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By Cresencio Arcos

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By Cresencio Arcos

When the Italian adventurer Amerigo Vespucci landed on the eastern coast of South America, he never could have imagined that the entire Hemisphere one day would carry his name. Nor could he have envisioned what we see today—that after 500 years of starkly different histories among its many nations, the Hemisphere finally may be finding a common future. There is, however, no guarantee that Vespucci's Americas will realize their full potential. In fact, it is more accurate to say there are far more roadblocks ahead of us than those we have already cleared away. History may well look back on the '90s in the Americas as a decade of opportunities lost. I strongly hope this is not the case, but recent events do not engender confidence that we are well on the road to a robust commercial and economic integration of the Americas.

This is all the more frustrating given that the U.S. has the power and the influence, if it wishes to use them, to be a force for positive change in the Americas. Our market dwarfs all others in the Hemisphere, and is arguably more open than any other country's, with perhaps the exception of Chile's in some areas. This huge U.S. market is extremely attractive to Latin American countries and can give us enormous leverage in opening markets in the region. However, we are on the verge of losing this strategic advantage by shirking our role as the natural leader in promoting economic liberalization.

It does not have to be this way. There is still time for the U.S. to alter its course and reassert itself. But in order for us to do that, we must take an honest look at what has gone wrong and how to fix it. First, a look at what has gone wrong.

Contrary to the many accounts that the vision of the Summit of the Americas (in reference to the Hemispheric Summit in Miami in 1994) is being fulfilled, the Hemispheric trade agenda is in a holding pattern. That nothing of tremendous substance came out of the Cartagena meetings should be of no surprise. In fact, that they even agreed to meet again next year to continue the dialogue should give us great cause to celebrate. There are several reasons why the Hemispheric trade agenda at this moment appears to be a rudderless ship, being pulled here and there by the daily tides: the peso crisis in Mexico, election year politics in the U.S., and the increased influence of Brazil in promoting a Hemispheric trade regime different from the NAFTA.

U.S. Retreat After NAFTA

Coming off an all-time high from the negotiation and passage of the North American Free Trade Agreement, we perhaps overlooked the fact that there would be bumps in the road and occasional setbacks. So when the peso crisis hit Mexico in December 1994, the free trade opponents like Ross Perot and Pat Buchanan said it only showed that they were right

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He spoke at The Heritage Foundation on March 26, 1996.

ISSN 0272-1155 © 1996 by The Heritage Foundation.

all along—Mexico was just waiting to trick the U.S. into signing the NAFTA so it could devalue the peso and flood the U.S. with Mexican goods. Of course, it didn't show that at all. In fact, without a NAFTA the U.S. would have seen its exports to Mexico drop by over 50 percent, like it did in 1982 when Mexico devalued, instead of the 17 percent drop we experienced last year. But the Perot/Buchanan accusations were superficially appealing, and so they stuck, and politicians in the U.S. began to worry about coming out too strongly in favor of trade in the Americas. Then the economic situation in Mexico deteriorated rapidly and the U.S. came to their aid as the leader of a $48 billion loan guarantee package. This had the unintended consequence of splitting the free trade coalition in Congress (many of the supporters of the NAFTA were opposed to the loan guarantees), and placing the Clinton Administration in the unenviable position of defending the loan guarantees during an election year in which the vast majority of Americans opposed the loan package. From that time forward it was apparent that we would see little if any action from Congress or the White House to advance the FTAA until after the elections, in 1997. When the election cycle kicked into high gear several months ago, it became even more apparent that free trade would be under attack when Pat Buchanan made trade the focus of his political campaign.

With the U.S. stepping back, a political vacuum was created in the Hemisphere. This vacuum has now been partially filled by the ascendance of the Brazilians, who favor a "go slow" approach to an FTAA. They believe that NAFTA-styled free trade would hurt Latin American countries, and instead have proposed a South American free trade agreement first, which would then be able to negotiate with the U.S. on much more so-called favorable terms. I say so-called favorable, because that type of a trading regime most likely would not be favorable to U.S. businesses, nor do I believe it would be favorable to South American economies in the long run. It would, however, most likely be favorable to the economic interests of the status quo that I will describe later.

However, as much as I am worried about the Brazilian initiative, I am far more troubled by the lack of U.S. leadership. After all, we are the ones holding most of the cards, and we cannot blame the Brazilians for pursuing their own interests once we have stepped back from the table. And although U.S. retrenchment may be understandable given our domestic political situation, we must realize this carries a price: namely, that Latin American countries will not unilaterally open their markets without reciprocity from the U.S. Ironically, the "opening" the U.S. needs to make is rather minor, given our already low tariffs and non-tariff barriers. But without providing a secure market for Latin American goods under a NAFTA-styled trade agreement, we will not be able to wrest political concessions from our Hemispheric trading partners. Why? Because the commercial status quo is so hard to change. We only need to look at our own textile or agricultural industry to be convinced of that.

THE POLITICAL NATURE OF TRADE

Let's be honest, free trade is not good for everyone. It is not good for monopolies and it is not good for those seeking special favors or protections through government laws or regulators. Just to give you one example from my own industry. Up until just a few years ago, most local, long distance, and international telephone services in foreign countries were owned by government monopolies. In several countries in Latin America that still is the case. These monopolies produce poor service at high prices and reap windfall profits for doing so. In contrast, in Chile today telecommunications service is good, prices are down, and competition flourishes. In Argentina, competition in local service has also increased service, while its monopoly service for international long distance continues to keep prices well above market rates. So why don't the other Latin American countries quickly adopt the

Chilean model? Because there is more money to be made, and more political interests to be protected, by keeping things as they are. This rule works in Argentina and Mexico just like it works here in the U.S. In other words, although global competition may encourage market liberalization, the decision to open markets or keep them closed ultimately is a political one.

It is neither good nor bad that market liberalization depends on politics. It is only bad when we fail to realize trade in this political context, and then wonder why our policies are ineffective. In other words, leaders in Latin America cannot place some of their protected industries in jeopardy under a free trade pact unless they can at the same time provide their competitive industries with access to our markets. The same political dynamic applied to President Clinton and Bob Dole when they sought passage of NAFTA. So if our agenda to create an FTAA by 2005 is seen in Latin America as harming more political and commercial interests than it helps, it will most likely be unacceptable. This is what is happening now. As Latin American politicians have come to believe we will not provide them the political cover they need—consistent entry into the world's largest market through accession to NAFTA—they have either postponed or withdrawn plans to make concessions to open their markets to our products and businesses.

FOUR KEY AREAS OF U.S. TRADE POLICY

Assuming we can once again commit ourselves to this agenda, there are four areas on which we need to focus our efforts as we attempt to create an FTAA. They are: 1) intellectual property rights, 2) procurement, 3) competition policy, and 4) services, and a fifth issue that covers all of them—transparency. Let me describe the challenges we at AT&T and U.S. businesses face in each area.

❶ Intellectual Property Rights

Although most of the debate of IPR has centered on the pharmaceutical company, there is much more at stake. Lax or nonexistent enforcement of intellectual property rights robs U.S. businesses of billions of dollars worldwide. The growing U.S. software and entertainment industries and what could be termed its emerging "information-based" industries are not protected in many Latin American countries. Although some Latin American countries believe they are benefiting from this lax enforcement, they are undermining a respect for property rights in general, and that will ultimately undermine the growth of their own nascent technology-based industries.

❷ Procurement

Procurement of government services plays a much larger role in Latin American economies than it does in the U.S., with some Latin American governments controlling directly or indirectly the majority of the spending power in the country. And although the issue of procurement in the trade arena has generally dealt with how government contracts would be awarded, the telecommunications industry is particularly interested in a broader definition. The telecommunications industry is such a highly regulated field that its very existence depends on a clear and concise regulatory regime in the awarding of government contracts—that is, in the awarding of concessions for the right to provide a wide range of telecommunications services. Our trade negotiators must attempt to remove any barriers that would prevent U.S. businesses from getting a fair chance in bidding on these "contracts."

❸ Services

The services industry in the U.S. employs far more workers than any other sector of the economy. And a larger percentage of our exports are now in services. Over 20 percent of exports to Latin America are in services, and that number would be much higher if we were provided all the protections our industries are provided here in the U.S. In Latin America many services industries, like telecommunications and financial services, still are considered "strategic," and as such are controlled by the government. In many Latin American countries, foreign investment is limited to a minority stake. For example, Brazil is liberalizing its telecommunications industry by allowing competition in cellular phone services. However, it is limiting foreign investment in those projects to 49 percent. If it maintains that restriction, it will limit the ability of AT&T and other U.S. companies to invest; but it will also limit the ability of the Brazilians to have the most advanced and well capitalized telecommunications system available. Lifting all restrictions on foreign investment would truly be a win/win proposition for both parties. A Brazilian official recently mentioned that his government might change this limitation. This is encouraging, and we hope the changes are made, but the U.S. would be in a much better position to influence the outcome if it were actively engaged in the process.

❹ Competition Policy

Competition policy is perhaps the most important area of interest. It was finally included as a legitimate subject of inquiry at Cartagena, when a working group was formed to study its implications. Broadly defined, competition policy is a set of principles that will foster competition at the local as well as international level. One of those principles is the creation and protection of long-term property rights, including contract rights. This requires a judicial process where contracts are respected and enforced. Contracts that extend beyond a five-year period are rare in Latin America, and you will hardly ever find contracts beyond ten years. This is mainly because businesses and people in the region have little confidence that their governments will respect property rights over the long term. In the case of AT&T, we have had an ongoing problem with contractual obligations we have entered into with various government or private sector monopoly phone companies. In international telecommunications, calls traditionally have been delivered by international carriers, like AT&T, which must hand off telephone traffic to the monopoly carrier in the foreign country. The payments regime for these "hand-offs" is known as the accounting rates process. Historically, accounting rates have not reflected market rates, with monopoly foreign carriers reaping windfall profits. AT&T and other U.S. foreign carriers are in the process of renegotiating contracts with these foreign carriers to get these rates down, but many of these carriers use their monopoly position to violate their contract rights or discriminate against U.S. carriers in violation of prior agreements. We should include strong provisions for the respect for property rights and the adjudication of property rights disputes in any trade agreement.

Another aspect of competition policy deals with the elimination of monopolies. In the case of accounting rates, monopoly carriers have the power to reduce the profitability of AT&T and other U.S. carriers, and thus the ability of our companies to create wealth and jobs here in America. Monopoly foreign telecommunications carriers also raise the prices for U.S. customers who end up subsidizing the programs of the foreign monopolies, such as lower domestic rates in the foreign country. The result is often poor quality and limited services for both U.S. and Latin American customers. U.S. carriers must pay hundreds of millions of dollars annually in settlement payments to these Latin American carriers, with few benefits flowing to the customer.

As liberalization occurs in Latin America, competition policy will play an even larger role as the regulatory issues become more complicated and subtle. The telecommunications industry is a perfect example of this. As foreign governments allow competition in international long distance, the big issue now is how will the costs for interconnection into the local network be decided. In Mexico, we see this very process going on today. AT&T and the other international carriers are preparing to enter the Mexican long distance market. We are asking to interconnect with the local monopoly at what we believe is a cost-based rate. However, there is a great disparity between what the long distance carriers believe is a cost-based rate and the current position of the telephone monopoly. We obviously don't agree on what the rate should be at this time, but that is why competition policy becomes so important. As markets are liberalized, businesses become ever more susceptible to market pricing, and so our cost structure must realistically reflect what the market demands. AT&T CEO Bob Allen has taken some harsh criticism recently about his decision to lay off thousands of workers in what people are describing as heartless and unnecessary. But as economist and *Washington Post* writer James Glassman said recently, AT&T must change because it cannot survive with its old monopolistic structure—it is no longer a monopoly. We fight for market share on a daily basis against companies like MCI and Sprint that continue to grow. As competition in telecommunications increased here in the U.S., it became imperative to operate the company on a cost-based structure. In fact, critics five years from now may well say the restructuring was not radical enough. Consequently, since most U.S. businesses work under these exacting conditions of the market, we must insist that equal competition exists in the countries with which we will be trading under an FTAA. So our trade negotiators must insist on including mechanisms in any future FTAA that will limit the discretion of governments to impose political criteria on what needs to be a cost-based, market-driven process. In this particular case, that would mean establishing a clear set of rules and standards for cost-based interconnection fees.

To show how active U.S. engagement can make a difference in this particular area, we can look to Mexico. Because of our close relationship with Mexico through NAFTA, Mexico has recently announced it will follow an FCC-styled bidding process for the allocation of PCS services throughout Mexico. This process establishes a clear set of rules and procedures for bidding, and requires an open process.

There is one other area that tends to influence all commercial activities in Latin America, but does not clearly fit into any of the categories above. That is the issue of transparency. Until all government decisions are open to public scrutiny there will always be room for corruption and behind-the-scenes deals. This environment may help a select few businesses with the right connections, but it harms the economy overall and it is extremely inefficient because it injects uncertainty into the commercial transaction. This way of doing business has serious costs for U.S. businesses. The Department of Commerce recently concluded that since 1994 there have been over 100 instances of foreign firms using bribery to undercut U.S. firms' efforts to win international contracts worth roughly $45 billion. Foreign firms that bribe win bids approximately 80 percent of the time. U.S. trade negotiators must establish clear and concise rules of commercial conduct when governments are involved, and we must insist on opening up the process to public scrutiny.

Reviving the Trade Agenda

So how do we bring about these very difficult changes in Latin America? We do it through active and aggressive engagement. We do it by showing the American people why we need Hemispheric free trade to remain internationally competitive. We do it by showing how free trade can be a win/win for those who are not seeking special favors from governments. We don't do it by folding our hands and talking a good line about how everyone wins under free trade. We don't do it by failing to reward those countries, like Chile, that have done their utmost to open their markets. Chile is the crown jewel of Latin America. Many sectors of its economy are more open than ours. Its international telecommunications industry is so competitive, there have been times this year when it was cheaper to call from New York to Santiago, than from New York to Los Angeles. It has a strong democracy and a flourishing middle class. What kind of message do we send to the rest of Latin America when we fail to even engage Chile in negotiations?

Conclusion

What happened in Cartagena was inevitable given the direction of our current trade policy. But that direction can be altered with sufficient political will. One thing is certain. Good intentions by the U.S. are not enough.

I met with Commerce Secretary Ron Brown in Nicaragua last week. I believe he is committed to free trade in the Americas, as is U.S. Trade Representative Mickey Kantor, but personal commitment is not enough. The forces against Hemispheric integration are simply too strong. And much more is at stake here than Hemispheric integration. U.S. global leadership rests on our ability to create a trading model at home, that we can then export to the rest of the world. Imagine how much more influence we would have with our Asian trading partners if we had just concluded a Hemisphere-wide, comprehensive, NAFTA-style FTAA? The benefits would be enormous for U.S. businesses and the world economy as a whole.

But the reality today is that our trade agenda is still in a holding pattern. I sincerely hope we can remove the obstacles from the runway before we run out of gas.