Volume 3 Number 2, 2002/p. 276-289 esteyjournal.com

The Estey Centre Journal of
International Law and Trade Policy

Integration of the Americas: Labour Mobility between Canada and the United States

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To promote trade in goods and services, chapter 16 of the North American Free Trade Agreement (NAFTA) facilitates the cross-border movement of businesspersons. This has allowed managers, technical experts and others to relocate in order to expedite production and support the increased trade that has followed trade liberalization. Since an overwhelming bulk of international trade is carried out by multinational companies, foreign direct investment theory suggests that there will be increased free trade between Canada and the United States to the extent that it encourages increased intra-industry trade and investment and is expected to increase economic incentives for labour mobility.

This paper discusses the relationships among various factors of trade liberalization and their impacts on labour mobility between the Canada and the United States. It considers if and how the NAFTA may have affected bilateral flows of permanent and nonpermanent immigrants between the two countries. It also examines these effects in relation to future trade agreements such as the Free Trade Area of the Americas (FTAA).

Introduction

Developments in the global economy, including advances in technology and the proliferation of trade agreements, continue to facilitate professional mobility. Generally speaking, restrictions based on national borders are crumbling quickly. Most of the recent trade agreements hold to principles of nondiscriminatory treatment for service providers.

Two such agreements, the General Agreement on Trade in Services (GATS) of the World Trade Organization and the North American Free Agreement (NAFTA), have begun to affect business-as-usual by encouraging the development of common educational standards, mutual recognition and the liberalization of the processes by which professionals are allowed to practise. The Canada-U.S. Free Trade Agreement established the first comprehensive set of principles governing services trade. The North American Free Trade Agreement (NAFTA), which entered into force on January 1, 1994, broadens these protections and extends them to Mexico.

To promote trade in goods and services, chapter 16 of the NAFTA facilitates the cross-border movement of businesspersons who are citizens of member countries to the agreement. Because of this, managers, technical experts and others have relocated to expedite production and support the increased trade that has followed trade liberalization.

Since an overwhelming bulk of international trade is carried out by multinational companies (MNCs), foreign direct investment theory suggests that there will be increased trade between Canada and the United States to the extent that it encourages increased intra-industry trade and investment and also is expected to increase economic incentives for labour mobility. In order to be able to make an evaluation of these developments, it is important to examine the concepts and problems of labour mobility, the development of trade agreements (including, specifically, the NAFTA), and the implications of all these factors for the two countries and for future trade agreements such as the Free Trade Area of the Americas (FTAA).

The NAFTA and Other Trade Agreements

Since the beginning of industrial civilization, people have changed their country of residence to provide technical services and/or to promote the sale of goods and services to foreign markets. Freedom of movement was provided for in trade and consular agreements or simply practised between trading nations. Various expressions have been used to categorize these trade-related movements of people, for example,

"trade in services", "labour mobility", "undertaking work in a foreign country", "movement of persons", and so on.

At the turn of 20th century, Treaties of Friendship, Commerce and Navigation (FCN), were concluded bilaterally by most trading nations, providing for limited rights of establishment, mainly tied to the export of goods (not services). These treaties were based on Most-Favored-Nation treatment, although not always on the basis of the "national treatment" principle. However, it was not until 1961 that a comprehensive FCN Treaty was concluded between Belgium and the United States covering the movement of persons.

At the multilateral level, the first significant agreement to deal with the movement of persons was concluded by Denmark, Finland, Norway and Sweden in 1954 when the Common Nordic Labour Market was established. This early type of multilateral agreement would eventually give way to more comprehensive treaties such as the 1961 treaty referred to above.

Traditionally, countries of the European Community applied unilateral and sovereign policy in controlling the movement of persons across their borders, taking into account the countries' individual economic, cultural and historical interests. However, forces of economic and political integration have compelled the EC to gradually accept the idea of co-operation in the area of movement of persons. In 1992, the Maastricht Treaty established the European Union. The European Council, at its meeting in Tempera in October 1999, agreed to develop a common European Union immigration policy.

Some of the other regional blocs have also incorporated specific provisions facilitating movement of labour. The Asia Pacific Economic Cooperation (APEC) forum in its Bogor Declaration stressed human resources development, intending to extend the provision to movement of skilled personnel, or trade in services.

In Africa, a protocol was signed in 1979 by the 16 members of the Economic Community of West African States (ECOWAS) relating to the free circulation of the region's citizens and to rights of residence and establishment. The first provision (the right of entry without a visa) came into force in 1980 following ratification by eight members. The second provision, allowing unlimited rights of residence, was signed in 1986, although by mid-1997 only one country had ratified the protocol on rights of residence.

The NAFTA does not include provision for the free movement of persons but does include an Agreement on Labour Cooperation that specifically resolves to:

- create an expanded and secure market for the goods and services produced in their territories,
- enhance the competitiveness of their firms in global markets,
- create new employment opportunities and improve working conditions and living standards in their respective territories, and
- protect, enhance and enforce basic workers' rights.

As we can see, labour cooperation is not labour mobility and the results for the people of the countries involved are obvious.

What is Labour Mobility?

Labour mobility refers to the freedom of workers to practise their occupation wherever opportunities exist. Sometimes people, particularly those in regulated occupations and trades, face difficulties having their qualifications recognized when they move across provincial or territorial boundaries. It is important to note that the NAFTA does not have free labour mobility provisions, although it does include a labour cooperation agreement among the three nations.

To address the important challenge of labour mobility within the country, the government of Canada has signed the Agreement on Internal Trade (AIT) to make it easier for persons, goods, and services to move within Canada. Chapter 7 of the AIT is specifically devoted to the removal of barriers to worker mobility. Chapter 7 states that governments and regulatory bodies are responsible for:

- ensuring residency requirements are not a condition for licensure or certification;
- recognizing a person's skills, knowledge and ability to do the work;
- accommodating differences in occupational standards; and
- reconciling differences in occupational standards, where possible.

Chapter 7 is thorough and detailed on the issues that have arisen in Canada, which are similar to issues that have arisen in other countries with free trade agreements. The provisions have worked fairly well in the country to this moment.

NAFTA Labour Provisions under the United States and Canada

Every year, approximately 200,000 Canadians relocate to a different province or territory and look for work. While many encounter no difficulties, some – particularly those who work in regulated occupations – may find their qualifications are not accepted in their new jurisdictions. This occurs because licensing requirements vary across the country.

These delays, extra costs, and lack of qualification recognition have the effect of restricting labour mobility. Workers expect to be able to move freely and practise their occupations throughout the country without being subjected to unnecessary reassessment processes and costs. They want to take advantage of opportunities for career advancement across Canada without having to worry about a complex reassessment process. The ability of workers to move more freely would also result in greater productivity for employers, who would face fewer delays in filling job openings and thus enjoy improved competitiveness.

Turning to the NAFTA, the labour mobility provisions within the agreement are designated for the following restricted group of individuals:

1. "Business visitors" are businesspersons who plan to carry on any business activity related to: research and design, growth, manufacturing and production, marketing, sales and distribution, after-sales service and general service.
2. "Professionals" are businesspersons who plan to carry out professional activities of the types indicated in the NAFTA for an employer or on contract to an enterprise located in a member country other than one's own.
3. "Intra-company transferees" are businesspersons who are employed by enterprises to perform management or executive functions or who bring specialized knowledge to these enterprises or their subsidiaries or branches established in one of the member countries. The businessperson must have been employed abroad in a similar capacity by the foreign company for at least one year out of the preceding three.
4. "Traders and investors" are businesspersons who plan to carry out trade in goods and services principally between member countries, or to establish, develop, administer or provide consulting or technical services for the administration of an investment to which foreign capital has been committed or is in the process of being committed.

Accompanying spouses and dependents must meet existing immigration requirements for temporary entry. In addition, unless a spouse or dependent qualifies on his or her own merit for an employment authorization under the NAFTA, he or she must go through the regular job validation process applicable to all temporary foreign workers.

Labour organizations have claimed that trade agreements that harmonize labour standards between the United States and other signatory countries encourage the export of American jobs to countries with cheaper labour and lower labour standards, thereby harming American workers and violating the labour rights of workers in less-developed nations (Rodrik, 1997; Wallach, 2000). This is an issue that, if dealt with appropriately during the negotiation phase of agreements could be discussed and analyzed and therefore resolved in an appropriate forum.

Major Labour Issues under the NAFTA

The emigration of educated and skilled Canadians to the United States has always been of concern to policy makers. The fact that an increasing number of Canadians migrating to the United States are entering under temporary worker provisions established under the Canada-U.S. Free Trade Agreement (CUSTA) and continued under the NAFTA, invites a consideration of possible linkages between recent immigration patterns and recent trade liberalization initiatives.

The major labour market concerns raised by the NAFTA were related to Ross Perot's infamous warning about the "giant sucking sound" that the agreement would produce, as physical capital and employment opportunities fled the United States for Mexico. Canadian opponents of the NAFTA added their concerns about Canadian investment and employment following in the wake of the U.S. tidal wave. Hence, much of the early economic analysis surrounding the likely impact of the NAFTA focused on the agreement's consequences for capital investment with their derived implications for labour demand in the member countries.[1] The potential labour market consequences of the NAFTA were, therefore, primarily seen as derived from changes in the geographical preferences of MNCs as far as investment was concerned. Potential consequences were also associated with changes in trade flows, for example, Mexican "low-wage" goods flooding other North American markets.

Legislation dealing with immigration in both the United States and Canada has traditionally focused on permanent immigrants. This paper will focus on certain changes in the relevant legislation in the 1990s; however, several features of relevant legislation introduced in 1965 and in subsequent years through the 1980s effectively

abolished the national-origins quota system and institutionalized the humanitarian goal of family reunification as the central objective of U.S. immigration policy.

The Immigration Act of November 29, 1990 implemented a major overhaul of U.S. immigration law. Specifically, it increased total immigration under a flexible cap beginning in fiscal year 1995. It also revised existing nonpermanent admission categories and established new ones. For example, it redefined the H-1B temporary worker category and limited the number of aliens who could be issued visas or otherwise provided non-immigrant status under this category to 65,000 annually. Of particular relevance to Canadians were the provisions under the CUSTA governing temporary entry on a reciprocal basis by waiving requirements for a non-immigrant's visa, prior petition labour certification, or other prior approval, as long as appropriate documentation was presented establishing citizenship and showing professional engagement in one of the occupations listed in the qualifying occupation schedule.

The NAFTA Implementation Act of December 8, 1997 superseded the CUSTA. It facilitated temporary entry on a reciprocal basis between the United States, Canada and Mexico. For Canadians and their spouses and minors seeking to enter the United States on a temporary basis, or for Americans and their families seeking to enter Canada, there is again no requirement for visa, prior petition, labour certification and so forth, as long as the applicant and family can prove Canadian (or American) citizenship, and the principal applicant can document professional engagement in one of the qualifying occupations. There is no limit on the number of temporary immigrants from Canada (or the United States) under the NAFTA.

Examination of evidence about the "brain drain" (the loss of knowledge workers from Canada to the United States) and the "brain gain" (the gain of knowledge workers in Canada from the rest of the world) leads to the general conclusion that during the 1990s Canada suffered a net loss of skilled workers to the United States in several economically important occupations, although the numbers involved have remained small in a historical sense and small relative to the supply of workers in these occupations. Compared with the general population, however, emigrants are overrepresented among the better educated, higher-income earners, and individuals of prime working age. Further, there was an upward trend during the 1990s in the number of people leaving Canada for the United States and other countries.

While losses of highly skilled workers to the United States accelerated during the 1990s, so too did the influx of highly skilled workers into Canada from the rest of the world. This is particularly true of high-technology industries where immigrant workers entering Canada outnumber the outflow to the United States by a wide

margin. Indeed, immigrant high-technology workers represented an important part of employment expansion in these industries in the 1990s. Evidence also suggests that the labour market does not discern a quality difference between immigrant and native-born high-technology workers, as estimated lifetime earnings of immigrant versus Canadian-born computer scientists are nearly identical.

In 1996 and in 1997, total permanent emigration to the United States was equivalent to only 0.07 percent of the overall Canadian work force. Despite recent increases in emigration among those in knowledge-based occupations, permanent emigration remains small relative to the stock of workers in Canada. Physicians, nurses, engineers and scientists had the highest levels of emigration relative to the stock; however, these levels were less than 1 percent annually.

In his analysis, O'Neill (1999) indicates that with regard to bilateral permanent migration of knowledge workers between Canada and the United States during the 1990s, Canada's largest losses were in the health professions, followed by engineering and managerial occupations. A survey made in 1995 shows that the overall percentage of Canadian post-secondary graduates living in the United States in 1995 remained small (1.5 percent). Graduates with more advanced degrees, however, were more likely to leave Canada, with 12 percent of PhD graduates living in the United States in 1995.

Overall, emigration to the United States remains small by historical standards and small relative to the stock of workers in the Canadian labour force. However, emigrants are overrepresented among the prime working age groups, the well educated, and high-income earners. In the public sector, emigrant outflows are the greatest among people employed by hospitals, universities and other educational institutions, and government. In the private sector, emigrant outflows are the greatest in high technology, finance, and business services. When placed in the context of the bilateral exchange with the United States, Canada clearly suffers a net loss of highly educated workers.

While the above analysis shows that Canada suffers from a brain drain to the United States, the following analysis presents data from a variety of sources to explore the extent to which this "drain" is offset by a concomitant "gain" of skilled workers from the rest of the world. The age, education and occupation of recent immigrants are profiled and their contribution to the employment expansion of the high-technology sector is examined.

The projections of the immigration department and the actual percentages of immigrants working as physicians and nurses during the 1990s matched quite closely

(O'Neill, 1999). It seems, therefore, that despite licensing requirements for health professionals, immigrant health professionals had successfully integrated and were practising in their fields in Canada. The health sector may have been able to successfully absorb immigrant physicians and nurses because of the relatively small number admitted each year.

Is there such a thing as a "brain drain" to the United States? The answer is yes. Canada suffers a net loss of workers in a variety of key knowledge-based occupations. The magnitude of these losses is relatively small – about 0.1 percent of all tax filers, and less than 1 percent of the stock of workers in any specific knowledge-based occupation. Emigrants as a group, however, are weighted towards the well educated, high-income earners, and people of prime working age. Further, they are drawn from sectors that are thought to be important to Canada's economy and society.

On the other hand, Canada receives more university graduates than it loses to the United States. For every university degree holder migrating from Canada to the United States, whether on a temporary or permanent basis, there are four university degree holders (including one master's or PhD) migrating from the rest of the world to Canada. Compared with the Canadian-born population, after adjusting for age differences, recent immigrants are overrepresented among university degree holders, especially advanced degree holders such as those with master's degrees and PhDs.

Recent immigrant high-technology workers are making an important contribution toward meeting the high demand in the high-technology sector. In the 1990s immigrants accounted for about a third of the increase in employment among computer engineers, systems analysts and computer programmers.

Clearly, the data suggest that the issue of the "brain drain" is far more complex than first appears. Questions remain about the size of the flow of emigrants, the permanence of their moves, and the degree to which the best and the brightest may be over represented. Questions also remain about the extent to which Canadian immigrants – the so-called "brain gain" – compensate for the "drain". Given that the most recent data relevant to the issue are in many cases two or more years old, questions remain about how the situation may have evolved in more recent years and may still be evolving.

Implications for Future Trade Agreements

The labour mobility provisions of trade agreements comprise an important emerging issue. For example, Mexico has indicated a strong interest in further expanding the number and type of its service workers allowed to work temporarily in

Canada and the United States, whether under the NAFTA services provisions or some other framework (such as Canada's program for seasonal agricultural workers). As well, the Canadian government is considering ways to attract foreign workers to Canada to satisfy labour market shortages. Trade commitments need to be coherent with such efforts.

Foreign-born workers are by definition mobile; they have crossed international borders. However, once in the United States, some foreign-born workers may find their internal mobility restricted by language and cultural difficulties beyond those faced by natives or assimilated immigrants. Similarly, perhaps they find that their skill sets do not match those required to compete in the broader labour market (Borjas, 1994). If these problems do exist, it becomes possible to think of regional and sectoral labour markets where wages and conditions of work differ from conditions in the broader labour market. In turn, this could create enclaves of labourers with unusually restricted mobility, fewer employment opportunities and, as predicted by the specific factors model, lower wages in the regions or industries to which they are specific. In such an environment, a firm or industry may find it difficult to meet international competition when hiring in one regional labour market, but quite able to compete when hiring in another.

The The Free Trade Area of the Americas (FTAA) initiative is a comprehensive trade negotiation process embracing the 34 democratic nations of the Western Hemisphere.[2] Its origins date back to the first Summit of the Americas in Miami in December 1994. The Heads of State of the 34 democracies in the hemisphere agreed to construct a "Free Trade Area of the Americas" and to complete negotiations for the agreement by 2005; their decisions can be found in the Miami Summit's Declaration of Principles and Plan of Action.[3] Leaders of these hemispheric partner nations officially launched trade negotiations at the second Summit of the Americas. The FTAA process has again reached an important milestone, as far-reaching negotiations began in earnest in May 2002 and the talks continue on schedule.

The FTAA is premised on enabling prosperity through increased economic integration and free trade (where barriers to trade in good and services and investment are progressively eliminated) among the countries of the Western Hemisphere, with a view to raising standards of living. Especially relevant for the Caribbean, this hemispheric integration effort is committed to actively facilitating the integration of the "smaller economies" in the FTAA process so that they may more readily realize their opportunities and increase their levels of development. The FTAA negotiations, which are overseen by a Trade Negotiating Committee (TNC),[4] hold the potential for

creating the world's largest free trade area, with 800 million people and a combined Gross Domestic Product (GDP) of some US $11 trillion.[5] However, unlike the free trade among European countries, or among U.S. states or Canadian provinces, an FTAA agreement is unlikely to take any significant steps to increase labour mobility among member countries. In fact, that omission is a boon to all Canada's unskilled and semi-skilled workers, not just waiters. Canada's unskilled employees are vastly overpaid when compared to their hemispheric cousins.

Under the FTAA agreement, southern economies would likely lose the opportunity to grow and nurture protected industries, as Canada was able to do for almost a hundred years. When companies in these industries close and restructure, workers – stuck within the borders of their respective nations – will lose considerable negotiating power in dealing with multinational corporations. These companies operate across borders, and are free to negotiate to get the best deal with the country that provides the cheapest labour. The only way to restore the balance of power is – as European states have discovered – to provide workers with some degree of labour mobility, in other words, to let them work in any country they want.

Unrestricted mobility among FTAA partners is not being considered, of course. There remains a significant prejudice in many countries, including Canada, toward guest workers. However, there are measures that can accomplish much within the existing regime to boost labour mobility, including increased quotas and preferential treatment for immigrants from FTAA members.

The fact that poorer FTAA partners appear to be interested in going ahead with a deal that does not include significant progress on labour mobility should not be interpreted to mean mobility is a bad idea. It is very difficult for national governments to push for moves that will result in people leaving their own countries.

Summary and Policy Implications

There is little formal discussion of dealing with a common labour market under the NAFTA. In addition, labour mobility is not among the issues currently being discussed under the Free Trade Agreement of the Americas initiative. In order to create a true free trade market, it will be necessary to include this topic on the agenda, as did the European Union. With the current NAFTA, ongoing integration is giving rise to cross-border labour flows and demands to facilitate these flows. If there are any plans for the United States to create an expanded free trade agreement it is imperative to consider labour mobility, because the forces of integration and globalization will most benefit those who successfully adapt to the implied levels of greater mobility.

This paper suggests a number of possibilities that would serve to enhance labour mobility in the free trade agreements to come. Each case would merit a serious examination of the following considerations and questions:

1. The NAFTA TN visa program led to increased mobility for professionals and persons with technical degrees. Within the NAFTA there have been debates on the possible discrimination this may have on the less-developed country within the agreement, Mexico. It would be possible to increase the scope of the program to other occupational classes of labour by creating a schedule of dates for liberalizing the movements of various occupations. It may be relatively easy to extend the program to technical and trade workers and to work further down the socio-economic scale.
2. Evaluate what has caused the increased movement to other countries. Why does a country lose its people? Is it losing its competitiveness? What can be done? How can foreign workers be attracted to satisfy labour market shortages?
3. Increased mobility raises issues on coordination of border management with respect to non-free-trade-agreement countries.
4. Will a ceiling be placed on the amount of labour that will be permitted to move "freely"? If so, what is the timeframe, if any, associated with such a ceiling?
5. Consider the possibility of identifying harmonized standards for professionals and occupations, as Canada did internally. An example would be eliminating entry barriers such as residency requirements for licensing. It is also important to identify the countries that will be included in the task force to work in this area.
6. It is possible to consider the labour mobility provisions of the Agreement for Internal Trade that has been developed by Canada as a model for future references.

Labour mobility deals with people, specifically the people that make our countries competitive and successful. It is interesting to examine the fact that countries are very busy ensuring that the trade of their goods is being dealt with in the appropriate manner, while there has been little consideration of the people who make this happen. We need to consider that "foreign relations are about more than cross-border issues or the future of NAFTA. They are about the nature of nations – the way they differ, how they change and how they can work together" (Bardorville, 20002).

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Endnotes

1. The relevant literature is too extensive to summarize here; however, the emphasis on capital investment flows is illustrated in various studies in Fry and Radebaugh (eds.), 1991, and Rugman (ed.), 1994.
2. This group consists of the following countries: Antigua and Barbuda, 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.
3. Three countries have been designated as hosts of the negotiations and of the FTAA Secretariat, namely: the United States (Miami) from May 1998 to February 2001; Panama (Panama City) from March 2001 to February 2003; and Mexico (Mexico City) from March 2003 to December 2004.
4. The Trade Negotiating Committee (TNC) plays a broad oversight role in the FTAA process; it has the responsibility of guiding the work of the negotiating groups and of deciding on institutional issues and the overall architecture of the agreements.
5. Gaviria, Cesar, "Integration and Interdependence in the Americas," in *Toward Free Trade in the Americas*, Washington, DC: Brookings Institution and the Organization of American States, 2001, Chapter 15, pp. 303.316.