

The FTAA and Beyond?

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In view of the many comments that directly address NAFTA and the FTAA, I would like to put these arrangements in a broader context. I address two questions:

- How did we get here? My focus here will be on the political changes that affect trade policy incentives
- Where are we going? I argue that political changes, combined with a flawed belief in the bicycle theory of trade (keep moving forward on trade liberalization, or you fall off), is the cause of our problems.

I. HOW DID WE GET HERE? (TO THE LATE 1990S)

A. The Key Systemic Shifts

1) Overall Power and Economic Shifts

- End of the Cold War 1989
- Continue deepening of the EU
- Rise and fall of Japan
- Rise of China (although trade deficit lower than with Japan and below \$50 billion until 1997)
- Entry of Eastern Europe

2) Institutional problems

- GATT problems with the Uruguay Round

B. In this context, we see:

1) First, narrowing of numbers from a US policy perspective:
Can-US FTA 1988, APEC 1989, NAFTA 1994, FTAA 1994

2) Then, issue narrowing as in ITA 1997, BTA 1998, FSA 1999

This change is accompanied by or is sets in motion:

C. Domestic Changes

- 1) Post debt crisis shifts in Latin American policy from Import Substitution Industrialization to Export Oriented Industrialization in the 1990s
- 2) Labor and environment reaction to NAFTA leads to creation of a coalition against free trade
- 3) Democrats vs. Republicans: Clinton uses Republicans to pass NAFTA and WTO, which creates animosity, particularly over fast track

II. WHERE ARE WE GOING?

A. Systemic Shifts And Shocks

- 1) 9/11 and an increasingly push to close in some cases or to shift to links to allies
- 2) China a manufacturing superpower
- 3) Rise of India in white collar outsourcing
- 4) US a military superpower, but operates in an multipolar global economy

B. Domestic Shifts

- 1) Coalition for free trade undermined as a result of sectoral agreements that buy off winners who now are interested in their sectoral agreements but not in broad scale liberalization, leaving textiles, steel, and agriculture as the powerful protectionist players who face little opposition.
- 2) Increasing partisanship in trade with Democrats joined by populists and Republican right, especially in the context of 9/11

C. Current Interests

The current situation is detrimental to further liberalization. I am skeptical of the typical “political will” arguments. The real question is what are different actors’ interests before we can address what leaders might be able to do.

1) National interests:

- Mexico and Chile: In view of NAFTA and the bilateral agreement with the U.S., neither has much interest in FTAA or the WTO. As hubs, they benefit from investment diversion and like the status quo. As one Mexico negotiator put it to me, “As soon as we get the agreement with Japan, we are done.”

- EU: Widening to the east. This is accompanied by the pursuit of interregional accords with Latin America, ASEM, EU changes with former LOME countries.
- US pursues bilateral agreements, ignores APEC as a forum, focus on FTAA
- ASEAN plus 3 interest is now moving along PM Mahathir's proposals in the early 1990s. NEA talks, and Asian bilaterals as a response to perceived outsider status with US interest in the FTAA and Latin America more generally as well as EU widening.

2) *Domestic Interests*

- Negotiators have more to do with bilaterals
- Politicians like bilaterals because they can point to negotiation successes in the short run
- Short-sighted industries get what they want, at the cost of longer run stability
- Consultants and lawyers have a field day with domestic content rules in bilateral agreements

III. POLICY SUGGESTIONS

- We need WTO reform with respect to the decision-making procedures of the organization to prevent one country vetoes.
- We need systematic efforts to build free trade coalitions, especially in developed countries who protect textiles, steel and agriculture. Wishing these problems away by advocating unilateral liberalization as an optimal solution is politically naïve.
- We need better economic policies to promote adjustment. Trade policy cannot be divorced from domestic economic policies except in economics textbooks.
- I believe that countries must actively pursue WTO reform and focus on the WTO arena. As a second best solution, inter- and trans-regionalism are likely to be better than the pursuit of bilateralism or regionalism, which are the likely alternatives. Here, there may be useful lessons from the EU's interregional strategies and the US experience with APEC.