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VIII. U.S. GLOBAL LEADERSHIP AND OUR ABILITY TO ADDRESS TRADE LIBERALIZATION

*Peter Allgeier**

I am very glad to see people who are interested in trade issues other than permanent normal trade relations with China. There is another part of the world, and that vote is extremely important, not just in term of bilateral relations with China. It also has a very positive significance for what we are doing in this hemisphere, in terms of U.S. global leadership and our ability to address trade liberalization. But I cannot resist pointing out that in terms of the volume of trade, the amount of trade we do with this hemisphere dwarfs what we do with China at present.

If you look at our exports to Latin America and the Caribbean, not even counting Mexico, we export four times as much to Latin America and the Caribbean as we do to China. And if you add in the \$87 billion that we sent to Mexico last year, we export more than ten times as much south of the Rio Grande as we do to China at this point.

A very important factor in this has been the dynamic changes that have occurred in this hemisphere. The economic reform that has occurred during the 1990's, that started with Mexico and was picked up by the other countries in the hemisphere, is as significant as the reforms occurring in Eastern and Central Europe during the same decade. This reform movement is moving the hemisphere toward a more market-oriented economic system, which is essential if we are to have economic integration. This includes: reducing the role of the state in decisions on investment and trade, increasing privatization of state enterprises, pursuing responsible monetary and fiscal policy, and creating a positive climate for investment.

These reforms have been tested very severely in the last several years. First, of course, in Mexico in 1994. Then, in South America, especially in Brazil, in MERCOSUR in 1999. But in spite of these pressures, the countries of the hemisphere have not reversed course. They have maintained the course of economic reform — of a more market-oriented system and a more open trading regime.

There are at least two critical factors in explaining this, aside from the political will of these countries. One is the importance of the U.S. market, with its continued economic growth and openness. When you look at what happened in Mexico during their worst years of distress, in 1995 and 1996, a major factor in why they were able to turn things around was access to our market. If you look at the trade figures, it is stunning. Their exports to

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the U.S. increased from \$50 billion in 1994 to \$110 billion in 1996. Without that export expansion, they would not have been able to make their economic reversal and stay the course of reform. Similarly, when Brazil had its difficulty in 1999, their exports to the U.S. increased by \$1.2 billion. So, we play that important role as the hemisphere's largest, rapidly expanding market for the rest of the hemisphere's goods and services.

The other factor explaining the continuance of this economic reform and our success in the FTAA is the continuing movement toward trade liberalization in the hemisphere. It started with NAFTA, but it has continued with other sub-regional arrangements, such as MERCOSUR's establishment, the agreements between Chile and Canada and Costa Rica, and especially Mexico with its NAFTA-like agreements. The center of this — the thing that is giving it its impulse hemisphere-wide — is the Free Trade Area of the Americas.

So, let me say just a word or two about where we are in that process. The Free Trade Area of the Americas was launched in Miami at the Summit of the Americas in 1994. The vision was of something very much like NAFTA for the whole hemisphere; that is to say, a comprehensive free trade area.

This was launched by the region's Presidents and Prime Ministers, and they directed the trade ministers to carry it out. There was no blueprint. What there was, though, was a very clear statement by the leaders that this was to be comprehensive. And they named all of the areas of trade that were to be included. That has been very, very helpful to us.

The ministers have picked up the charge from the leaders and have been directing us in our negotiations. The most recent meeting of the ministers was in Toronto in November of last year, where they gave us a very clear mandate of what we are to achieve over the coming year.

One of the things that has been very helpful to us in our work, is that the mandate tells us all we need to know to continue our work between now and next April, when the ministers get together again, and when the leaders get together again in Quebec. What that means in terms of the U.S. political cycle is that we can move ahead with our work, without interruption from the American political cycle. There is no need for further ministerial decisions between now and next April, and there is no need for further Presidential decisions. We have our marching orders and we can follow them even if the rest of the country concentrates on other matters. That is very important in terms of maintaining the momentum and keeping the confidence of the countries of Latin America that we will continue this commitment to the Free Trade Area.

Now what exactly is it that we are doing during this year? The most important thing that we are doing is developing the draft text of the Agreement. We have nine negotiating groups. All thirty-four countries participate in each of the nine groups, and they cover the full range of

subjects that will be part of the final agreement. The subjects range from market access, which of course includes tariffs and quotas and product standards, to agriculture, investment, services, intellectual property, government procurement, anti-dumping and countervailing duties, dispute settlement, and competition policy. That is the gamut of issues that are being negotiated. Countries are coming in every single week in Miami, and putting down texts that they would like to see in each chapter of the Agreement.

Where we can reach agreement on such texts, we have what is called “clean text.” Where there are competing proposals, we put brackets around the texts of those competing proposals. So if MERCOSUR has a proposal on services dealing with “most favored nation” treatment, the United States has a different one, and Bolivia has another one, there will be three pieces of text with brackets. Then we negotiate to try to pull them together so we can, as we say, “remove the brackets.”

That is what we are doing for the rest of this year, so when the ministers and the leaders get together next year, they will have in front of them a draft — a bracketed, legal text of the agreement. That leaves us with two things to do after April of next year. First, we must negotiate away the brackets to create the disciplines that each country will have to abide by. Second at that point, we will start to negotiate the actual commitments on how we will eliminate tariffs and divide the fee schedule. We will be negotiating with, for example, Chile, as to what will be, item by item, the schedule by which they eliminate their duties against U.S. products. We will be doing the same thing with the MERCOSUR countries and Andean countries and vice versa.

So, by the time we finish this year, we will really be at the point where we get to the last phase of the negotiations. That is a difficult phase, and it will last more than a year or two, but it is very concrete, and it goes back again to the point of this conference. Very specific legal issues will have to be thrashed out.

One thing I would like to emphasize is that we are creating one set of rules for the hemisphere. Right now, business people, if they are dealing in this hemisphere, have to know what the WTO rules are, because thirty-three of the thirty-four countries belong to the WTO. But, if they are dealing with trade between Brazil and Chile, they have to know the rules governing Chile’s associate membership with MERCOSUR. If they are dealing with trading between Canada and Costa Rica, they have to look at that bilateral arrangement. The purpose of the FTAA is not to add yet another layer of rules that business people have to follow, but to replace various sets of rules, so that there can be one set of rules where there is coverage by the FTAA. This means that where we reach agreement, we will be superceding the rules that exist now, such as NAFTA, MERCOSUR, or the bilateral free trade areas.

We are doing something else simultaneously. We recognize that the agreement will not be completed for a number of years. But there are a number of measures that the countries can take now to facilitate the movement of commerce throughout the hemisphere. We call these business facilitation measures. They are not concessions from the U.S. to Guatemala, or concessions from Peru to Brazil, or concessions from Canada to the Dominican Republic. They are measures that help us all become more competitive and make business easier to conduct. We have already agreed on a set of customs measures that all the countries are implementing. These are things such as expediting the procedures for clearing goods that are brought through express shipments, or lower transaction goods. The Implementary code of conduct for customs officials — in terms of ferreting out corruption setting up a rule of law, and establishing predictability through transparency — has benefits even broader than the narrow commercial ones of helping people to clear through customs. The measures also include promoting the use of the electronic media for filing and processing data for customs clearance.

Again, I want to emphasize that the thirty-four countries are doing this as a group. We have all agreed to implement the same eight measures, and each of those measures has a set of elements. We call them primary elements, so that every country implements the measures in roughly the same way. We have to take into account differences in administrative regimes and legal systems, but it is not a system where Bolivia says, "Oh, I'm doing this, but I'm doing it my way," and the U.S. says, "Well, we're doing it, but we're doing it a completely different way." So, there is this notion again, even in the business facilitation, of working toward a common, single-hemispheric integrated zone.

This year, we also are working with the other countries to identify a second round of business facilitation measures. Those are really the most important things that we are doing now within the negotiations in Miami. I would like to say a word or two, however, about the U.S. role in this. I think I can say accurately that the United States has been the leader, both intellectually and in pushing the pace of the negotiations. That said, some of our partners, and I would say very, very few in recent months, question the political leadership of the United States in this exercise. Of course what they point to is the absence of the fast-track Congressional approval procedures. There is no doubt that in a perfect world, we would have these procedures in place. At the end of the negotiations, the rest of the hemisphere must have confidence that when we take the final agreement to the U.S. Congress for approval, we will be able to get it through the Congress without our negotiating partners having to negotiate 535 more times with each member of Congress.

I just want to clarify that we only have to take an agreement to Congress to the extent that we change U.S. law. In other words, if our

partners were to agree to an FTAA that was identical to U.S. law, we wouldn't have to go to Congress. But at a minimum we would have to go to Congress, because you can only change a tariff, or eliminate a tariff, by changing U.S. law. So, we will have to take an agreement to Congress to implement it in terms of the changes that will be necessary in U.S. law. This means that a very high priority for us in the United States must be to demonstrate to the U.S. public that continued trade liberalization between the United States and the rest of the hemisphere is in our interest.

I think that the two recent legislative events having to do with trade in the U.S. Congress are very positive in that regard. First of all, the passage of the CBI enhancement bill shows that there is a critical mass of support for further economic integration with this hemisphere and with our neighbors. Second, the passage in the House of Representatives of permanent normal trade relations with China shows that with a strong case and a very hard effort in the face of opposition, there still is a majority of Congress that supports trade liberalization.

These two measures in the Congress will be extremely helpful in sending a signal to the rest of the hemisphere that they can and should negotiate in confidence with the United States. The logic for free trade in our hemisphere is clear. If you look at the degree to which we all trade with each other, it is very, very high. For the United States, 44% of our exports go to countries in the Free Trade Area of the Americas. That is very significant, but that is probably the lowest percentage of any country participating in these negotiations. For Brazil, it is 48%, for Jamaica it is 56%, for Colombia it is 67% of their trade is with other countries in the FTAA; and for Mexico it is 94%. It does not make sense for us to be taxing ourselves on all of this trade.

Our competitiveness vis-a-vis the rest of the world, and our prosperity as a hemisphere, will be greatly improved by negotiating this free trade area. As I said earlier, this will have an impact beyond the purely commercial. This helps to fortify the rule of law within the hemisphere, and it also contributes to the political stability of the hemisphere and the movement toward the kinds of values that we in the United States hold so dear.

These elements that I have described indicates to you that we are in the position to conclude the negotiations well within the time frame envisioned by the leaders at Miami. We still have a multitude of policy issues and legal issues to work through, but we have the commitment of our trading partners to do that, and I am confident that as there are more and more conferences like this, with more people looking at these issues, we will be able to work our way through them.

Introduction by Stephen Powell

I want to turn to the far South of the hemisphere next with Adrián Makuc. Adrián is Director of Foreign Trade Policy in Argentina's Ministry of the Economy. He has broad responsibility, not only for the extremely active MERCOSUR agreement and all of the developments that are going through, but also for the Free Trade Area of the Americas, for the Aladi umbrella agreement, for many of the economic pacts in the region, as well as for handling WTO matters.

Adrián was one of the original participants in the Free Trade Area of the Americas talks. He headed up the working group on anti-dumping and subsidies, which laid the groundwork for the beginning of negotiations. It was a very difficult job that he accomplished extremely well. He now oversees a wide array of issues, not the least of which is the strengthening of MERCOSUR, not only from the Brazilian crisis, but also from the Asian economic crisis.

IX. MULTILATERAL TRADING SYSTEM AND REGIONAL INTEGRATION

*Adrian Makuc**

A. Introduction

The multilateral trade rules are the basis of the so called "multilateral trading system," and they are contained in the Agreements of the Uruguay Round. The World Trade Organization (WTO) is responsible for these Agreements and has a structure of Councils and Committees for that purpose: General Council; Council of Trade in Goods, Services, and Intellectual Property; and the respective committees of each Agreement mentioned, as well as the Committees of Trade and Development, Balance of Payments; Trade and the Environment; and Trade Policy Review Mechanism.

In this context, the treaties of regional integration that evolved between the end of the 1980's and the beginning of the 1990's created a perspective of increasing concern for the future of the multilateral trade rules for goods and services. This concern was somewhat reduced after the end of the Uruguay Round negotiations. The formation of the new rules to liberalize trade of goods and services, and the creation of the WTO, set up new

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