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Promote Andean Free Trade But Limit Preferences

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In 2004, the United States began negotiating free trade agreements (FTAs) with Colombia, Peru, Bolivia, and Ecuador. These were intended to replace the limited, temporary preferences granted to certain South American countries under the Andean Trade Promotion and Drug Eradication Act (ATPDEA). Peru and Colombia have signed bilateral trade promotion agreements with the United States, but Bolivia and Ecuador have not, asking instead that one-way preferences be extended.

- Congress should approve bilateral free trade agreements signed between the U.S. and allies Peru and Colombia.
- Extending trade preferences for a short time to Bolivia and Ecuador could sustain market openings while leaders decide on permanent reciprocal agreements.

While there is a window of opportunity, the U.S. Congress should act quickly on the signed FTAs to lock in long-term benefits for the U.S. and its prospective trade partners. Congress should also promote a provisional extension of preferences to help Bolivian and Ecuadoran FTA negotiations to advance in good faith.

Background. To accompany counternarcotics aid, the U.S. Congress passed the first Andean trade preferences in 1991 to promote sustainable economic alternatives to coca and opium poppy-crop production, as well as to strengthen the legitimate economies of Andean countries. Congress claims that these preferences have expanded employment and business opportunities. Two-way commerce with the subregion has doubled, with the United States serving as the leading source of imports and as the leading export market for each beneficiary country.

Thinking a hemispheric Free Trade Area of the Americas (FTAA) pact might be concluded by 2005, Congress approved a four-year extension of Andean trade preferences in 2002. These preferences allow duty-free importation of footwear, petroleum, leather goods, and certain apparel but will expire at the end of the year. In 2004, as progress on the FTAA stalled over U.S. and Brazilian agricultural subsidies, the U.S. Trade Representative initiated bilateral free trade talks with Colombia, Peru, Ecuador, and Bolivia.

A Closing Window of Opportunity. Only Peru and Colombia have concluded negotiations and signed bilateral FTAs—but at some cost to their political leaders. Peru's unicameral Congress approved the pact, while candidates in the country's 2006 elections campaigned against it. Now incoming President Alan García has embraced it and built popular support by calling it a "free trade agreement for the poor," pledging to accompany lower tariffs with competitive reforms. In Colombia, polls still show support for approving an FTA, though it is weakening over time, even as the government pursues FTAs with four European nations

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and Chile. These two opportunities to open markets and consolidate reforms will not last and should therefore be secured promptly.

Elsewhere, support for free trade is under assault as Venezuelan President Hugo Chávez aids anti-market autocrats in neighboring nations. Bolivia had been interested in a bilateral FTA until Chávez ally Evo Morales was elected president in 2005. Since then, Morales has signed a cooperative aid agreement with Venezuela and Cuba, has announced the nationalization of the natural gas industry, and has called an assembly to rewrite the constitution to give himself greater powers—thus rolling back reforms that had produced 10 years of modest growth for Bolivia's tiny $8.9 billion economy.

Ecuador, too, now marches toward a statist economy. In May, the government seized oil fields operated by multinational Occidental Petroleum Corporation following a contract dispute. Presidential contender Rafael Correa has promised to forge cooperative links with Venezuela and Cuba and to rewrite Ecuador's constitution as well. Interviewed in September on Ecuador's Channel 8 TV, he labeled the U.S. President "dumb" and said that "calling him the devil offends the devil." Correa took second place in the first vote on October 15 and will face trade-friendly industrialist Alvaro Noboa in a runoff election on November 26.

Forge Ties, Help Friends. The U.S. Congress should act on the Peru and Colombia FTAs at once. These countries are strong U.S. allies and have worked hard with American negotiators to transform a mere one-way preference relationship into a full-scale trade agreement. Eliminating trade barriers will consolidate and deepen economic and political ties; and FTAs, as two-way instruments, will open markets to U.S. goods, services, and investment. Both Peru and Colombia have cooperated in the fight against drug traffickers and terrorist groups. Colombia's National Police even offered to send counternarcotics experts to help Afghanistan improve its anti-drug efforts. Peru has sent peacekeepers to help stabilize Haiti's return to elected rule.

Bolivia and Ecuador are a different matter. President Morales has already reversed market reforms and scaled back counternarcotics cooperation, while a Chávez-style demagogue runs for office in Ecuador. Still, Morales does not control the current Congress, may not prevail in rewriting the constitution, and faces vigorous internal opposition. In Ecuador, a pro-market candidate could yet be elected president.

Besides swift movement on the U.S.–Peru and U.S.–Colombia FTAs, Washington should permit a two-year extension of trade preferences to Bolivia and Ecuador as a bridge to conclude bilateral free trade pacts, to be enforced only if both governments negotiate in good faith and cooperate in reducing drug trafficking. If they choose not to do so, then preferences would lapse—the snub being clearly theirs, not ours.

Conclusion. Free markets are slowly replacing what was once a near-monolith of import-substitution economies and net aid consumers in the Western Hemisphere. Joining Canada and the United States are Chile, Mexico, the Dominican Republic, Central American trade partners—and, it is hoped, Peru and Colombia. Governments aligning themselves with Venezuela and Cuba are choosing to remain in the past, dependent on oil assistance from Hugo Chávez and security details sent by Fidel Castro. U.S. congressional action can extend the reach of free markets in the region, but inaction would encourage fence-sitting neighbors to join Venezuela's aid club.

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