Order Code IB95017

Issue Brief for Congress
Received through the CRS Web

Trade and the Americas

Updated September 20, 2002

Raymond J. Ahearn
Foreign Affairs, Defense, and Trade Division

CONTENTS

Trade and the Americas

SUMMARY

At the Summit of the Americas held in December 1994, 34 hemispheric democracies agreed to create a "Free Trade Area of the Americas" (FTAA) no later than the year 2005. If created, the FTAA would have 34 members (Cuba is not included) with over 800 million people. The population alone would make it the largest free trade area in the world with more than twice the 375 million of the now 15-nation European Union.

In the seven plus years following the 1994 summit, Western Hemisphere trade ministers have met six times to advance the negotiating process. At the sixth meeting in Buenos Aires in April 2001, ministers made public a draft FTAA agreement that included preliminary chapters on all nine negotiating groups: market access, agriculture, intellectual property rights, services, investment, government procurement, competition policy, dispute settlement, and subsidies. The seventh Ministerial will be held in Quito, Ecuador starting November 2, 2002. The United States and Brazil will assume co-chairmanship of the negotiations following the Quito meeting.

Assessments differ on whether the movement toward hemispheric free trade is "on-track" or "off-track." The former perspective holds that a solid foundation and structure for the negotiations has been agreed to, draft chapters have been submitted, and that a schedule for tariff negotiations starting December 15, 2002 is in place. The latter perspective holds that political and economic turbulence in Latin America are impeding efforts to achieve freer trade.

The FTAA process is also tied closely to four other issues that have entailed on-going congressional interest. The first involves an invitation extended to Chile following the Miami Summit to join NAFTA. Despite a number of setbacks and delays, trade officials in both Santiago and Washington are now predicting that negotiations on a bilateral free trade agreement can be completed by this December. Passage of legislation renewing presidential trade promotion authority evidently has provided new impetus to concluding this free trade agreement. The second issue concerns preferential tariff treatment for Caribbean and Central American countries. Ever since NAFTA was proposed in the early 1990s, Caribbean Basin leaders have expressed concern that Mexico's more preferential trading status would erode its preferential access to the U.S. market as provided by the 1984 Caribbean Basin Economic Recovery Act (CBERA). Subsequently, these concerns have been addressed substantially by passage of the Caribbean Basin Trade Partnership Act (P.L. 106-200) and the Trade Act of 2002 (P.L. 107-210). The third issue involved reauthorization of the Andean Trade Preferences Act (ATPA), a program granting certain tariff preferences to Bolivia, Colombia, Ecuador, and Peru. Following a long debate, Congress reauthorized the program and expanded it into the Andean Trade Promotion and Drug Eradication Act (ATPDEA), Title XXXI of P.L. 107-210. The fourth issue relates to a proposed negotiation of a free trade agreement between the United States and five Central American countries – Costa Rica, El Salvado, Guatemala, Honduras, and Nicaragua. The Bush Administration is expected to notify Congress of its intent to launch free trade negotiations with these countries this fall.

Most Recent Developments

Deputy U.S. Trade Representative Peter Allgeier stated on September 6, 2002 that FTAA countries have agreed on the initial schedule for market access negotiations.

A U.S. trade official stated on September 6, 2002 that she thought a free trade agreement with Chile could be completed by the end of the year.

The Bush Administration announced on August 9, 2002 that it intends to formally notify Congress of its intent to launch negotiations on a bilateral free trade agreement with five Central American countries.

On May 10, 2002, Brazilian officials warned that a U.S. decision to impose tariffs on steel imports, as well as significant new subsidies provided to agriculture in the recently passed farm bill, could endanger its participation in the FTAA negotiations.

Fifty-four Senators signed a letter on March 22, 2002 urging U.S. Trade Representative Robert Zoellick to seek elimination of Chile's barriers to U.S. agriculture exports as a priority objective in the FTA negotiations.

In a speech on January 16, 2002, President Bush announced that his administration wishes to negotiate a free trade agreement with the five countries of Central America - Costa Rica, Honduras, Guatemala, El Salvador, and Nicaragua.

Background and Analysis

Summit of the Americas: Trade Results

At the Summit of the Americas held December 9-11, 1994 in Miami, 34 hemispheric democracies agreed to create a "Free Trade Area of the Americas (FTAA)." Under the Declaration of Principles, the countries committed to "begin immediately" construction of the free trade area and to complete negotiations no later than the year 2005.

The Declaration stated that concrete progress toward the FTAA will occur before the close of the century. Based on the view that substantial progress towards economic integration in the hemisphere has already been made, the declaration called for building on "existing sub-regional and bilateral arrangements in order to broaden and deepen hemispheric economic integration and to bring the agreements together." At the same time, the declaration recognized the need to "remain cognizant" of the "wide differences in the levels of development and size of economies" in the Hemisphere in moving toward tighter economic integration.

If created, the FTAA would have 34 members (Cuba is not included) with over 800 million people. This population would be more than twice the 375 million of the now 15-nation European Union.

In the seven and one-half years following the 1994 Miami Summit, Western Hemisphere trade ministers have met six times under the FTAA process. The first meeting was held in Denver in June 1995; the second in Cartagena, Colombia in March 1996; the third in Belo Horizonte, Brazil in May 1997; the fourth in San Jose, Costa Rica in March 1998; the fifth in Toronto, Canada in November 1999, and the sixth in Argentina from April 6-7, 2001.

At the San Jose meeting in 1998, the 34 Ministers responsible for trade in the Hemisphere unanimously recommended that the Leaders formally launch the negotiation of the FTAA at the Second Summit of the Americas in Santiago. As provided by the San Jose Declaration, ministers agreed that negotiating groups were to achieve considerable progress by the year 2000, with a conclusion set for December 31, 2004. The San Jose Declaration also provided recommendations on the initial structure, objectives, venues, and principles of the negotiations.

Canada was designated as the Chair of the overall negotiating process for the initial 18 months (May 1, 1998-Oct. 31, 1999) and the United States and Brazil were named co-chairs during the final two years of the negotiations (November 1, 2002-December 31, 2004). As head of both the Ministerial and Trade Negotiations Committee (TNC), the Chair will provide overall direction and management of the negotiations.

The Ministers elected to establish nine initial negotiating groups, which cover all the tariff and non-tariff barrier issue areas identified by the Leaders at the Miami Summit of the Americas. These groups are market access, agriculture, services, government procurement, investment, intellectual property, subsidies, competition policy, and dispute settlement. In addition, the Ministers created several non-negotiating groups and committees. For example, a Committee on Electronic Commerce, comprised of both government and private sector experts, was established to make recommendations on how to increase and broaden the benefits to be derived from the electronic marketplace. A Committee on Civil Society was established to receive input at the hemispheric level from labor and environmental groups, and academic, consumer, and other non-governmental groups. And a Consultative Group on Smaller Economies was established to bring to the attention of the TNC the interests and concerns of the smaller economies.

The United States (Miami) provided the venue for the negotiating groups and the administrative secretariat supporting those meeting during the first three years. Panama hosted the administrative secretariat until May 2002 when it shifted to Mexico for the duration of the negotiations..

The San Jose Declaration contains General Principles for the Negotiations, as well as General and Specific Objectives. In addition to transparency during the negotiations, the Ministers agreed that the FTAA should improve upon WTO rules and disciplines wherever possible and appropriate. This provision was an attempt to ensure that any final agreement will break down the most serious trade barriers in the region and provide a single set of rules for hemispheric trade. It was agreed that bilateral and sub-regional agreements such as NAFTA and Mercosur can coexist with the FTAA only to the extent that the rights and obligations under those agreements are not covered or go beyond those of the FTAA. It was also agreed that the negotiations will be a "single undertaking," in the sense that signatories to the final FTAA Agreement will have to accept all parts of it (i.e. cannot pick and choose among the obligations.)

At the Second Summit of the Americas, held in Chile in April 1998, President Clinton and 21 other presidents and 12 prime ministers of the Western Hemisphere agreed to begin the trade negotiations, and to make "concrete progress" toward the free trade goal by 2000. Since then, some progress has been made in developing a variety of customs-related business facilitation measures to expedite the conduct of trade even before the negotiations are completed. In terms of the negotiations, considerable progress has been made in some of the groups; much less in others.

The sixth ministerial meeting, held April 6-7, 2001 in Buenos Aires, established a more precise time frame for conclusion and entry into force of the FTAA agreement. These deadlines, which include that the FTAA countries must agree on how to conduct the market-opening portion of the talks by April 1, 2002; start tariff negotiations no later than May 15, 2002; and produce an agreement that should enter into force no later than December 2005, were approved by 33 Heads of State at the Quebec City Summit. Only Venezuela declined to endorse the timeline, arguing that the leaders' declaration as worded did not reflect the process under its national laws for ratifying the agreement. The leaders also added a new pledge that only democracies would be able to participate in the trade bloc and agreed to make public the preliminary negotiated texts. (The preliminary draft text covering nine chapters negotiated is now available on the FTAA website in the four official languages of the FTAA: English, Spanish, French, and Portuguese).

During the week of September 2, 2002, Western Hemisphere trade officials agreed on the initial schedule for market access negotiations. The market access portion of the FTAA negotiations include tariff reductions, specific commitments in services, investment, and in government procurement, and in other market barriers, such as quotas. Specifically, the countries agreed to table their market access offers between December 15, 2002 and February 15, 2003.

The seventh Ministerial will be held in Quito, Ecuador starting November 2, 2002. Ministers have instructed negotiators from all FTAA governments to undertake work to revise the draft chapters of the FTAA text, eliminating brackets in the texts to the maximum extent possible before the Quito Ministerial. The United States and Brazil will assume the co-chairmanship of the negotiations following the Quito meeting.

Vision of Free Trade in the Americas

The vision of free trade in the Americas was put forth initially by President George Bush in June 1990. Proposed as the cornerstone of the Enterprise for the Americas Initiative (EAI), President Bush envisaged the creation of a " free trade system that links all of the Americas: North, Central, and South ... a free trade zone stretching from the port of Anchorage to the Tierra del Fuego" (the southern tip of Chile). The free trade vision was enthusiastically received in Latin America.

Bush Administration officials at the time emphasized that the goal of hemispheric free trade was long-term, and could take a decade or more to come to fruition. Moreover, the hemispheric free trade vision entailed a variable pattern of economic integration, perhaps involving a number of free trade agreements with individual countries or with the region's economic groupings. Given that the timing, terms, and actual dimensions of the proposal were uncertain, its main significance was an offer of a special relationship with the countries of the Western Hemisphere.

Upon assuming office, President Clinton supported the hemispheric free trade concept. Like his predecessor, Clinton viewed movement towards hemispheric economic integration as supportive of U.S. economic and political interests.

Initially, Clinton Administration efforts to clarify the process by which it would work toward creation of a hemispheric free trade area awaited the outcome of the congressional vote on NAFTA, a trade agreement that was touted as a first step in moving towards the vision of hemispheric free trade. Since NAFTA was approved in late 1993, the Administration restated its intention of negotiating a free trade agreement with Chile first, but declined from naming other specific countries as candidates for future free trade agreements.

The 1994 Clinton Summit of the Americas in Miami helped create a political consensus in the Administration to take further steps in moving towards hemispheric integration. In remarks delivered at the Summit, President Clinton hailed the proposal to build a free trade area from Alaska to Argentina as producing more jobs in the United States and improving the quality of life for residents of the Western Hemisphere.

Since Miami, the vision of hemispheric free trade has been promoted both by the formal negotiations held as a part of the FTAA process, and by the expansion of sub-regional groups and the proliferation of bilateral free trade agreements. Under the former approach, the trade ministers of the hemisphere laid the groundwork for the formal launching of the negotiations, which was agreed to at the Second Summit of the Americas in Santiago. Under the latter approach, Mercosur (the Southern Cone Common Market) has expanded and countries such as Chile and Mexico have negotiated bilateral free trade agreements.

Movement Towards Hemispheric Free Trade

Assessments differ on whether the movement toward hemispheric free trade is "on-track" or "off-track." The former perspective maintains that a solid foundation and structure for FTAA negotiations has been completed, draft chapters have been submitted, and that a schedule for tariff negotiations starting December 15, 2002 has been agreed to. The latter perspective holds that political and economic obstacles, both in the United States and Latin America, are impeding efforts to achieve freer trade.

Those who see positive developments over the past several years point to the accomplishments of the San Jose Trade Ministerial and the Second Summit of the Americas in getting the FTAA negotiations off to an official start. The FTAA countries have reached agreement on a range of business facilitation measures that include temporary admission of certain goods related to business travelers, express shipments, simplified procedures for low value shipments, compatible data interchange systems, harmonized commodity description and coding system, hemispheric guide on customs procedures, codes of conduct for customs officials, and risk analysis/targeting methodology. The development of a draft "bracketed" text is also considered a major accomplishment. The "Action Plan" agreed to at the Quebec City Summit also specified deadlines for interim steps in the negotiations to be completed. The deadline for launching the market access portion of the negotiations has been met and FTAA negotiating groups are busy providing new draft texts in their respective areas. A second draft text is expected to be submitted at the Quito ministerial meeting this November and that text too most likely will be made available to the public.

The "on-track" perspective also points to market opening in the 1990s at both the bilateral and sub-regional level as contributing to an expansion of trade flows. In the 1990ss, intra-hemispheric trade grew more rapidly than exports to the rest of the world. This trade growth, in turn, has bolstered the economic performance of the countries of the region and enabled Latin American leaders to negotiate with the United States more confidently, as well as to embrace the long-term goal of hemispheric free trade.

Those who judge that the process is "off-track" make several points. The first is that more than seven years have passed since the commitment was made to create an FTAA and that only modest progress has been made since then. Negotiators have established a framework for negotiations and have produced a heavily bracketed text, but the differences among the key countries on basic issues remain large. Most of the hard negotiating work remains to be done. Recent U.S. actions to protect the steel industry and increase agricultural subsidies have been strongly criticized by Latin Americans.

In addition, these recent U.S. actions are providing ammunition for those in Latin America who support a return to protectionist and more interventionist economic policies. As the region has been hard hit over the past two years by economic recessions, rising political instability, declining capital inflows, and an increase in unemployment, pressures have intensified for more nationalistic policies.

Even if the region's economic and political fortunes brighten, Brazil and the United States, the two key countries in the negotiation, remain far apart on key issues. Much of Brazilian industry is not supportive of the FTAA. Long protected by high tariffs and quotas, many Brazilian companies are wary that they would be overwhelmed by U.S. competition if the FTAA were to come to fruition. The United States, for its part, is determined to maintain protection in sectors most coveted by Brazil, including textiles, steel, citrus, and agriculture. Brazil has made it clear that agricultural domestic support programs and export subsidies need to be addressed in the FTAA. The United States, however, maintains that these issues must be dealt with in the WTO Doha round because the United States does not wish to "unilaterally" disarm its farm programs with respect to the European Union. And Brazil has made it clear that it will not begin negotiations on sensitive issues until the U.S. President has fast-track implementing authority.

Public support for hemispheric free trade appears to be low both in the United States and in Latin America. Labor and environmental interest groups in the United States oppose free trade agreements that lack strong protections for basic labor and environmental standards. And many Latin American businesses and citizens fear the effects of greater exposure to the competitive pressures of large U.S. companies.

U.S. Interests and Concerns

Supporters view hemispheric integration as bolstering U.S. economic and political interests in a variety of ways. Movement towards freer markets is viewed as supportive of U.S. prosperity, while the strengthening of democratic regimes is viewed as supportive of U.S. values and security. Closer economic ties are also seen improving cooperation on a range of bilateral issues, including environmental concerns and anti-drug efforts.

In most general terms, a reciprocal reduction of trade barriers by two or more countries usually contributes to improved efficiency and higher living standards for both. As average tariffs in Latin America are roughly four times higher than U.S. tariffs (12% compared to 3%), supporters argue that the lowering of tariffs and other trade barriers should facilitate significant increases in U.S. exports.

Supporters point out that the FTAA countries (which includes Canada and Mexico) have become the largest regional destination for U.S. exports and imports. The region accounted for $321.5 billion or 44% of total U.S. merchandise exports and for $414 billion or 36% of total U.S. imports in 2001. During the same year, the FTAA region accounted for about 52% of the U.S. trade deficit. Excluding Canada and Mexico, the region accounts for about 6% of both U.S. exports and imports.

Supporters also believe that a higher degree of economic integration should contribute to the consolidation of economic and political reforms that have taken place throughout the hemisphere. They maintain that the reforms have not only contributed to an improved economic performance in Latin America overall, but they have also made Latin America a more attractive setting for U.S. foreign investment. Similarly, they maintain that the stronger Latin America becomes economically, the more likely democratic institutions will continue to proliferate and deepen.

Opponents of an FTAA are concerned that hemispheric free trade would lead to the export of jobs that otherwise would be in the United States. Some critics believe that an FTAA will induce an outflow of American capital to take advantage of much lower wages and weak safety and environmental standards. Many opponents of the FTAA have argued that free trade with poorer countries will put pressure on the United States to lessen its workforce protections and environmental requirements.

Other critics are concerned that an FTAA will inevitably involve the United States in the instabilities, class tensions, and economic turmoil of many southern hemisphere societies. Some cite Mexico's financial crisis in 1995 as an example of potential costs. According to this view, costs include a deterioration in the U.S. trade balance, an increase in immigration pressures, and the need to extend a large amount of credit.

From a very different perspective, some opponents also argue that hemispheric free trade could undermine the achievement of a stronger and more open multilateral trading system. According to this perspective, regional free trade agreements that may weaken the multilateral trading system do not serve the interests of the United States because it has major commercial interests in all regions of the world — Asia, Europe, and North America, and Latin America. Furthermore, this argument is that a multilateral agreement offers far greater economic benefits than regional agreements.

Latin American Interests and Concerns

Latin American nations made considerable progress in implementing far-reaching trade reforms and opening their economies to outside competition during the first half of the 1990s. . The prospects of hemispheric economic integration have spurred new sub- regional integration schemes and breathed life into sub-regional groups that had lost their stamina. Most importantly, the political commitment at the Miami Summit to create an FTAA by the year 2005 was a product largely of pressures from many of the countries in the region.

If the 1980s were Latin America's lost decade, the 1990s, particularly the first five years, were the catchup years. In the 1990s, the economies of the region averaged roughly 3.5% growth, up from 1.1% in the 1980s. Inflation was reduced dramatically, from 500% in 1990 to 8% in recent years. Fiscal deficits are now approximately 2% of gross domestic product, compared to 9% in 1983. And foreign investment surged from $9 billion in 1990 to $76 billion in 2000.

One of the central aspects of the economic transformation of the region has been impressive market-oriented reforms and unilateral trade liberalization. Privatization, especially of utilities, has enhanced efficiency. This trend has been, until Argentina's financial crisis of 2001-2002, complemented by a surge of sub-regional integration efforts and growing hemispheric interdependence.

Since 1990, four sub-regional groups have made considerable progress breaking down intra-regional trade barriers. MERCOSUR, the Common Market of South, consists of Argentina, Brazil, Paraguay, and Uruguay and is the second largest preferential trading group in the Western Hemisphere. Argentina's recent financial crisis and devaluation, however, is severely challenging the viability of Mercosur today. The Andean Community, consisting of Bolivia, Colombia, Ecuador, and Venezuela (Peru dropped out in 1997), currently is the third largest preferential trading group in the Western Hemisphere. Acting unilaterally as well as under the auspices of the Community (formerly the Andean Pact), individual members have liberalized their own trade and investment regimes in recent years. The Caribbean Community and Common Market (CARICOM), consisting of 13 English-speaking Caribbean nations, has agreed to implement a common external tariff over a period of six years, although members will be allowed to maintain their own non-tariff barriers. The Central American Common Market, (CACM), originally established in 1961, gained new stimulus after a 1990 summit of Central American Presidents. Within CACM, the Central American Group of four — El Salvador, Guatemala, Honduras, and Nicaragua—has taken measures to liberalize and harmonize their trade regimes.

The likelihood of eventual hemispheric free trade could provide a further boost to the economies of the region. Hemisphere-wide free trade could boost the region's economic growth through increased trade and inflows of foreign investment.

Most Latin American leaders generally support the establishment of a hemispheric free trade area, believing that an FTAA will help bring about greater prosperity, competition, and entrepreneurial activity. A number of critics, however, caution that the United States will benefit the most from the arrangement by demanding further opening of Latin American markets to U.S. goods while following a protectionist course for politically sensitive U.S. industries such as steel and agriculture.

Similarly, many Latin Americans understand that negotiating a free trade agreement with the United States opens themselves to increased trade competition and potential U.S. involvement in such issues as environmental standards, workers' rights, and intellectual property rights protection. Some worry that as tariffs fall, the United States would increasingly resort to other procedural ways (such as the imposition of anti-dumping or countervailing duties) to protect its producers and workers. Consequently some nations might not be willing to move as quickly as others toward the goal of free trade. And others, such as Brazil, may attach greater importance and priority to the consolidation and strengthening of sub-regional trade groups before moving towards a hemispheric free trade area.

Beyond that, opposition to hemispheric free trade could grow if the region's unemployment and staggering poverty does not begin to decline. Despite the overall improvement in economic growth in the 1990s, the number of people living in poverty (defined as less than $1 a day) has dropped from 41% in 1990 to only 35% by the end of the decade. As a result, too many Latin Americans have seen little evidence that the shift towards freer trade and more open markets has improved their living standards.

Moreover, since the beginning of last year, many of the countries of Latin America have experienced economic and political turmoil. Economic growth in the region was less than 1% in 2001 and this year it will likely be zero. Argentina, in particular, is facing the worst economic crisis in its history and public pressures are growing to reverse a decade a market-oriented reforms.

Policy Issues and Congressional Actions

Chile: Negotiating A Free Trade Agreement

Canada's Prime Minister Jean Chretien was widely quoted at the conclusion of the first Summit of the Americas on the invitation to Chile from the United States, Canada, and Mexico to join NAFTA: "For one year we have been the three amigos. Starting today, we will be the four amigos."

Accession negotiations were formally initiated on June 7, 1995 in Toronto, but they remained preliminary due to the fact that the Clinton Administration lacked fast- track negotiating authority. Chile elected not to negotiate on any "sensitive" issues unless fast track authority is renewed to cover the negotiations (Chile subsequently negotiated an FTA with Canada and already had one with Mexico). Such authority allows the Administration to negotiate a trade agreement with assurances that the legislation implementing the agreement will be treated under special, expedited floor procedures. Differences between most House Democrats, on the one hand, and most Republicans, on the other hand, on the inclusion of labor and environmental objectives in future free trade agreements has been a major reason for the fast-track (now called trade promotion) stalemate.

From 1995-1999, the significance of the inability of the Clinton Administration to carry through on its pledge to negotiate Chilean accession to NAFTA or to negotiate a bilateral free trade agreement was mostly political, not economic. In economic terms, NAFTA accession or a free trade agreement would unlikely have any demonstrable effect on the overall U.S. economy because trade between the two countries, although growing, is a minuscule percent of overall U.S. trade flows (approximately ½ of 1 percent). Chile ranks as the 32th most important market for U.S. exports worldwide, accounting for $3.1 billion in 2001. U.S. imports from Chile totaled $3.5 billion in 2001, representing the 40th largest supplier. As a country of only 13 million people, with an economy the size of Dallas, and located some 4,000 miles from the United States, Chile is unlikely to become a major trading partner of the United States.

In political terms, the Clinton Administration's inability to carry through on its promise to achieve a free trade agreement with Chile perhaps weakened its negotiating leverage in the context of the FTAA. The promise of Chilean accession to NAFTA, for some interest groups, was that NAFTA obligations and rules could be adopted to serve as the foundation for hemispheric integration. After Chile acceded, it was believed that other countries would be eager to join NAFTA when they were ready as well. Lacking fast-track, the Administration, however, arguably was forced to make a number of compromises concerning the objectives and structure of the FTAA negotiations as enunciated in the San Jose Declaration.

Despite the obvious set-backs and delays, the idea of free trade negotiations with Chile took an unexpected turn on August 10, 1999. On this day, Chile's Foreign Minister Juan Gabriel Valdes announced that Chile was prepared to start preliminary discussions on a bilateral FTA with the United States without fast-track negotiating authority in place. The United States termed the proposal "constructive" and "positive" at the October 5-6, 1999 meeting of the U.S.-Chile Joint Commission on Trade in Investment in Santiago, Chile. And on November 29, 2000, President Clinton proposed that formal negotiations begin. Chile accepted and the negotiations formally commenced December 6-7, 2000 in Washington, D.C.

The Bush Administration, which continued the negotiations during March 26-30, 2001 in Chile, had expected an agreement to be reached early this year. But negotiations bogged down until August 2002 when a bill renewing Presidential trade promotion authority became law. Now both sides are predicting the negotiations can be competed by this December.

However, a number of significant issues still remain to be resolved, including a number of agriculture and services issues. Differences on how to handle labor and environmental issues also need to be reconciled. In the area of services, U.S. industry hopes that Chile will agree to broad commitments in a number of sectors such as telecommunications so that other countries in later FTAA negotiations would have adhere to the same obligations. Chile, however, has resisted making the entire FTA a "model" for U.S. free trade expansion elsewhere in Latin America. Officials say they want the agreement to be more specific in dealing with the reality of U.S.-Chile trade. Simultaneously, some Chilean officials have also argued that a U.S.-Chile FTA will "bolster the chances of achieving the successful and timely completion of the Free Trade Area of the Americas."

While the Chilean economy is relatively open, it still has a number of agricultural barriers. Chile uses a price band system that keeps the price of food imports level by applying a charge on top of its regular tariff. This mechanism is said to imped U.S. sales of wheat, sugar, and vegetable oils by boosting tariffs to achieve a minimum price. A WTO panel ruled on May 3, 2002 that the price band is a border measure similar to a variable import levy and a violation of WRO obligations. Chile's sanitary and phytosanitary measures do not recognize U.S. meat grading system nor allow unprocessed livestock plants not inspected by Chile's agriculture department to enter the country. Some U.S. industries, such as sugar and fruits and vegetables, want limits placed on Chile's access to the U.S. market. The U.S. is also pushing Chile to repeal its law allowing repatriation of capital and opening parts of its privatized pension system to foreign competition.

U.S. negotiators are also concerned that an FTA not allow Chile to serve as a platform for regional exports. Accordingly, the U.S. is pressing Chile to eliminate its duty rebate schemes on raw materials and components that are processed and re-exported to the U.S.

For its part, Chile is pushing for better access for its professionals to work in the United States. In addition, Chile is expected to try to negotiate a waiver from U.S. antidumping laws and to end certain U.S. farm payments that are said to distort trade. On government procurement, Chile wants non-discriminatory access to procurement by U.S. states, as well as a low monetary threshold for the value of contracts that would be covered by government procurement rules.

Implementing the Caribbean Basin Trade Partnership Act

Ever since NAFTA was proposed in the early 1990s, Caribbean Basin leaders have expressed concern that Mexico's more preferential trading status would erode its own preferential access to the U.S. market as provided by the 1984 Caribbean Basin Economic Recovery Act (CBERA). At the Summit of the Americas, President Clinton and key legislators supported legislation to address the concerns of the CBERA countries. Legislation to prevent an erosion of the CBERA countries' preferential access to the U.S. market has been introduced in every Congress since 1993, but it was not until 2000 that legislation was enacted.

The CBERA, which is commonly referred to as the Caribbean Basin Initiative or CBI, was enacted in 1983 in an effort to bolster the economic development and political stability of this strategically important region. A key objective was to help these countries diversify their exports away from traditional agricultural and raw material based exports such as petroleum, sugar cane, coffee, cocoa, bananas, and aluminum ores.

The centerpiece of this U.S. government program is a unilateral, non-reciprocal, grant of duty-free or reduced duty access for certain Caribbean exports to the U.S. market. Most textiles and apparel, certain footwear, canned tuna, petroleum and petroleum derivatives, and certain watches are not eligible for any preferential treatment. The CBERA was amended by Caribbean Basin Economic Recovery Act of 1990, so-called CBI II. This act made the trade benefits permanent and included measures to promote tourism and establish a scholarship assistance program for the region.

Currently, 24 Caribbean, and Central and South American countries enjoy these trade preferences. (Four countries — Anguilla, Cayman Islands, Suriname, and Turks and Caicos Islands — are eligible to become a CBERA beneficiary country, but have not requested to be designated). Benefits under CBI are conditioned on various mandatory and discretionary conditions, including intellectual property rights protection, investment protection, improved market access for U.S. exports, and workers rights. In its 18-year history, CBERA has been popular with Caribbean exporters, and in recent years about one-fifth of overall U.S. imports from CBERA countries have entered the U.S. under CBERA preferential provisions.

"NAFTA parity" or CBI enhancement bills introduced in Congress since 1993 were premised, in part, on the notion that Mexico's more favorable tariff treatment under NAFTA would lead to a diversion of exports and investment, particularly in the textile and apparel sectors, from the CBERA region. To remedy potential trade and investment diversion, most bills proposed extending NAFTA equivalent provisions to CBERA countries for products that did not enjoy equivalent preferential treatment under CBERA.

In the 106th Congress, both the House and Senate passed bills that provided a form of parity. The House bill (H.R. 984) provided more expansive benefits than the Senate bill (S. 1389). The differences related most basically to the minimum U.S.-origin content under which textile apparel assembled in a CBI country would qualify for the preference. After protracted informal negotiations between the two houses, the final language was agreed to, passed by both houses and signed into law on May 18, 2000 (Caribbean Basin Trade Partnership Act -Title II, P.L. 106-200; Trade and Development Act of 2000).

The Caribbean Basin Trade Partnership Act (CBTPA) focuses primarily on the preferential treatment of textile and apparel products. It added several eligibility criteria and set the transitional period of CBERA preferential treatment to run from October 1, 2000 through September 30, 2008. Articles accorded duty-free and quota-free treatment include apparel assembled in a beneficiary country from fabric wholly formed and cut in the United States from U.S. made yarn, or from a fabric made in the United States from U.S. made yarn, cut in a beneficiary country and sewn together there with U.S. made yarn. Duty-free access for apparel knit in the region is subject to an annual cap, with separate limits for knit apparel and t-shirts.

The Trade Act of 2002 (P.L. 107-210), in addition to providing trade promotion authority to the President, liberalized further the benefits under CBERA. Benefits are liberalized through a substantial increase in the quota ceilings for knit-to-shape apparel and exclusion of the cost of trimmings and findings from the cost of U.S. fabric components.

A report by the Office of the U.S. Trade Representative found little evidence that the expanded apparel benefits stimulated U.S. investment in the region during 2001. Nor did the report indicate an overall increase in apparel imports to the U.S. since the new preferences were implemented.

Importers and retailers maintain that imports have not increased due to the fact that meeting the CBTPA's eligibility requirements outweigh the savings produced by duty-free access and the Caribbean's proximity to the United States. They also charge that uncertainties surrounding how the U.S. Customs Service will implement rules have created a disincentive to invest in the Caribbean.

Extending the Andean Trade Preferences Act

The Andean Trade Preferences Act (ATPA) authorizes the President to grant certain unilateral preferential tariff benefits to Bolivia, Colombia, Ecuador, and Peru. The ATPA, which went into effect on December 4, 1991, expired on December 4, 2001. Often referred to as the trade component of then President Bush's "war on drugs," the ATPA attempted to encourage the economic development of Andean countries and economic alternatives to drug production and trafficking. Following a long debate, the 107th Congress reauthorized the program retroactively and expanded it in the Andean Trade Promotion and Drug Eradication Act (ATPDEA), Title XXXI of the Trade Act of 2002 (H.R. 3009), which was signed into law on August 6, 2002 by President Bush (P.L. 107-210).

Prior to the expiration of the ATPA, the Andean countries asked the United States to extend the program beyond its expiration date for more than three years, and to reduce the list of products excluded from tariff benefits. In support of ATPA reathorization, they argued that the program has been successful in encouraging a move away from narcotics trade to legitimate business in the region and in increasing U.S. exports. Since ATPA was passed in 1991, the four Andean countries have increased their exports to the United States by about 80%. Products benefitting from ATPA tariff preferences include cut flowers from Colombia, Ecuador, and Bolivia; precious metals and jewelry from Colombia, Bolivia, and Peru; and fish and fish products from Ecuador. By some estimates, the ATPA has created some 140,000 new jobs for these four countries since its inception.

ATPA countries hoped that any extension would provide preferences for their textile and apparel products. They wanted unlimited duty-free access for apparel articles made from regional fabric and regional yarn, as well as duty-free treatment for other products currently excluded – such as tuna, dairy products, leather, meat, and sugar – could create an additional 200,000 jobs over the next four years.

As passed into law, the Andean Trade Promotion and Drug Eradication Act extends and expands the previous ATPA as part of a continuing U.S. effort to counter illicit drug trafficking from the Andean region. To enhance the effects of the expired ATPA, it extends preferential treatment through December 31, 2006 and expands it to cover many Andean exports previously excluded, such as certain textile and apparel articles, footwear, leather products, petroleum, watches, and canned tuna. In general, the provisions provide treatment similar to those received by the Caribbean countries under the CBTPA.

Existing benefits that were renewed in the ATPDEA became effective immediately retroactive to December 4, 2001, when the ATPA expired. U.S. Trade Representative Robert Zoellick has opined that before countries could get the expanded trade benefits, they would have to be found eligible under new criteria included in the ATPDEA. Labor rights and intellectual property rights violations are two of eight new criteria that must be reviewed by the Administration before the Andean nations will be granted new trade preferences. The interagency review is expected to take several months.

U.S.- Central American Free Agreement

President Bush announced the administration's interest in exploring a free trade agreement with five Central American countries – Costa, Rica, El Salvador, Guatemala, Honduras, and Nicaragua – on January 16, 2002 in a speech before the Organization of American States. The President stated that "our purpose is to strengthen the economic ties we already have with these nations, to reinforce their progress toward economic, political, and social reform, and to take another step toward completing the Free Trade Area of the Americas."

Since the President's trade promotion authority was renewed on August 6, 2002, the administration is preparing to make a formal notification to Congress on its intent to launch negotiations with these countries. Depending on when the formal notification is made, the negotiations could start in December or early next year.

For the United States, these Central American countries comprise a small trading partner. In 2001, both U.S. imports and exports to the region accounted for only around 1 percent of total U.S. trade. But for each of these Central American countries, the United States is their most important trading partner. For Costa Rica, the United States accounts for 40 percent of total trade; for El Salvador, 47 percent; for Guatemala, 48 percent; for Honduras, 63 percent; and for Nicaragua, 43 percent.

The five Central American countries benefit from a number of U.S. preferential tariff programs, including the Generalized System of Preferences (GSP) and the Caribbean Trade Partnership Act. These countries hope that a free trade agreement with the United States could provide greater assurance that these preferences would not be reduced or rolled-back in the future. Their hope is that a free trade agreement would produce more duty-free access for textiles and apparel products beyond what the preference programs now provide, as well as expand their access to the U.S. market for beef and sugar. Moreover, Central American leaders hope that an FTA with the United States would meet broader foreign policy objectives like strengthening democratic institutions in the region.

CHRONOLOGY

08/06/02 – President Bush signed into law (P.L. 107-210) legislation (H.R. 3009) that renewed fast-track or trade promotion authority and that reauthorized and expanded the Andean Trade Preference Act.

06/26/02 — The House by vote of 216 to 215 approved H. Res. 450, a rule sending a House- passed Trade Promotion Authority bill, reauthorization of the Andean Trade Preferences Act and other trade provisions to conference.

05/04/02 — El Salvador's Ambassador to the U.S. said that the U.S. and five Central Ameriican countries have already begun informal negotiations toward a free trade agreement, but that formal negotiations are unlikely to take place until Congress passed a trade promotion bill.

04/04/02 — President Bush urged the Senate to pass a fast-track bill and the Andean Trade Preferences Act by April 22.

03/22/02 — Fifty-four U.S. Senators wrote U.S. Trade Representative Robert Zoellick to seek elimination of Chile's barriers to U.S. agricultural exports.

01/16/02 — President Bush announced that his administration wishes to negotiate a free trade agreement with Central America.

12/06/01 — The House approved a bill (H.R. 3005) by a vote of 215-214 to provide the President with trade promotion authority.

07/02/01 — A draft FTAA bracketed text of the nine chapters negotiated to date was released to the public.

05/01/01 — The Bush Administration announced that it supports an expansion of the Andean Trade Preferences Act to provide the broadest possible benefits for Colombia, Bolivia, Peru, and Ecuador.

04/22/01 — The Third Summit of Americas, held in Quebec City, concluded with an agreement to complete the negotiations by January 2005 and to implement the agreement by year-end 2005.

02/01/01 — U.S. Trade Representative Robert Zoellick stated that the U.S. would look for alternatives to the FTAA for promoting trade in the hemisphere if it proves impossible to revive the lagging initiative.

01/08/01 –- Chile and the United States begin formal negotiations to establish a free trade agreement.

05/18/00 — President Clinton signed into law (P.L. 106-200) legislation aimed at expanding U.S. trade with African and Caribbean Basin Initiative countries. The conference bill (H.R. 434) was approved by the House on May 4, 2000 by a vote of 309-110 and by the Senate on May 11, 2000 by a vote of 77-19.

05/04/00 — By a vote of 309-110, the House approved the conference report on H.R. 434, the Trade and Development Act of 2000. Title II expands trade preferences for Caribbean Basin exports of apparel products.

02/18/00 — Brazilian Foreign Minister Luiz Felipe Lampreia announced that Brazil is not going to commit to an FTAA until it sees what the final package is and whether the U.S. Congress will approve it.

08/10/99 — Chile's Foreign Minister Juan Gabriel Valdes announced that Chile was ready to start preliminary work on a bilateral free trade agreement without U.S. fast-track negotiating authority in place.

09/25/98 — The House defeated H.R. 2621, a Republican leadership sponsored fast-track bill, by a vote of 180 to 243.

06/11/98 — Commerce Secretary William Daley expressed doubts that the 2005 deadline for completion of the FTAA can be met given an enormous negotiating agenda and the large number of diverse economies involved in the process.

04/19/98 — 34 Leaders meeting at the second Summit of the Americas in Santiago, Chile agree to formally launch FTAA negotiations.

03/19/98 — Trade ministers meeting in San Jose, Costa Rica agree on the principles, objectives, and venues that will guide the FTAA negotiations.

11/04/97 — The House defeated by a vote of 234-182 the United States-Caribbean Trade Partnership Act (H.R. 2644).

07/25/95 — Negotiations for Chilean accession to NAFTA officially began in Mexico City.

12/9-11/94 — Summit of the Americas held in Miami. Political commitment was made to negotiate a "Free Trade Area of the Americas" by the year 2005. In a separate action, the United States, Canada, and Mexico invited Chile to enter into negotiations to join NAFTA.

01/01/94 — The North American Free Trade Agreement entered into force.

For Additional Reading

CRS Issue Briefs

CRS Issue Brief IB95050. *Caribbean Basin Interim Trade Program (NAFTA/CBI PARITY)*, by Vladimir N. Pregelj.

CRS Reports

CRS Report RL30935. *Agricultural Trade in the Free Trade Area of the Americas,* by Remy Jurenas.

CRS Report RL30790. *The Andean Trade Preference Act: Background and Issues for Reathorization*, by J.F. Hornbeck.

CRS Report 97-56. *Chilean Trade and Economic Reform: Implications for NAFTA Accession*, by J.F. Hornbeck.

CRS Report RS20864. *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by J.F. Hornbeck.

CRS Report RS20436. *Textile and Apparel Trade Issues*, by Bernard Gelb.