FTAA: What’s in It for the South?

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Not everyone in the Americas thinks that negotiating an FTAA is desirable. Some argue that the timing of the negotiations is being set by the agenda of the developed countries, particularly the US, and not that of the rest of the region. Others say that negotiating tariff reductions will do little to increase exports. The argument is that non-tariff barriers to trade must be part of the package, or the whole idea is a waste of time. These are just some of the opinions coming from the South. Interestingly, a number of these ideas are coming from Brazil, the hemisphere's most populous country after the US, and clearly a leader in the region. Presidential elections in Brazil took place in the fall of 2002 just prior to an FTAA Ministerial in Quito. In the lead up to the election, the FTAA positions of the opposition candidates, including the eventual winner, were much more protectionist than that of the outgoing government. If the protectionism carries through to official government policy, then the FTAA process will be much more difficult. However, this might just have been electoral talk. This paper will attempt to sort out truth from rhetoric.

Keywords: Brazil, non-tariff barriers, FTAA, South
Introduction

In the best of worlds, the Free Trade Agreement of the Americas (FTAA) would achieve exactly what was envisioned initially by the hemispheric leaders who gathered in Miami in 1994 at the first Summit of the Americas of the modern era: the creation of a free trade area encompassing thirty-four countries, over 800 million inhabitants, and a combined GDP surpassing US $12 trillion (World Bank, 2001).

The Summit’s Declaration of Principles summed up the thinking behind this initiative – that economic integration would lead to freer movement of labour, capital, goods and services, bringing prosperity and economic development to the hemisphere.

In April 2001, during the Quebec Summit, the presidents of these thirty-four countries went a step further and agreed to a negotiating schedule that would see the FTAA in place by January 2005.

Since then, much has happened in the region. Colombia has a new president and continues to face great difficulties negotiating peace with several guerrilla groups; Argentina experienced a complete collapse of its economy; in Venezuela, Hugo Chavez had to fight a coup attempt and continues to face loud and boisterous opposition to his presidency; Brazil is on the eve of the second round of presidential, congressional, and gubernatorial elections where both presidential candidates have a much more protectionist platform than the current administration; and finally, although the U.S. Administration managed to secure the Trade Promotion Authority (TPA) it sought from Congress, what it received is very restrictive, and to get it the administration had to enact a number of protectionist measures, including massive new subsidies to agriculture.

In sum, the current reality is of a much more turbulent Latin America and a much more protectionist United States than originally envisioned. Not the best circumstances in which to negotiate sensitive issues. Not surprisingly, a number of individuals, from the general public to experts in the field of international trade, question whether the FTAA will actually become a reality by 2005.

Crucial to the success and completion of the negotiations by the agreed date is the developing countries’ support and readiness to participate in the process, and the developed countries’ willingness to open their borders and negotiate non-tariff barriers.

This paper will argue that success or failure hinges specifically on the respective positions of the United States and Brazil, and on the strategies and motivations of those two countries. Moreover, it will analyze the positions of Luis Inácio Lula da
Silva (Lula) and José Serra (Serra), the two Brazilian presidential candidates who won a spot in the election’s second round (October 27th, 2002), toward the FTAA and hemispheric integration, in order to gain some insights into what will be Brazil’s stand as the negotiations for the agreement intensify.

**The United States**

An FTAA without the United States is a moot point. It is the world’s leading power and also the most prosperous. The game, for everyone, is to gain entry into the U.S. market and secure as much foreign direct investment (FDI) as possible. Therefore this paper will concentrate on establishing the key position Brazil holds in bringing the agreement to fruition.

**The South**

Let’s start by defining the “South” as South and Central America plus Mexico. That is, everyone involved in negotiating the FTAA except for the two developed economies of the hemisphere, Canada and the United States.

It is not easy to find similarities among these thirty-two countries. The group includes countries as large as Brazil, with 172.6 million people, and as small as the tiny island of Dominica, with its 73 thousand inhabitants. The sizes of the countries’ respective economies vary greatly. Mexico, which in 2001 had a GDP of US $617 billion, is in the same pool as Bolivia, which had a 2001 GDP of US $8 billion, and St. Vincent and the Grenadines, with a minuscule US $338 million. Dependence on trade (trade in goods as a share of GDP, in percentage[^4]) ranges from the whopping 107 percent of Trinidad and Tobago to the thin 19.1 percent of Brazil. Some countries have been successful in attracting foreign direct investment; for example, Chile attracted US $3.7 billion in 2000. In the same year, however, Guatemala had to work hard to attract a paltry US $230 million (World Bank, 2001).

However, size does not tell the whole story. For instance, 71 percent of Dominica’s population live in urban centres and are served by a network of 309 phone lines and 71.3 computers per 1,000 people, compared to Mexico, where 75 percent of the population live in urban centres and have access to 267 phone lines and 50.6 computers per 1,000 (ibid.).

Such differences have long been acknowledged by the region’s countries. After the failed attempt at regional integration during the 1960s, when Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay formed the Latin American Free Trade Association (Asociación Latinoamericana de Libre Comercio, or ALALC), a web of
trade agreements and integration schemes that attempted to bring together similar countries were established and continue to operate in the region with varying degrees of success (Hester, 1999: 13). Even in the Mercosur (Brazil, Argentina, Paraguay, and Uruguay) the region’s most successful integration scheme, the great differences among member countries are a continuous source of difficulty for the sustainability of the agreement.

It is understandable that in any region where only three (Argentina, Brazil, and Mexico) out of thirty-two countries account for 73 percent of the GDP and 60 percent of the population, and are the recipients of 77 percent of all of the region’s FDI, the balance of power is not evenly distributed. Table 1 illustrates this reality.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Mexico</th>
<th>Argentina + Brazil + Mexico</th>
<th>Latin America and Caribbean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population million - 2001</td>
<td>37.5</td>
<td>172.6</td>
<td>99.4</td>
<td>309.5</td>
<td>523.7</td>
</tr>
<tr>
<td>GDP US$ billion - 2001</td>
<td>261</td>
<td>502.5</td>
<td>617</td>
<td>1380.5</td>
<td>1,900</td>
</tr>
<tr>
<td>FDI US$ billion - 2000</td>
<td>11.7</td>
<td>32.8</td>
<td>13.3</td>
<td>57.8</td>
<td>75.1</td>
</tr>
</tbody>
</table>


In Latin America, Mexico and Brazil are the powerhouses. However, their trade and integration strategies differ remarkably.

In 1992 Mexico signed the North American Free Trade Agreement (NAFTA) with the United States and Canada, abandoning decades of reluctance to integrate with its powerful northern neighbour. Since then, Mexico has made foreign trade the engine of its economy. It slashed its tariffs from an average of 25 percent in 1985 to 16 percent in 1995, and increased exports from US $45 billion in 1990 to an astonishing US $165 billion in 2000 – over thirty percent of GDP; most impressively, manufactured goods now represent almost 90 percent of the country’s exports (Hakim, 2002: 149). This boom in exports is reflected in Mexico’s expanded share in world exports: from 0.95 percent in 1980 to 1.84 percent in 1998 (Gouvea and Hranaiova, 2002: 34).
In the integration arena, Mexico is working on establishing itself as a bridge between North and South America. It has strengthened its relationship with Venezuela and Colombia, it is a partner in the Group of Three trade agreement, and it has sought to engage Central America with a plan for joint infrastructure development (Hakim, 2002: 151) and talk to Brazil about bilateral negotiations to lower tariffs in specific sectors (Estado, August 31, 2002). In addition, Mexico is set to negotiate a free trade agreement with Mercosur starting as early as November 2002 (Estado, October 11, 2002).

However, when it comes to the FTAA, not surprisingly Mexico’s enthusiasm is, at best, lukewarm. Clearly, the reality of having every country in the hemisphere receive equal treatment for its exports to the United States is not in Mexico’s best interest. On the other hand, the country does not want to be perceived as a petty player. President Fox has been very skilful in finding this balance. He appears supportive of the deal without actually engaging or taking sides.

Brazil, on the other hand, is in a completely different position. So far, trade has not been the focus. The story is best told from the angle of FDI. From less than US $2 billion annually in the early 1990s to the US $32.8 billion shown in table 1 for 2000, Brazil’s ability to attract FDI has been singular in the region. Even in 2001, when world FDI levels showed a decline, Brazil was second only to China’s US $46.8 billion in the developing world, receiving US $22.5 billion (UNCTAD, 2002).

Trade, however, has remained much more insular in the case of Brazil than in the case of Mexico. Like its northern counterpart, Brazil unilaterally dropped its average tariffs from nearly 50 percent in 1985 to 12 percent in 1995, but its export performance has been very weak. In the last decade, exports grew modestly, from US $32 billion to US $58 billion, accounting for less than 10 percent of the GDP, and manufactured goods as a percentage of total exports has remained unchanged at the 50 percent level for the decade (Hakim, 2002: 149). Opposite to the Mexican experience, Brazil’s world exports market share diminished from 1.06 percent in 1980 to 0.97 percent in 1998 (Gouvea and Hranaiova, 2002: 34).

Also, contrary to the Mexican strategy of concentrating its trade in North America, predominantly with the United States (IADB, 2002), Brazil has diversified its exports. In 2000, the European Union absorbed 26.8 percent of Brazilian exports. The United States followed with 23.9 percent and the Latin American market (ALADI) with 23.4 percent. Asian markets accounted for 9.8 percent of the total. The composition of these exports presents an interesting picture. The EU received mostly
exports of primary and semi-manufactured goods, ALADI was the recipient of manufactured goods, and the United States received exports of manufactured and semi-manufactured goods. Another curious statistic is that the share of primary goods exports received by the United States dropped from 16.3 percent in 1980 to about 7.4 percent in 2000 (Gouvea and Hranaiova, 2002: 37).

However, the United States is Brazil’s largest single trading partner. It is just that in this case, trade is in the United States’ favour. According to a study on bilateral trade between the United States and Brazil commissioned by Rubens Barbosa, the Brazilian ambassador in Washington, for the five-year period from 1996 to 2000 Brazil accumulated a trade deficit with the United States of roughly US $14 billion, while the United States reported an average trade deficit with the world of approximately US $250 billion a year. Although Brazilian exports increased in 2001, the study argues that over 60 percent of all products exported from Brazil to the United States are affected by either tariff or non-tariff barriers to trade. Based on 1999 data, “[the study] found that the average tariff or tariff-equivalent levied by the United States on the 15 main Brazilian global export products is 45.6 percent, whereas the average tariff or tariff-equivalent levied by Brazil on the 15 main U.S. global export products is only 14.3 percent” (Brazilian Embassy in Washington, 2001).

This is not an even balance for a country such as Brazil, which sees itself as a continental power and a leader in South America. The country designed an integration strategy that saw the creation of the Mercosur, where it is undoubtedly the leader, as a first step to a larger trading bloc that would include other countries in South America. This strategy would permit it to act as a powerful counterweight to the United States in hemispheric trade negotiations and obtain concessions where others have failed.

Everything seemed to be working according to plan while both Brazilian and Argentinean economies were fairly robust; the effect of Brazil adopting a flexible exchange rate in early 1999 had not yet been felt across the border. In September 2000, Brazilian president Fernando Henrique Cardoso convened a first-ever summit of the South American heads of state where the 12 leaders agreed to deepened integration and relationships, including the start of free trade negotiations between the Comunidad Andina – the Venezuelan, Peruvian, Colombian, Bolivian, and Ecuadorian trade pact – and the Mercosur, making some allowances for the inclusion of Chile which, with Bolivia, is an associate member of Mercosur.

Throughout 2001, the economy of Argentina deteriorated and with it any progress in Mercosur. By December of that year, the crisis had reached such dimensions that president Fernando de la Rua resigned, and the country tumbled into the economic...
chaos it sees itself in today. In a twist of fate, the total indifference shown towards the Argentine situation by the U.S. Administration has led to a complete reversal of the stand most Argentinians had adopted towards the agreement: from a very negative and almost belligerent threat of negotiating their own free trade agreement with the United States alone, to one of complete loyalty to their next-door neighbour.

Cardoso moved quickly to consolidate whatever gains had been made by Mercosur. Instead of waiting for a new administration to make decisions on the future of the agreement, on September 26th – the eve of the first round of the Brazilian presidential election (October 6) – he met with Argentine president Eduardo Duhalde and announced the removal and resolution of a number of trade irritants. Most importantly, the two men agreed to extend the reach and availability of the Reciprocal Credit Accord (RCA), a mechanism by which commercial transactions can take place between the members without the use of foreign currency, and with the individual country’s central bank serving as a guarantor of last resort. Prior to that date the RCA was limited to transactions of US $100,000; now, in spite of the central banks’ reluctance, the limit has expanded to US $200,000 with a possible increase of another US $100,000 (to a total of US $300,000) after six months (Valor Econômico, September 27, 2002; Ministério de Relações Exteriores, 2002).

It seems that after a year of no progress, the Mercosur negotiations have moved into warp speed. Just recently the Mercosur negotiators announced an agenda for 2002 that can be considered overly ambitious by any measure. On the internal agenda, they hope to develop an agreement on the parameters and rules for government procurement by the end of November and have it ready to sign by the beginning of December. On the external front, aside from the FTAA Ministerial meeting that will take place on November 1st in Ecuador, they are planning to meet with the EU, with Mexico (as was mentioned before), with South Africa in November, and, by the beginning of December, with the Comunidade Andina in Lima. If this weren’t enough, they have agreed to begin negotiations with India, Thailand, the Central American Common Market, and the Caribbean Common Market (Estado, October 11, 2002).

It is not clear whether Brazil will succeed in its strategy of remaining the FTAA power-broker. However, given the recent developments and renewed interest and the stand taken by the Brazilians of setting the process in motion prior to the second round of the presidential election, one could conclude that the strategy is still the same.
The Game

Given all the information that was presented above, it is evident that Brazil has a lot to gain from a well-negotiated FTAA. Expansion of its markets for exports of primary, semi-manufactured and manufactured products is seen as one of the main benefits (Fauriol and Weintraub, 2001, in Gouvea and Hranaiova, 2002: 37). Gouvea and Hranaiova also single out the potential of facilitated access to the U.S. market, lower costs of inputs and final products, facilitation and inducement of technology transfers, and potential dynamic impacts such as increased inflows of FDI in Latin American economies (2001: 34).

There are other potential gains. Brazil can use the FTAA negotiations to even its trade relationship with the United States and leverage its position vis-à-vis the EU; the negotiations would thus serve as a parallel forum to the World Trade Organization (WTO), one in which Brazil could settle the use of non-trade barriers such as antidumping disciplines, countervailing duties, and subsidies, especially in agriculture. However, the biggest potential gain for Brazil and for the region would occur if the creation of the FTAA were to have the same effect on Brazil (and consequently the region) that NAFTA appears to have had on Mexico: that of easing the economic crisis and stabilizing the economic cycles (Hester, 1999: 54).

As for the United States, the FTAA would enhance U.S. access to Latin American markets, especially that of Brazil. As was discussed earlier, this is a great potential market for the United States, with a lot of expansion capacity. It is also an attractive market for U.S. FDI, where it already accounts for some 25 percent of the total (Weintraub, 2002). Gouvea and Hranaiova also argue that the agreement could potentially establish stronger economic, political, security, and foreign policy ties between the United States and Latin America and put the United States at an advantage regarding trade and investment in the region vis-à-vis the EU and Asia (2002: 35).

If both the United States and Brazil – the two countries that are seen as paramount to the successful negotiation of this hemispheric agreement – have so much to gain from the FTAA, why is there so much skepticism surrounding this agreement, especially from “the South”?

Several elements come into play in answering this question. Some arguments are logical, while others have more to do with perception than reality. For instance:

Brazil has always argued that following a very tight negotiating schedule would exacerbate the region’s asymmetries, especially regarding the negotiating capability of
individual countries. That argument was heavily contested by the United States, which, with the help of Chile, attempted to move the end of the negotiations to 2003 from the 2005 date agreed to during the Buenos Aires Ministerial meeting that preceded the 2001 Quebec City Summit. In the end, Brazil managed to carry the day; however, it had to use many “favours”, especially from Venezuela’s Hugo Chavez. The whole episode left the impression that the United States and its allies in this issue – Canada and Chile – were more interested in negotiating as quickly as possible to secure advantages than in having a fair and equitable negotiation process.

The perception that the United States does not care that the process may be inequitable and is not even listening to the concerns being expressed is well articulated by Sidney Weintraub, a renowned Latin American expert, when he compares the attitude of American business to that of the government.

The U.S. government and the U.S. Congress, by contrast, have been much slower to grasp the critical political-economic role of Brazil in South America. They took 18 months to replace the last ambassador, a reality that can best be described as scandalous. U.S. officials have been sniping regularly at Brazil during the last few years as holding back progress on establishing the Free Trade Area of the Americas, whereas in reality the United States has done more to slow progress in this hemispheric endeavor, particularly by the failure of Congress to grant fast-track trade-negotiation authority to two successive presidents. (June 2002)

To be fair to the U.S. Administration, Robert Zoellick, the U.S. trade representative, seems committed to the FTAA process and has worked relentlessly for the Bush White House to secure the Trade Promotion Authority (TPA) that eluded the Clinton administration. In August 2002, both houses approved the TPA bill. However, the price Bush had to pay was so high – with massive subsidies to agriculture, reinforcement of use of antidumping in steel, softwood lumber, and so forth – that one wonders if, at the end of the process, the benefits will outweigh the costs accrued with the increased protectionism these measures cause. Also, the TPA that was approved is fairly restrictive. There is an exclusion list that includes approximately 500 “sensitive” products, whose inclusion in any agreement must be preceded both by a study showing how the decline in tariffs will affect the product’s price and by consultations with four different Congress committees. According to Rubens Barbosa, the Brazilian ambassador in Washington, 80 percent of the products included in the list are agricultural items in which Brazil believes they are competitive (Valor Econômico, September 25, 2002).
In the context of the FTAA, the granting of TPA has allowed Zoellick to move into high gear and ensure that once Brazil and the United States take over the command of the negotiating process in February 2003, the process will be kept on schedule.

One of the consequences of this increase in protectionism by the United States – that is, increased subsidization of agriculture combined with the restriction in strategic products for Brazil – is a perception that now seems to be prevalent in Brazil: that the United States wants to gain entry into the Brazilian market without making any allowances in its own market. The rhetoric being used in Brazil is reminiscent of other eras, with words such as imperialism, annexation, neocolonialism, and exploitation being used with appalling frequency.

The movement against the FTAA gained national notoriety when, in the middle of the electoral campaign (mid September), a group that included the National Confederation of Catholic Bishops, the Landless Movement, CUT (one of the most powerful labour unions), the National Students’ Union, and two minor political parties (PSTU and PCO) organized a national referendum on the subject. According to the organizers, over ten million individuals voted in an area that covered 3,894 municipalities. The results were an astonishing 98 percent rejection of Brazil’s participation in the FTAA (Estado, September 17, 2002).

The argument here is not whether the plebiscite is valid. Just the fact that this many people, including activists, the church, and political parties felt compelled to make the FTAA an issue reflects the level of mistrust the process has raised. On the flip side of this argument is the fact that the FTAA is being debated at all different levels, by experts and laypersons. At least in Brazil, unlike the current situation in the United States or Canada, people are engaged and trying to become informed.

A number of articles on the subject have been written in the country’s leading papers. One that is worth singling out was written by Marcos Sawaya Jank, one of Brazil’s leading experts on the FTAA. In it Jank outlines ten points he considers essential for a rational debate on the subject: (1) misplaced objection – why object to something that has not happened yet? (2) negotiating capacity – although there is little debate in the United States about the FTAA, the U.S. Administration’s negotiating “machine” is set to go; (3) non-participation costs – with almost 70 percent of Brazilian manufactured exports going to countries in the Americas, the country can’t afford to be excluded; (4) available alternatives – no difference between the FTAA and the only other alternative, an agreement with the EU; (5) potential alternatives – work to secure the South American trading space and open new fronts in, for example,
Asia; (6) rules of the game – the FTAA is a free trade agreement with the ultimate objective of eliminating intra-bloc tariffs. Consequently, there should be no acceptance of exclusion lists. Also, this is not an integration scheme such as the EU, so don’t expect and demand similar compensation programs to the ones offered in Europe to poorer countries; (7) Mercosur – it has acted as a strengthening mechanism for the Brazilian position. However, the strength will be lost if there is a reversion to a free trade area; (8) homework – the FTTA and the negotiations with the EU force Brazil to finish its homework, including tax reform, lowering of interest rates, and increase in infrastructure; (9) sheer force – negotiations are a game that involves good preparation, information about the others, definition of interests, threats, bluffs, and legal arguments; and finally (10) national interest – domestic opposition to final agreement is as important as any international opposition (Jank, 2002).

Although Brazilians are often critical of the level of the debate taking place in the country, Jank’s article demonstrates that there is much to be proud of.

The Road Ahead for Brazil

This healthy debate, on the issue of the appropriate Brazilian strategic position vis-à-vis the United States, and on hemispheric trade and integration, has brought discussion of the FTAA into the electoral debate.

All candidates stated their respective positions in written material and throughout the campaign’s debates and individual interviews. The most interesting common thread was that everyone, including José Serra – the incumbent government’s candidate, had a much more protectionist stand than the stand that the current government has taken. It is likely that this protectionist position is more a reflection of the current angst in Brazil due to pressures on the Real (Brazilian currency) and risk assessment from the financial markets than it is a direct indictment of the FTAA. Nonetheless, there is a great deal of pressure from the public for Brazil to stand up to the world and play tough.

At the time of writing, a week prior to the second round, Lula has a commanding lead in the opinion pools – the latest Datafolha opinion poll of October 19 has Lula at 61 percent and Serra at 32 percent. Although a week is a very long time in an electoral campaign and there is always the outside chance that Serra might reverse the situation, chances are that Lula, the left-wing candidate from the Partido Trabalhador (PT, the Worker’s Party), will be the next president.
However, as you will see from his platform, when it comes to Mercosur and the FTAA, his policies are much more similar to the current government’s than are those of Serra.

According to Lula’s official government program, he acknowledges that foreign policy is the kingpin of any alternative development plan. It is also mentioned as fundamental for the Brazilian position in the world, particularly in South America. Lula sees the deepening of Mercosur as the best instrument of this policy, going so far as to mention that once “reconstructed” it could work towards a common monetary policy. It is from the Mercosur platform that he mentions the FTAA negotiations. The program makes specific mention of the recent U.S. protectionism and the difficulties it will impose on the FTAA negotiations. The program also refers to balancing the current FTAA negotiations with negotiations for an agreement with the EU and Asia, and looking for new alliances with regional powers such as South Africa, India, China, and Russia. (http://www.lula.org.br/obrasil/programa.asp).

Lula’s program poses some interesting questions. He sees foreign policy as important to development, as it is linked to an increase in exports. However, the plan is vague about how he is going to achieve this goal by deepening Mercosur, as all countries in the pact are suffering an economic downturn. Another curious point is that he refers to the FTAA as a proposal for a common market agreement, mentioning “processes of regional integration,” as opposed to the simpler free trade area that it is. On the other hand, he is ready to look at other potential trade partners and pursue new markets.

The rank and file of Lula’s team appear to be more practical than Lula himself, and show a keen understanding of the practicalities involved in foreign affairs. In an extensive interview published in the newspaper Estado de São Paulo, Aloizio Mercadante, one of Lula’s most senior advisors, explains that Lula’s plan is to create a special international trade secretariat linked directly to the president. This secretariat will be responsible for a series of critical activities: the development of international commercial policy; the coordination and centralization of all international negotiations; the revamping of Itamaraty (the Brazilian department of foreign affairs) to bring more of a business focus to Brazilian diplomats; and the coordination of participation by the business sector and civil society in all areas relating to international trade. Moreover, Mercadante does not discard the possibility of dealing directly with the United States if difficulties in establishing an FTAA or a bilateral Mercosur/US arrangement are insurmountable. He stresses that a deal with the United
States must include, for example, alcohol, sugar, orange juice, textiles, and steel (Estado, July 12th, 2002).

The principal idea behind Serra’s program for international trade and integration is to create a new International Trade and Development Ministry. He mentions that all lines of public financing will benefit exports and import substitution, and that direct lines of credit will be created for Brazilian companies that settle outside Brazil – as he explains, they become a “powerful mechanism to widen Brazilian exports in relevant markets.” Another proposal is to create an International Trade Institute with mixed financing from government and private capital to keep Brazilian trade experts in relevant foreign markets, in order to promote and facilitate Brazilian exports. Regarding the return of the “import substitution model”, Serra specifies that his government will undertake to promote “strategic actions and attract companies to produce in Brazil for a global market in segments such as electronics, pharmaceuticals, and software.” Insofar as the Mercosur is concerned, the plan is to consolidate it as a free trade area that will still allow the member countries to negotiate bilateral agreements with third parties (http://www.joseserra.com.br/site/planogoverno/home.asp).

In Serra’s case, there are no differences between the official program and what other members of his team say in interviews. If nothing else, there is consistency of thought. However, his program presents a radical reversal from the current administration’s vision of regional integration. It seems that Serra has no aspiration to regional leadership, and indirectly implies that he believes that Brazil would be able to secure the best deal from the United States by going at it alone, or in the WTO forum10.

Conclusion

Thirty-four very different countries will be party to the FTAA. Clearly the enormous differences among them will make the negotiation of this agreement extremely difficult. However, chances are that an agreement could be reached if the United States and Brazil want it.

In this lies the premise of this paper: that success or failure of negotiating an FTAA hinges specifically on the respective positions, strategies and motivations of the United States and Brazil.

The explanation of why the United States is important was not developed here because it seems self-evident. Sidney Weintraub said it best: “An FTAA without one
or more important Latin American countries, especially Brazil, is undesirable; an FTAA without the United States is an oxymoron” (Weintraub, 2001).

Why is Brazil so important?

Together with Mexico it constitutes the most populous, most dynamic, and largest economic power of the region. However, Mexico has already secured access to the United States and has little to gain from a hemispheric agreement. Brazil, on the other hand, has a lot to gain from securing access to the United States.

Most importantly, the United States has a lot to gain from expanding the access it already has to the Brazilian market, especially ahead of the EU, thus obtaining a “first mover’s advantage”. As mentioned earlier in this paper, Brazil is one of the very few countries in the world to have a trade deficit with the United States, and American investments account for one quarter of all investment made in Brazil.

Brazil has worked hard to become a developing-world leader. It has been part of the international trading scene since the inception of the General Agreement on Tariffs and Trade, the predecessor of the WTO. It has been a key player in ALALC, the only other Latin America–wide trade agreement, and it has established a power base in South America by virtue of its size and strategy.

If Brazil doesn’t play the FTAA game, the United States will walk; without South America’s largest trading nation on the team, it would be like the world cup without Brazil.

In the best of worlds, Brazil would help turn the world protectionist wave back, and the FTAA would achieve exactly what was envisioned: a free trade area encompassing thirty-four countries bringing prosperity and economic development to the hemisphere.
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### Endnotes

1. The countries are: Antigua, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, United States, Uruguay, and Venezuela. ([http://www.summit-americas.org](http://www.summit-americas.org)).

2. Trade Promotion Authority (TPA) enables the US administration to negotiate trade agreements that are then ratified (or not) by the US congress in its entirety. That is, the Congress cannot change any of the provisions of the agreement. It either approves it or not based on the whole document.

3. Trade in goods as a share of GDP is the sum of merchandise exports and imports, measured in current U.S. dollars, divided by the value of GDP in U.S. dollars.


5. It is worth noting that Venezuela, Colombia, Chile, and Peru account for over 60 percent of the remaining thirty seven percent of the regions’ GDP.

6. According to the Brazilian Trade Statistics in 1999 manufactured products accounted for 56 percent of Brazil’s total exports (SECEX/DECEX, Balança Comercial, 2001)

7. Datafolha is one of Brazil’s most reputable pollsters.

8. Aloizio Mercadante served as a congressman for the PT party from 1990 to 1994 and from 1998 to 2002. In 1994 he ran for vice-president in the Lula ticket. He was elected senator in the recent first round, on October 6, 2002. Mercadante was part
of the official Brazilian delegation that accompanied president Fernando Henrique Cardoso to the Quebec City Summit in 2001.

9. Serra was Health Minister during president Fernando Henrique Cardoso’s last mandate. During his time as minister he successfully challenged- at the WTO- the pharmaceutical industry patent law protection for experimental AIDS medicine in the case of usage by a developing country for public health purposes.

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