean Basin Trade Security Act (H.R. 553 and S. 529), introduced in January by Representative Crane and Senator Bob Graham (D-FL), would grant the small countries of the Caribbean Basin the same access to the American market

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8 The Caribbean Basin Trade Security Act (H.R. 553 and S. 429) would reduce tariff barriers for the Caribbean Basin countries, to levels equivalent to NAFTA.

9 "Crane foresees fast-track, CBI parity package in late November," *Inside NAFTA*, Vol. 2, No. 22 (November 1, 1995), p. 1.

10 Bryan Johnson, "The Myths and Realities of Trade Deficits," Heritage Foundation *Backgrounder* No. 1039, July 5, 1995, p. 6.

that Mexico has under NAFTA. This measure preserves the Reagan Administration's initiative to build up the economy of the Caribbean Basin and continues the U.S. commitment to free trade and economic development through free-market incentives.

CONCLUSION

The Clinton Administration has forgotten that its greatest foreign policy achievements have involved the expansion of free trade. The approval of NAFTA in 1993, the approval of the GATT agreement that created the WTO in 1994, and the Summit of the Americas in Miami at the end of 1994 were the high points of this Administration's foreign policy. In every other area—in Somalia, Haiti, Cuba, and now Bosnia—the Administration's foreign policy has been confused and feckless. If the U.S. expects to be viewed in Latin America as the region's leader and foremost champion of free trade, President Clinton must meet Congress in the middle, as he promised he would do immediately following the mid-term elections of November 1994.

Meeting Congress halfway means accepting a "clean" fast-track negotiating authority that keeps labor, environmental, and other extraneous issues separate from free trade. It also means not allowing the Administration to include trade sanction provisions in any agreements covering free trade or other issues. Without a "clean" fast track bill, Chile will not be joining NAFTA any time soon. If NAFTA is not expanded to include Chile in 1996, the United States will be pushed to last place in the race to liberalize trade in the Western Hemisphere and create a Free Trade Area of the Americas. If President Clinton and Congress fail to put NAFTA back on a fast track, U.S. leadership and influence over the process of hemispheric trade expansion will be diminished for years to come.

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