UPDATE

Backgrounder

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U.S NEEDS FAST TRACK TRADE AUTHORITY NOW

(Updating *Backgrounder* No. 1027, "Putting Trade with Asia and Latin America on a Fast Track," March 23, 1995.)

In his State of the Union speech on February 4, 1997, President Bill Clinton called on Congress to approve a new "fast-track" negotiating authority to craft new trade agreements with Latin American and Asian countries. The United States, President Clinton said, "must act to expand our exports, especially to Asia and Latin America—two of the fastest growing regions on earth—or be left behind as these emerging economies forge new ties with other nations."[1]

President Clinton is right that free trade is vitally important to America. Free trade agreements with other countries have strengthened the American economic presence in the global economy, and have promoted the interests of American companies abroad and American workers at home. The U.S. is the world's largest exporter of goods and services. In 1995, the U.S. exported over $783 billion in goods and services worldwide. One out of every five jobs in America today is supported by trade. Since 1988, almost 70 percent of the growth of the U.S. economy was derived solely from exporting goods and services. Total international trade—exports plus imports—accounted for 23.1 percent of America's gross domestic product in 1995, and the Office of the U.S. Trade Representative estimates that by 2010, trade will represent 36 percent of America's GDP.[2]

President Clinton is also right that a fast-track negotiating authority is necessary for the Administration to advance new trade liberalization initiatives in Asia, Latin America, and other regions of the world. It is essential for the swift approval by Congress of trade agreements negotiated by the executive branch of government. Under fast track, trade agreements are guaranteed a straight up-or-down vote in Congress, and are not subject to amendments. Without fast-track authority, pressure from congressional constituencies with a direct interest in trade will likely shift the debate toward trade protectionism, which would be harmful for the U.S. economy as a whole. Moreover, American-led trade liberalization in Asia and Latin America could falter, with detrimental consequences for American exporters and workers whose livelihood depends on exports.

1 "Clinton calls for fast-track authority in State of the Union speech," *Inside NAFTA*, Vol. 4, No. 3 (February 6, 1997), p.1.

2 John Sweeney, Bryan T. Johnson, and Robert O'Quinn, "Building Support for Free Trade and Investment," Stuart M. Butler and Kim R. Holmes, eds., *Mandate for Leadership IV: Turning Ideas Into Actions* (Washington, D.C.: The Heritage Foundation, 1997), pp. 629-668.

To obtain a new fast-track authority from Congress, President Clinton must make good on his word. He must exercise strong and sustained leadership. In short, the President must lead the effort to put U.S. trade policy back on track by immediately submitting to Congress a fast-track proposal so that formal negotiations between the Congress and the Executive can be started without further delay. If strong Executive leadership is lacking, even the wisest and best-intentioned congressional leadership will find it nearly impossible to advance America's worldwide trade interests.

PUTTING AMERICAN TRADE EXPANSION BACK ON TRACK

Although America's international trade priorities and commitments span the globe, the Western Hemisphere is the region where U.S. trade negotiators scored the most impressive gains during the 1990s. Moreover, the countries of the Western Hemisphere have been committed since the Summit of the Americas was held December 9-11, 1994, to creating a Free Trade Area of the Americas (FTAA) by 2005. In contrast, the Asia-Pacific Economic Cooperation (APEC) forum has set a faraway date of 2020 for the complete elimination of all trade barriers in Asia, and no decision has been reached on when a new round of multilateral trade negotiations may be launched under the auspices of the World Trade Organization. Since the FTAA process in the Western Hemisphere is more advanced, and since the North American Free Trade Agreement (NAFTA) is so much superior to the WTO agreement, the process of putting American trade expansion back on track must begin in Latin America with the swift inclusion of Chile in NAFTA.

After ignoring Latin America for over two years, the Clinton Administration apparently is determined to make things right with the region during 1997. Chilean President Eduardo Frei will visit the U.S. from February 24-28, 1997, and President Clinton is expected to use the occasion to reaffirm his commitment to including Chile in NAFTA within the year. President Clinton also plans to visit Mexico on April 11-12, and will travel in May to Costa Rica, Barbados, Brazil, and Argentina. These will be the President's first visits ever to any Latin American or Caribbean country, and they are clearly intended to lend weight to the Clinton Administration's contention that the U.S. is coming off the bench to rejoin the process of hemispheric trade expansion.

Before the U.S. can become a real player again in the ongoing process of trade liberalization in Latin America and Asia, however, the Clinton Administration must first obtain a fast-track authority from Congress to negotiate with Chile and other countries. Moreover, the Administration must act quickly if it wishes to obtain fast-track authority before the end of 1997.

TIMING IS CRITICAL

The pace of legislation in Congress is such that the House of Representatives probably will not approve a new fast-track authority until this summer. Even that late date for renewing fast-track may not be achieved if the executive branch does not act quickly and decisively. Congressional leaders caution that the Administration has only a two-month window of opportunity in March and April to get the ball rolling again on trade, in order to assure itself of a fast-track authority in time to start formal negotiations with Chile by September 1997. In May, they add, Congress will start focusing on the annual budget appropriations process, and trade with Latin America will be displaced by the debate on most-favored-nation trade status for China. Clearly, the issue is urgent and immediate.

To obtain from Congress the fast track authority that is essential for putting American-led global trade expansion quickly back on track, the Clinton Administration should:

- **Submit a fast track bill to Congress immediately**. Every minute wasted moves Latin America and Asia further away from the economic and political model that bests suits America's worldwide economic and security interests. Republican leaders in Congress are ready to work with President Clinton on the swift approval of a new fast-track negotiating authority, but the Administration must first submit a proposal that Congress can work with. Ideally, the Administration's fast-track proposal should include Chile and other countries in Latin America and Asia. It should also authorize the President to participate in a new round of multilateral negotiations to liberalize trade and investment through the WTO. Moreover, the Administration's fast-track proposal should be for a period of not less than five years, and it should not be cluttered with labor and environmental provisions. Raising labor standards worldwide and preserving the global environment are important and legitimate concerns, but they should not be linked to trade agreements because such linkages are used by protectionists to block free trade. More appropriate avenues exist for dealing with labor and environmental issues, such as the International Labor Organization (ILO) and the negotiation of environmental treaties between countries.

- **Renew President Clinton's pledge to include Chile in NAFTA** during President Frei's forthcoming visit to the U.S., and establish a specific date for Chile's formal accession to NAFTA. If President Clinton has a new fast-track authority in hand by September, it is feasible that negotiations with Chile could be wrapped up by the end of 1997, with Chile formally joining NAFTA no later than January or February 1998. Most of the groundwork already has been laid. The basic NAFTA treaty between the U.S., Mexico, and Canada has existed since October 1992, and NAFTA has been in effect with great success since the start of 1994. Moreover, while the U.S. was idle on the sidelines during 1995 and 1996, Chile and Canada concluded a bilateral free trade agreement, while a bilateral Chile-Mexico pact was improved. Folding these bilateral agreements into a four-country NAFTA with the U.S. should not require prolonged trade negotiations—unless the Clinton Administration chooses otherwise.

- **Reaffirm that NAFTA is the foundation of a Free Trade Area of the Americas (FTAA).** In the two years since the Clinton Administration stopped leading the process of hemispheric trade expansion, the South American Common Market (Mercosur)[3] has emerged as an alternative to NAFTA on the road to the eventual creation of an FTAA. With Brazil as the dominant economy of this six-country customs union,[4] Brazilian politicians, business leaders and intellectuals have vigorously promoted the creation of a South American Free Trade Area (SAFTA) centered on Mercosur. Brazil is also seeking to establish special trading relationships with the European Union and Japan. Within the FTAA process that began with the Summit of the Americas in December 1994, Brazil has filled the vacuum created by America's absent leadership with a proposal to consolidate Mercosur into a regional "building block" before negotiating as a single entity with NAFTA to establish the FTAA.

  Brazil can be expected to push vigorously for the adoption of this strategy at the third post-Summit of the Americas Trade Ministerial, which is to be held in the Brazilian city of Belo Horizonte on May 16-17, 1997. If the fast-track renewal process is not well underway before this trade ministerial, the Brazilian proposal may well prevail in the FTAA process. This would break down the hemispheric trade liberalization process into smaller sub-regional blocks in North and South America. U.S. exporters would be at a competitive disadvantage with producers in the Mercosur countries because of higher external tariffs and other non-tariff barriers. The sub-regional building block approach also would hurt smaller South American economies who would find themselves ultimately at a negotiating disadvantage in a block-to-block FTAA negotiating process where the dominant countries would be the U.S. and Brazil.

  If Brazil appears to be stealing the march on the U.S. in South America, this is because the U.S. has not been marching at all since the Mexican peso collapsed. However, while Mercosur undoubtedly is an important factor in the process of hemispheric trade liberalization, NAFTA is a better trade agreement in terms of the long-term interests of any country participating in NAFTA. In fact, NAFTA is a more

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3 The Spanish acronym is *Mercosur* and the Portuguese acronym is *Mercosul*.

4 The original four founding members of Mercosur are Brazil, Argentina, Uruguay, and Paraguay. Chile became an associate member in 1996, while Bolivia became a member at the beginning of 1997. Venezuela and Colombia expect to join Mercosur before the end of 1997.

liberal, open, and advanced free trade agreement than the 1994 Uruguay Round Agreements that created the World Trade Organization. The Clinton Administration should make the case strongly for NAFTA's superiority as the core foundation of an FTAA, and should press Latin America to conduct negotiations on a hemisphere-wide basis, through a negotiating mechanism evolved from the 11 existing FTAA working groups, so that all 34 countries in the Western Hemisphere can simultaneously negotiate region-wide disciplines and market access.[5]

- **Announce that NAFTA will be expanded to the Asia-Pacific region.** Membership in NAFTA should not be confined only to countries in the Western Hemisphere. The Clinton Administration should seek to expand NAFTA to Asian countries—like Australia, New Zealand, and Singapore—that wish to liberalize their economies and trade policies at a faster pace than the 20-year timetable adopted by the members of the Asia-Pacific Economic Cooperation (APEC) forum. This would pick up the pace of trade liberalization in Latin America and Asia.

- **Make the case for NAFTA.** When the Mexican peso collapsed two years ago, the Clinton Administration, congressional leaders, and U.S. business leaders retreated from free trade and NAFTA. They surrendered the field of public debate to liberal and conservative advocates of protectionism who blamed NAFTA falsely for causing the peso crisis in Mexico, and who spread statistical disinformation about NAFTA's results in 1995 and 1996. As a result, recent polls show that a majority of Americans oppose negotiating more NAFTA agreements.

  NAFTA, however, did not cause the Mexican peso crisis. The real cause was the unsound fiscal and monetary policies applied by the Mexican government during 1994. In fact, NAFTA prevented the crisis in Mexico from becoming much worse, and helped the government of President Ernesto Zedillo stay on course with free-market policies at a time when Mexican populists and leftists were clamoring for a return to statist intervention and control of the Mexican economy. Moreover, NAFTA clearly has been a spectacular success. During 1994 and 1995, total three-way trade between the U.S., Mexico and Canada soared over $80 billion, creating 1.6 million new jobs in North America. And in 1996, total bilateral trade between the U.S. and Mexico topped $140 billion, an increase of about 50 percent compared to 1993, the last year before NAFTA was implemented.

  Since many Members of Congress may be inclined to delay approving a new fast-track authority until the official results of NAFTA's first three years have been published by the Administration and studied by Congress, the Administration should not wait until the legally mandated deadline of July 1, 1997, to publish those results. Instead, the Administration should launch a national information campaign in March, touting the demonstrable positive achievements of NAFTA, and should maintain that campaign throughout 1997 as the process of renewing the President's fast-track authority moves through Congress.

CONCLUSION

The renewal by Congress of a fast-track negotiating authority is essential for putting America's worldwide trade liberalization policies back on track. However, Congress will not do this unless President Clinton leads the charge with focused and forceful determination. The President must take the lead in changing the American public's mistaken views about free trade. He must convince Congress and the public that free trade is one of America's greatest strengths, one of its undervalued freedoms, as well as a check on the excesses committed by government. As Senator Phil Gramm noted recently, "Tariffs cheat mankind, and pro-

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5 See John P. Sweeney, "Restoring American Leadership in Latin America and the Caribbean," Heritage Foundation *Backgrounder* No.1092, September 25, 1996.

tectionists are engaging in an act of piracy against consumers." To contain this kind of piracy, the President —and Congress—must renew fast-track negotiating authority as soon as possible.

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