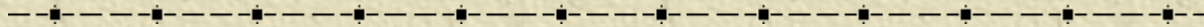
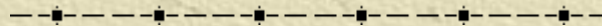


Negotiating the FTAA between the Main Players: The U.S. and MERCOSUR



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Political Economy Lesson #1

Hegemonic Obstructionism: Asymmetries Between the US and MERCOSUR

<u>Country</u>	<u>Population (million)</u>	<u>GDP in US\$</u>		<u>Avg. tariff (%)</u>
		<u>(billion)</u>	<u>(per capita)</u>	
United States	272.9	9,299.2	34.1	2.5
Canada	30.6	644.7	21.1	3.6
Mexico	97.4	483.5	5.9	12.5
NAFTA	400.9	10,472.4	26.1	
Brazil	168.1	542.0	3.1	16.6
Argentina	36.6	283.1	7.8	12.9
Uruguay	3.3	21.8	6.4	10.0
Paraguay	5.4	11.7	2.1	8.7
MERCOSUR	213.4	858.6	4.0	

Political Economy Lesson #2

Consumer Surplus Triumphs: L.A.

Support for FTAA 1996

	Favor	Oppose	Don't Know
Argentina	48%	20%	32%
Brazil	70%	15%	15%

Source: Wall Street Journal America's Survey (1998)

Political Economy Lesson #3

Gradualism / Bi-lateralism Prevail

✦ U.S. - Chile Free Trade Agreement

✦ U.S. - Central America FTA

✦ Plans to negotiate with Peru and others on a bi-lateral basis

The FTAA: U.S. Interests and Strategy

✦ “Trade not aid”

- ✦ Continuation of *Enterprise for the Americas Initiative* (EAI)

✦ “New Monroe Doctrine”

- ✦ Manifest Destiny toward the southern half of the Western Hemisphere

✦ Expansion of market for US exports and FDI



A Free Trade Area of the Americas? Mutual Benefits

- ✦ A Boom in Trade-Related FDI
- ✦ Export Diversification
- ✦ Higher Value-Added Exports
- ✦ Deeper Technical Specialization
- ✦ Greater Economies of Scale



Asymmetries Between the US and MERCOSUR

US Merchandise Trade with Western Hemisphere Nations, 1991-2001
(In millions of dollars and percentage of world total)

	<u>World</u>	<u>WHem</u>	<u>LAC</u>	<u>C/S Am</u>	<u>Brazil</u>
1991					
Exports	414,083	148,395	63,257	30,153	6,106
Imports	491,020	156,036	62,988	31,496	6,842
Total	905,103	304,431	126,245	61,649	12,948
% World		33.7%	13.9%	6.8%	1.4%
2001					
Exports	718,762	322,282	158,973	57,792	15,790
Imports	1,145,927	418,345	199,610	67,406	14,467
Total	1,864,689	740,627	358,583	125,198	30,257
% World		39.7%	19.2%	6.7%	1.6%

FTAA Negotiation Agenda

- ✦ Market access
- ✦ Services
- ✦ Investment
- ✦ Agriculture
- ✦ Trade remedy laws



Brazil: The Debate Over Gains and Losses

- ✠ In favor: exporters of agricultural commodities, agro-industrial companies, and steel and petroleum producers
- ✠ Against: firms that represent other industrial sectors such as chemicals, automobiles and machinery
- ✠ Although Brazil agreed to negotiate the FTAA through MERCOSUR within the 2005 time frame, Lula's recent election has not assured this



Argentina: The Perceived Costs and Benefits

- ✦ FTAA seen as a possible alternative to MERCOSUR dependence after the 1999 peso devaluation in Brazil
- ✦ Argentina's comparative advantage is similar to the US, while Brazil is complementary
- ✦ Exports mineral oils, leather and food and beverage products, however, overall, run trade deficit with the US



The Smaller Economies

- ✠ MERCOSUR has been crucial for the growth of exports from Paraguay and Uruguay during the 1990s
- ✠ Devastating effect of Argentina's debt default in 2001
- ✠ Closer integration with the US would mean more favorable opportunities for export growth, especially in terms of agricultural commodities and agro-industrial products, however limited



MERCOSUR's Fate: What This Represents for Argentina and Brazil

- ✦ Argentina: MERCOSUR to be strengthened in terms of economic growth and social welfare (following the economic recession the diminished terms of trade with Brazil)
- ✦ Brazil: MERCOSUR is essential for strengthening negotiating capacity within the FTAA

The U.S. vis-à-vis MERCOSUR

✧ Some alternative scenarios for negotiating the FTAA

- ✧ Bilateral Pacts

- ✧ U.S. - MERCOSUR Accord

- ✧ Full coupling of North and South America

How to Couple North and South America?

- 1) The importance that the US assigns to multilateral negotiations in the hemisphere, versus a strategy of negotiating bilaterally
- 2) The political ability of the US and Brazil to agree on a mutually beneficial trade liberalization strategy
- 3) The ability of Argentina and Brazil to redefine how MERCOSUR fits into the bigger regional integration scheme
- 4) The prospects for a breakthrough deal in agriculture at the WTO negotiating table