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U.S./BRAZIL RELATIONS WITHIN THE CONTEXT OF THE FREE TRADE AREA OF THE AMERICAS

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INTRODUCTION

The relations between the U.S.A. and Brazil within the context of the Free Trade Area of the Americas is justified as an important issue based on the current high level of cooperation between both countries, the relevant partnership in the trade and investments areas, the importance of hemispheric integration and the almost immediate starting of negotiations, scheduled for the Second Summit of the Americas, to be held in Santiago, Chile in April 1998.

The Free Trade Area of the Americas' project is the most ambitious collective economic undertaking in the history of the Americas.

The 34 democratically elected governments of the Western Hemisphere countries - all the countries except Cuba - resolved to begin immediately the building process of the "Free Trade Area of the Americas" (FTAA) in the Summit of the Americas held in Miami in 1994.

The Western Hemisphere already has five subregional free trade arrangements: (1) the North American Free Trade Agreement (NAFTA) signed in 1993, among U.S.A., Canada and Mexico, which is the world's greatest free trade market, responsible for more than 80% of the Western Hemisphere's trade; (2) the Southern Common Market (MERCOSUR) signed in 1991, among Brazil, Argentina, Paraguay and Uruguay, which is Latin America's most important trade pact; (3) the Andean Pact, signed in 1969, among Bolivia, Colombia, Ecuador, Peru and Venezuela; (4) the Central American Common Market (CACM) signed in 1960, among El Salvador, Honduras, Guatemala, Costa Rica and Nicaragua; and (5) the Caribbean Common Market (CARICON) signed in 1973 among 14 Caribbean Basin countries.

U.S. and Brazil are the leaders of their respective subregional free trade arrangements. Therefore, the negotiations between these two countries will play a major role in the construction of the Western Hemisphere's integration.

The U.S.A. is Brazil's most important single trading partner, supplying 22,01% of Brazil's total imports and purchasing 19,50% of the country's total exports. The bilateral trade flow reached $ 21 billion in 1996, from which $ 9.3 billion represented Brazil's sales to the United States' market and $ 11.8 billion were the total Brazilian's purchases from the U.S.A.

The trade exchange between the two countries resulted in surplus balances in favor of Brazil until 1995. Thereafter, the net bilateral flow has been inverted and the U.S.A. is now having surpluses in its trade balance with Brazil, due to the gradual increase of the Brazilian imports, mainly of capital goods, necessary to modernize Brazil's industrial complex. This is not an isolated fact in the bilateral relationship as Brazil's external accounts began to show negative balances since the country decided to open its economy in the beginning of this decade. Brazil's negative net trade balance with the U.S.A. accounted for around $ 2.5 billion in 1996.

Brazil is also the leader country in the U.S.A.'s foreign direct investments in the developing countries ranking, absorbing an amount of $ 17.65 billion, according to the Organization for Economic Cooperation and Development (OECD)'s 1995 data. Almost all the American corporations operate in the Brazilian market and actively participate of the Americas Business Forum, one of the main actors of the FTAA building process' negotiations.

Hemispheric integration is an important point in Brazil's international insertion, although the Brazilian government considers the consolidation of MERCOSUR as its main diplomatic and commercial strategy. The remaining three subregional member countries - Argentina, Paraguay and Uruguay - purchased in 1996, 15,30% of Brazilian total exports. Industrialized products, with added value accounted for 80% of the intra-region purchases. In addition, Brazil expects an inflow of $ 10 billion in foreign direct investments in 1997, from which 20% to 25% as a consequence of the MERCOSUR agreement, plus $ 4 billion resulting from the Brazilian privatization program, according to Carlos Geraldo Langoni, economist of the Getulio Vargas Foundation, in a seminnar on U.S./Brazil Relations organized by the Brookings Institution, the Getulio Vargas Foundation and the Inter-American Dialogue in Washington, in October, 1997.

The MERCOSUR's consolidation occurs simultaneously with new associations to the subregional arrangement such as those recently signed with Chile and Bolivia. MERCOSUR has agreed to negotiate a future reciprocal free trade agreement with the European Union (EU) and is also negotiating similar arrangements with the Andean Pact partner countries. Furthermore, the Southern Common Market's international agenda expects negotiations in order to liberalize trade with Asean and African countries.

Brazil is a global trader and therefore gives special attention to the negotiations conducted within the framework of the World Trade Organization (WTO)'s, whose creation Brazil actively participated during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). Although the agreements resulting from the present WTO negotiations are of as much importance to Brazil as the future outcomes of the FTAA's establishment, the Brazilian Government recognizes that the American market is essential for the Brazilian products. The U.S.A. is certainly the biggest and most open economy in the world. The considerable trade flow, the existing level of cooperation in other areas, and the absence of relevant disputes facilitate the achievement of tangible results between the U.S.A. and Brazil, despite the existence of some different positions relating to hemispheric integration that have yet to be worked out.

Since the Summit of the Americas held in Miami in 1994, Brazil and the U.S.A. have been engaged in the building process of the FTAA in order to achieve Western Hemispheric integration. The total gross domestic product (GDP) of the FTAA is estimated in $ 9.3 trillion. The U.S. economy participates with $ 7 trillion, representing 75,53% of the total. Brazil's GDP amounts to $ 637 billion - a share of 6,87%. MERCOSUR has a GDP of $ 908.9 billion of which Brazil's share is 70,08% of the total. NAFTA is the largest subregional trade arrangement of the Western Hemisphere with a GDP of $ 8.02 trillion. MERCOSUR comes in second with an economy more than four times bigger than the Andean Pact, which is the third subregional trade arrangement of the Americas.

The U.S.A. and Brazil are the leaders of their respective subregional trade arrangements due to the dimensions of the economies and populations and therefore have a fundamental role in the building process of the FTAA. Thus, progress and tangible results in U.S./Brazil trade relations are vital to launch the hemispheric integration.

Since the Summit of the Americas, the MERCOSUR countries have decided to unify their positions. The Southern Common Market intends to maintain three basic concepts in the hemispheric negotiations: single undertaking, gradualism and simultaneous. Single undertaking is understood as negotiating and implementing all the agreements at the same time. Gradualism means that the negotiations related to each of the issues must develop together step by step until the year 2005. The simultaneous concept refers to tradeoff: losses resulting from a negotiation relating to a product must be compensated by gains from another item.

The U.S. government, on the other hand, wants concrete progress in the negotiations until the end of this century. The U.S.A.'s position tends to anticipate the enforcement of the agreements made until the end of the century. This seems to be the most diverging aspect between the U.S.A. and Brazil toward a shared negotiating strategy.

The concrete progress in the FTAA's negotiations is an important way of maintaining the American private sector's interest in the Western Hemisphere's integration. Latin America is, besides Asia, the region that more quickly absorbs the increase of U.S. exports. "Latin America alone, if current trends continue, will exceed both Japan and Western Europe combined as an export market for U.S. goods by the year 2010", pointed out the U.S. Trade Representative, Charlene Barshefsky in her testimony on Renewal of Traditional Trading Authority addressed to the U.S. Senate Finance Committee in September, 1997. In the last five years, the U.S.A.'s sales to Latin American and Caribbean countries, including Mexico, increased 58%, from $ 63 billion to $ 109 billion.

Brazil is reluctant to anticipate the enforcement of market access measures due to the country's need to accomplish its internal and external economic adjustments. Since the beginning of this decade, Brazil has implemented a deep program of liberalization which is resulting in the reduction of the country's tariff level. The average import tax which was around 60% in the late 1980s, decreased to 12,3%, as established for the MERCOSUR Common External Tariff in December, 1994. Besides that, other extensive programs of economic reform and privatization are being implemented in order to modernize the Brazilian economy.

The U.S.A. argues that, despite the Uruguay Round duty reductions, tariff barriers in Latin America are still on the average four times higher than the U.S. tariff.

This paper intends to describe the Free Trade Area of the Americas (FTAA), the U.S. and Brazil's interests in its establishment, as well as the negotiating positions of both countries. It's important, though, to keep in mind the intrinsic difficulties of analyzing and measuring the gains for each economy involved in the process, as the hemispheric negotiations are currently at their very beginning. Facing these limitations, due to their established negotiations' schedule, the paper will focus on the analysis of the U.S.A.'s and Brazil's fundamental interests in achieving the Western Hemisphere's integration.

Chapter I will describe the FTAA: its background, its objectives, the participating countries, the working groups and their respective attributions and the statistics involved. Chapter II will focus the American and the Brazilian interests in the creation of the FTAA. Chapter III of the paper will approach the U.S.A.'s and Brazil's negotiating positions toward the hemispheric integration. Finally, the main conclusions will follow.

CHAPTER I -FREE TRADE AREA OF THE AMERICAS (FTAA) 2005

BACKGROUND:

Ideas in favor and against hemispherism encompassed Western Hemisphere countries many times since the 18th century.

Historically the Western Hemisphere countries have had the traditional notion that close ties with one another would be in their best interests. This idea, however, failed to dominate in the United States and in Latin America.

The several hemispheric integration projects failed due to the rival intellectual thoughts which shaped the U.S. and Latin American countries foreign policies.

U.S./Latin America relations have indeed been shaped by interests, conflicts, opportunism and crisis.

The 1970s political and economic scenarios of Latin America and the U.S. showed, at that time, strong divergencies that inhibited any attempt to the hemispheric integration process:

- roughly half of the hemisphere's leaders were military-backed strongmen;
- Latin American governments had protectionist policies and therefore closed economies;
- many Latin American countries viewed international economy as dangerously unstable and unfair in terms of trade;
- many Latin American politicians identified the U.S. as their countries enemy;
- U.S. foreign policy's main concern was the Cold War between the country and the former Soviet Union;
- U.S. issues toward Latin America were limited to aid programs which provided economic assistance and eventually trade preferences, based mainly on security concerns rather than on mutual economic gains;
- Latin America was regarded as a problem rather than an opportunity to the U.S.

In 1990 Mexico proposed to the United States the establishment of a free trade zone between both nations. For the first time in history, the United States reacted favorably toward a Latin American country's intention of building a special bilateral relationship or economic alliance.

Political and economic scenarios of the 1990s, however, were much different at this time in the hemisphere. Many U.S. and Latin American interests had converged:

- by the beginning of the decade the Western Hemisphere had become overwhelmingly democratic;
- Latin American governments had shifted their policies toward market-oriented economic reforms;
- Latin American countries began to open their economies to international trade and to enter into subregional integration arrangements;
- with the end of the Cold War U.S. foreign policy had shifted toward bilateral and regional free trade arrangements and NAFTA, signed in 1993, was an open door to economic integration in the hemisphere;
- U.S. policymakers began to perceive democratic Latin America as an opportunity to provide political allies and profitable markets for the country;
- the Latin American countries' interests in constructing a special relationship with their powerful northern neighbor increased and the U.S. ceased to be considered a menace.

In this context, President Bill Clinton not only completed the NAFTA negotiations but also authorized Vice President Al Gore, in December 1993, to invite the democratically elected Presidents and Heads of Governments of the Americas to a summit meeting to discuss ways of improving the Western Hemispheric cooperation through economic integration and a shared commitment to democratic institutions. The invited countries promptly accepted and Latin America proposed that free trade should be the counterpiece of the summit agenda, expecting that the December 1994 meeting would bring closer relations and that they could perhaps benefit from economic alliance with the United States.

BUILDING PROCESS:

The result was the Summit of the Americas (SOA) which was held in December 1994 in Miami, where democratically elected Heads of State and Governments from 34 countries throughout the hemisphere agreed to unite the economies of the Western Hemisphere into a single free trade arrangement to establish the Free Trade Area of the Americas (FTAA), involving the territories from Alaska to Tierra del Fuego, by the year 2005.

The SOA's Declaration of Principles proposed a partnership for development and prosperity: democracy, free trade and sustainable development in the Americas, divided into four main topics:

- to preserve and strengthen the community of democracies of the Americas;
- to promote prosperity through economic integration and free trade;
- to eradicate poverty and discrimination in the hemisphere;
- to guarantee sustainable development and conserve the Americas' natural environment for future generations.

The topic of economic integration and free trade created the Free Trade Area of the Americas and determined its main streams to read as follows:

"Our continued economic progress depends on sound economic policies, sustainable development, and dynamic private sectors. A key to prosperity is trade without barriers, without subsidies, without unfair practices, and with an increasing stream of productive investments. Eliminating impediments to market access for goods and services among our countries will foster our economic growth. A growing world economy will also enhance our domestic prosperity. Free trade and increased economic integration are key factors for raising standards of living, improving the working conditions of people in the Americas and better protecting the environment.

We, therefore, resolve to begin immediately to construct the Free Trade Area of the Americas (FTAA), in which barriers to trade and investment will be progressively eliminated. We further resolve to conclude the negotiation of the Free Trade Area of the Americas no later than 2005, and agree that concrete progress toward the attainment of this objective will be made by the end of this century. We recognize the progress that already has been realized through the unilateral undertakings of each of our nations and the subregional trade arrangements in our hemisphere. We will build on existing subregional and bilateral arrangements in order to broaden and deepen hemispheric economic integration and to bring the agreements together.

Aware that investment is the main engine for growth in the hemisphere, we will encourage such investment by cooperating to build more open, transparent and integrated markets. In this regard, we are committed to create strengthened mechanisms that promote and protect the flow of productive investment in the hemisphere, and to promote the development and progressive integration of capital markets.

To advance economic integration and free trade, we will work, with cooperation and financing from the private sector and international financial institutions, to create a hemispheric infrastructure. This process requires a cooperative effort in fields such as telecommunications, energy and transportation, which will permit the efficient movement of the goods, services, capital, information and technology that are the foundations of prosperity.

We recognize that despite the substantial progress in dealing with debt problems in the hemisphere, high foreign debt burdens still hinder the development of some of our countries.

We recognize that economic integration and the creation of a free trade area will be complex endeavors. Particularly in view of the wide differences in the levels of development and size of economies existing in our hemisphere. We will remain cognizant of these differences as we work toward economic integration in the hemisphere. We look to our own resources, ingenuity, and individual capacities as well as to the international community to help us achieve our goals."

The three key components of the dynamic process to build the FTAA are:

- the Trade Ministers of the Western Hemisphere, who have developed the overall work plan for the FTAA;
- the 12 FTAA working groups established by the Trade Ministers which are gathering and compiling information on the current status of trading relations in the hemisphere;
- the Vice Ministers of Trade of the Western Hemisphere, who coordinate the efforts of the working groups and make policy recommendations to the Trade Ministers.

Business Forums have also represented a major role in the formation process of the Free Trade Area of the Americas. Businessmen from throughout the hemisphere have participated in plenary sessions and workshops in which executives reached conclusions and recommendations in a number of areas considered relevant for the FTAA. The Business Forum recommendations have been submitted to the Trade Ministers' consideration at their respective succeding meetings, in order to subsidize the ministerial negotiations in accordance with the business sectors objectives.

Since the Summit of the Americas in 1994, the hemisphere's Trade Ministers have met three times to formulate and execute a work plan for the FTAA. The first meeting was in June of 1995 in Denver, U.S.A., the second in March of 1996 in Cartagena, Colombia and the third in May of 1997 in Belo Horizonte, Brazil. The next meeting is scheduled for February 1998 in San Jose, Costa Rica and the FTAA negotiations shall be initiated in April 1998 in Santiago, Chile at the Second Summit of the Americas, as agreed at the Belo Horizonte Ministerial.

PARTICIPANT COUNTRIES

The 34 participant countries of the Summit of the Americas which signed its Declaration of Principles having as main objectives their commitment to achieve democratic practices, economic integration and social justice were:

. Antigua & Barbuda . Guyana

. Argentina . Haiti

. Bahamas . Honduras

. Barbados . Jamaica

. Belize . Mexico

. Bolivia . Nicaragua

. Brazil . Panama

. Canada . Paraguay

. Chile . Peru

. Colombia . St. Kitts & Nevis

. Costa Rica . St. Lucia

. Dominica . St. Vincent & the Granadines

. Dominican Republic . Suriname

. Ecuador . Trinidad & Tobago

. El Salvador . Uruguay

. Grenada . U.S.A.

. Guatemala . Venezuela

WORKING GROUPS

There are currently 12 working groups created by the Trade Ministers of the Western Hemisphere to build the FTAA by 2005. These working groups are assisted by the FTAA Tripartite Committee, consisting of the Inter-American Development Bank (IDB), the Organization of American States (OAS) and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).

The FTAA's 12 working groups have held several meetings at different locations throughout the Americas. Besides gathering information, each working group has been directed by the Trade Ministers to examine trade-related measures in its respective areas, in order to determine possible approaches to negotiations.

The working groups terms of reference and instructions for future works are:

1 - MARKET ACCESS

Terms of Reference

- construct and organize in the most efficient manner possible a comprehensive data base on market access barriers (tariffs and nontariff measures as required for the WTO Integrated Data Base) in the hemisphere covering all industrial and agricultural products, using the format of the WTO Integrated Data Base;

- make specific recommendations for conducting market access negotiations.

Instructions for Future Work

- keep data bases current;

- make them public, once contents have been approved by governments.

2 - CUSTOMS PROCEDURES AND RULES OF ORIGIN

Terms of Reference

- compile in the most efficient manner possible a comprehensive inventory of hemisphere customs procedures and determine the feasibility of publishing a Hemisphere Guide to Customs

Procedures;

- develop features that are fundamental to an efficient and transparent system of rules of origin, including nomenclature and certificates of origin;
- identify areas for technical cooperation in customs operation, such as connections among computerized systems and the prevention of fraud;
- recommend a specific approach for hemisphere-wide simplification of customs procedures;
- make specific recommendations for conducting negotiations on rules of origin.

Instructions for Future Work

- develop and improve the complete inventory of customs procedures in the hemisphere and publish the Customs Procedures Manual for use by the private sector;
- make recommendations on promoting the electronic filing of customs documentation.

3 - INVESTMENT

Terms of Reference

- create an inventory of investment agreements and treaties, and the protection therein, that exist in the region;
- compile in the most efficient manner possible an inventory of investment regimes in the region and, on the basis of this information, determine areas of commonality and divergence and make specific recommendations.

Instructions for Future Work

- publish a guidebook on investment regimes in the hemisphere;
- promote accession to existing arbitral conventions;
- publish the inventory of investment agreements and treaties in the region.

4 - STANDARDS AND TECHNICAL BARRIERS TO TRADE

Terms of Reference

- recommend specific ways to enhance transparency, especially in standards development;
- compile information on the bodies that exist which are charged with conformity assessment to technical regulations in the hemisphere, and those organizations which accredit such bodies;
- recommend methods to promote understanding of the WTO Agreement on Standards and Technical Barriers to Trade, including through technical assistance;
- make recommendations on product testing and certification with a view to mutual recognition agreements.

Instructions for Future Work

- develop proposals on mutual accreditation of testing facilities;

- prepare an inventory of standards and related measures.

5 - SANITARY AND PHYTOSANITARY MEASURES

Terms of Reference

- create an inventory of all agreements on the SPS in the hemisphere and compile in the most effective manner possible an inventory of SPS regimes in the region;
- recommend ways to enhance transparency and information-sharing and improve understanding of laws and regulations that affect trade flows in the region;
- identify practices that may need improvement, and make recommendations for their improvement;
- promote understanding of the WTO Agreement on Sanitary and Phytosanitary Measures, including through technical assistance, and recommend measures for the effective implementation of the agreement;
- enhance mutual understanding of the scientific basis for SPS certification procedures, with a view to recommend ways to promote recognition of certificates among countries of the hemisphere;
- compile by the most efficient means possible the methods used for risk assessment in the hemisphere, with a view to work toward common approaches.

Instructions for Future Work

- develop proposals on ways to promote the recognition of sanitary and phytosanitary certificates among countries in the hemisphere.

6 - SUBSIDIES, ANTIDUMPING AND COUNTERVAILING DUTIES

Terms of Reference

- identify agricultural export subsides and other export practices with similar effects on hemispheric trade;
- recommend ways to address all trade-distorting practices for agricultural products that are traded in or with the hemisphere;
- promote understanding of WTO obligations in the area of subsidies, and begin to compile an inventory of subsidies practices in the hemisphere;
- review information on the dumping and subsidies laws of countries in the hemisphere;
- exchange views on the application and operation of trade remedy laws regarding subsidies and dumping and develop recommendations for future work.

Instructions for Future Work

- release the Compendium of the Hemisphere Trade Laws and Procedures being compiled by the OAS.

7 - SMALLER ECONOMIES

Terms of Reference

- identify and assess the factors affecting the participation of smaller economies in the FTAA and the expansion of trade and investment stimulated therefrom;
- identify and examine ways to facilitate the adjustment of the smaller economies to the FTAA process, including the promotion and expansion of their trade, and provide recommendations on measures and issues to be taken into account in the negotiations of the FTAA;
- request the IDB, ECLAC, the OAS and other relevant institutions to provide pertinent information on their activities to facilitate integration of the smaller economies in the hemisphere.

Instructions for Future Work

- make recommendations on measures, including technical assistance, to facilitate the integration of smaller economies into the FTAA.

8 - GOVERNMENT PROCUREMENT

Terms of Reference

- collect, systematize and create an inventory of the legislation, regulations, and procedures in the countries of the hemisphere regarding government procurement, starting at the central government level, including, among other, state-owned enterprises. On the basis of that inventory, undertake a study of barriers to access to procurement by the public sector;
- create an inventory and analysis of regulations on government procurement included in integration schemes and other existing agreements to which countries in the hemisphere are signatories;
- compile available data on purchasing of goods and services by central governments, including, among others, state-owned enterprises, in the hemisphere;
- identify areas of commonality and divergence among government procurement systems in countries of the hemisphere;
- recommend methods to promote understanding of the WTO Government Procurement Agreement;
- recommend methods to promote transparency in government procurement;
- make specific recommendations on how to proceed in the construction of the FTAA in this area.

9 - INTELLECTUAL PROPERTY RIGHTS

Terms of Reference

- create an inventory of the intellectual property rights agreements, treaties and arrangements that exist in the hemisphere, including all international conventions to which countries are parties;
- compile, in the most efficient manner, an inventory of intellectual property protection laws, regulations and enforcement measures in the hemisphere and, on the basis of this information, identify areas of commonality and divergence;
- recommend methods to promote the understanding and effective implementation of the WTO Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS);

- identify possible areas for technical assistance, which countries may request, involving both the administration and enforcement of intellectual property rights;
- analyze the implications of emerging technologies for intellectual property rights protection in the FTAA;
- make specific recommendations on how to proceed in the construction of the FTAA in this area.

10 - SERVICES

Terms of Reference

- undertake conceptual background work on the nature of trade in services, including the relationship to other working groups, including investment;
- compile a comprehensive inventory of agreements accords and other arrangements covering trade services in the hemisphere and determine areas of commonality and divergence;
- create a comprehensive inventory of measures affecting trade in services within the hemisphere and identify steps to enhance transparency and facilitate trade;
- create a statistical database of trade flows in services in the hemisphere;
- recommend methods to promote understanding and effective implementation of the WTO General Agreement on Trade in Services (GATS), including technical assistance;
- make specific recommendations on how to proceed in the construction of the FTAA in this area.

11 - COMPETITION POLICY

Terms of Reference

- promote understanding of the objectives and operation of competition policy;
- compile an inventory of domestic laws and regulations that exist in the hemisphere that deal with anti-competition conduct and, on the basis of that information, identify areas of commonality and divergence;
- create an inventory of the competition policy agreements, treaties and arrangements existing in the hemisphere;
- identify cooperation mechanisms among governments in the hemisphere aiming at ensuring the effective implementation of competition policy laws;
- recommend ways to assist members to establish or improve their domestic competition policy regimes, as they may request;
- exchange views on the application and operation of competition policy regimes in the countries of the hemisphere and their relationship to trade in a free trade area;
- make specific recommendations on how to proceed in the construction of the FTAA in this area.

12 - DISPUTE SETTLEMENT

Terms of Reference

- compile an inventory of dispute settlement procedures and mechanisms included in agreements, treaties and arrangements of integration existing in the hemisphere and those of the WTO, appending the legal texts;
- on the basis of this inventory, identify areas of commonality and divergence among dispute settlement systems in the hemisphere, including with respect to the extent to which these systems have been employed;
- exchange views, following internal consultations with the private sector, regarding mechanisms to encourage and facilitate the use of arbitration and other means of alternative dispute resolution for the settlement of international commercial disputes;
- recommend methods to promote understanding of the procedures under the WTO understanding on rules and procedures governing the settlement of disputes;
- in the light of the various subjects to be covered by the FTAA agreement and other relevant factors, exchange views on possible approaches to dispute settlement under the FTAA agreement, in line with the World Trade Organization understanding on rules and procedures governing the settlement of disputes.
- make specific recommendations on how to proceed in the construction of the FTAA in this area.

MACROECONOMIC INDICATORS (1996)

Antigua & Barbuda	0.4	0.00	0.1	0.01
Argentina	250.0	2.70	34.6	4.56
Bahamas	3.0	0.03	0.3	0.04
Barbados	2.0	0.02	0.3	0.04
Belize	0.4	0.00	0.2	0.03
Bolivia	6.7	0.07	7.4	0.98
Brazil	637.0	6.87	161.8	21.33
Canada	770.0	8.31	29.4	3.88
Chile	60.0	0.65	14.3	1.89
Colombia	74.0	0.80	35.1	4.63
Costa Rica	6.9	0.07	3.4	0.45
Dominica	0.2	0.00	0.1	0.01
Dominican Republic	8.0	0.09	7.8	1.03
Ecuador	16.0	0.17	11.5	1.52
El Salvador	6.7	0.07	5.8	0.76
Grenada	0.2	0.00	0.1	0.01
Guatemala	[illegible]	0.10	10.6	1.40

Guatemala	9.2	0.10	10.6	1.40
Guyana	0.4	0.00	0.8	0.11
Haiti	3.0	0.03	7.2	0.95
Honduras	3.2	0.03	5.6	0.74
Jamaica	4.0	0.04	2.5	0.33
Mexico	250.0	2.70	93.7	12.35
Nicaragua	2.5	0.03	4.4	0.58
Panama	6.0	0.06	2.6	0.34
Paraguay	6.9	0.07	4.9	0.65
Peru	68.0	0.73	23.8	3.14
St. Kitts & Nevis	0.2	0.00	0.0	0.00
St. Lucia	0.4	0.00	0.1	0.01
St. Vincent & the Grenadines	0.2	0.00	0.1	0.01
Suriname	2.5	0.03	0.4	0.05
Trinidad & Tobago	4.6	0.05	1.3	0.17
Uruguay	15.0	0.16	3.2	0.42
U.S.A.	7,000.0	75.53	263.3	34.71
Venezuela	50.0	0.54	21.9	2.89
FTAA	**9,267.6**	**100.00**	**758.6**	**100.00**

FTAA COUNTRIES' FOREIGN TRADE (1996) - $ MILLION

U.S.A.	774,700	69.13	888,300	70.89
Canada	160,000	14.28	148,000	11.81
Mexico	61,000	5.44	79,000	6.30
Brazil	46,506	4.15	49,583	3.96
Argentina	19,500	1.74	18,500	1.48
Chile	16,000	1.43	14,600	1.17
Venezuela	14,200	1.27	11,000	0.88
Colombia	8,700	0.78	11,000	0.88

Colombia	8,700	0.78	11,000	0.88
Peru	3,500	0.31	4,000	0.32
Ecuador	2,900	0.26	2,800	0.22
Costa Rica	2,100	0.19	2,900	0.23
Uruguay	1,800	0.16	2,400	0.19
Trinidad & Tobago	1,400	0.12	1,100	0.09
Guatemala	1,300	0.12	2,600	0.21
Jamaica	1,210	0.11	2,170	0.17
Honduras	866	0.08	1,300	0.10
Paraguay	750	0.07	1,700	0.14
El Salvador	732	0.07	1,900	0.15
Bolivia	630	0.06	1,100	0.09
Dominican Republic	561	0.05	2,200	0.18
Panama	508	0.05	2,200	0.18
Guyana	335	0.03	339	0.03
Nicaragua	267	0.02	727	0.06
Bahamas	257	0.02	1,100	0.09
Barbados	194	0.02	704	0.06
Belize	143	0.01	284	0.02
St. Lucia	126	0.01	311	0.02
St. Kitts & Nevis	126	0.01	115	0.01
Suriname	105	0.01	105	0.01
Haiti	86	0.01	172	0.01
St. Vincent & the Grenadines	75	0.01	128	0.01
Dominica	55	0.00	140	0.01
Antigua & Barbuda	32	0.00	353	0.03
Grenada	20	0.00	177	0.01
FTAA	**1,120,684**	**100.00**	**1,253,008**	**100.00**

CHAPTER II - THE INTERESTS OF THE U.S. AND BRAZIL IN THE ESTABLISHMENT OF FTAA

BRAZIL'S INTERESTS IN THE ESTABLISHMENT OF FTAA

The Free Trade Area of the Americas (FTAA) is strategically important for the 34 countries responsible for having launched the hemispheric initiative in December 1994 at the Miami Summit. It is a landmark in the history of the continent in terms of both economic and trade concertation among the participants.

The importance of the FTAA could be evaluated by the opportunities that the integration process will create by extending the region's markets, modernizing the structure of production and promoting sustainable development.

Brazil seeks, as other partners in the region, better market access for its products, chiefly in the U.S. market, the single most important for the Brazilian economy. The overwhelmingly increase in Brazil's imports since 1994, has led to a deficit in the bilateral trade. In 1996, Brazilian exports to the U.S. accounted for $ 9.3 billion, which represented 19,5% of the overall Brazilian exports. In the same period, the U.S. sold $ 11.8 billion to Brazil.

Yet the Brazilian trade deficits have been mostly caused by the growth of capital goods imports from the U.S. market which, in the end, will contribute to the modernization of Brazil's industries. The new machines and equipment ill certainly help to expand the country's exports in the future, especially to the U.S. market.

Brazil's trade deficit can also be explained by the lack of competitiveness of certain products, such as shoes, in which sector China has been very aggressive in the American market. The Chinese are currently the main shoe suppliers to the U.S. and replaced Brazil in this position.

For both the Brazilian government and business community, apart from these reasons that explain Brazil's deficit in the bilateral trade relationship, there is a significant number of tariff and non-tariff barriers in the U.S. that curtails market access for Brazilian products.

Therefore, Brazil has been insisting on the necessity of Washington's unilateral removal of trade obstacles, but this is not the way American authorities like to deal with trade issues. The U.S. has made clear that within the FTAA context, countries in the hemisphere have better chances to improve market access for their goods and services.

"There are areas in which trade could be enhanced. Our concerns with non-tariff barriers, the excessive use of anti-dumping and high tariffs in the U.S. are well known. We see a lot of room for improvement in market access conditions for Brazilian products in the U.S., mainly in the agricultural sector, but also in traditional industrial items such as steel. Brazil's competitiveness in these sectors must not be punished; on the contrary, American consumers would largely benefit from expanded access of competitive Brazilian products to the U.S. market", said Brazil's Foreign Minister Luiz Felipe Lampreia at the Americas Society luncheon held on September 25, 1997.

He added that "for global traders such as Brazil and the U.S., Latin America represents an important market to be expanded through economic integration. About a quarter of Brazilian exports already go to Latin America, especially to its MERCUSUR partners, while forty cents out of every dollar earned in exports by the U.S. come from Latin America. Also for Brazil, the U.S. represents its single most important market. Free trade agreements in the hemisphere would thus be in the interest of both countries. The main question before countries of the hemisphere is how to arrive at a Free Trade Area of the Americas by the deadline of 2005. It would be incorrect to say that there is a conflict of interests between Brazil and the United States regarding hemispheric integration. Certainly each country has its own perception of how to best move the process forward, but both ultimately share a common goal".

According to Minister Lampreia, bilateral trade between Brazil and the U.S. promises to be a force in favor, not against, hemispheric integration. Nevertheless, the Brazilian government sees the bilateral economic relationship as an asymmetric one, both in terms of trade in goods and services.

The U.S. has been expanding its sales to Brazil in a pace that is hardly found in external trade relations: from 1992 to 1996, U.S. exports to Brazil have had an increase of almost 160%. In the first semester of this year, Brazilian imports of U.S. goods reached $ 8.2 billion, which means a 32% increase compared to the same period last year. Brazil was the 12th largest market for U.S. products in the world.

Besides that, the U.S. is by far Brazil’s main partner in the field of trade in services, responding for about half of all the country’s foreign trade in this area. The Brazilian deficit in the services account with the U.S. is approximately $ 7 billion a year. The current process of liberalization of the services’ sector in Brazil will probably increase this number.

"This imbalance in our trade relations with the U.S. is not intrinsically bad. Despite the problems that necessarily arise from an increasingly unbalanced trade relationship, the present situation results from three factors, all of them positive: a healthy and stabilized Brazilian economy; a very efficient and productive U.S. economy; a good - even excellent, I would say - general state of relations between the two countries", said Minister Lampreia.

Before going into details about Brazil’s main complaints regarding U.S. trade barriers, it is useful to know the traded products between the two countries.

U.S. exports to Brazil are concentrated in the following products: automatic data process machines, parts for typewriters and other office machines; motor cars and vehicles; aircraft, spacecraft and launch vehicles; coal; parts for television, radio and radar apparatus; photocopy apparatus and thermocopy apparatus; electronic integrated circuits; ethyl alcohol; medical, surgical, dental instruments; turbojets, turbopropellers and other gas turbines; polyethers, exposides and polyesters; tapes and other record sound media; insecticides and fungicides; electric apparatus for line telephony; cotton, not carded or combed; printing machinery; aluminum plates; wheat, paper and paperboard; parts for engines of heading 8407 or 8408, most of all products with great added value.

The most important Brazilian products sold to the U.S. are: footwear, outer sole rub, plastic; chemical woodpulp, soda or sulfate; soybean; coffee; parts and access for motor vehicles; semifinished products of iron or nonalloy steel; pig iron; parts for engines of heading 8407 or 8408; air or vac pumps, fans; aluminum; new pneumatic tires; gold; pumps for liquids; tobacco, unmanufactured; coconuts, Brazil nuts and cashew nuts; wood sawn or chipped lenght; fruit juice; oil (not crude, from petrol); ferroalloys; iron ores and concentrates; cane or beet sugar; plywood; transmission shafts; aircraft; spacecraft and launch vehicles; furniture; twine, cordage; bovine or equine leather; electric motors and generators; prepared and preserved meat.

Chapters 20 (fruits preparations) and 64 (shoes) of the Harmonized System have been charged with higher tariffs, according to Fundação Centro de Estudos do Comércio Exterior Brasileiro (Funcex). The highest tariffs are in the range of 151% and 48%, and the average ranks between 9,9% and 14,7% respectively. These two chapters accounted for more than 15% of Brazilian exports to the U.S. in 1996. Nevertheless, it must be said that these duties apply to all countries and not just to Brazil.

Brazilian exports of orange juice to the U.S. have been limited by a duty imposed as a result of an anti-dumping investigation initiated in 1986. The specific tariff for this year averages $ 456 per ton, which represents, according to Brazilian exporters, around 86% of the final price of an orange crate. The International Trade Commission (ITC) - as mentioned by Funcex - said that the additional charge applied to the Brazilian orange juice represents a burden for American consumers as the domestic prices are higher. According to the ITC, the Brazilian sales have dropped by 75% in the period after the anti-dumping duty was applied.

The U.S. argues that Brazil was doing fine until 1995 and thereafter lost market share to Mexico due to NAFTA, which is not confirmed by facts. According to the Economic Research Service of the U.S. Department of Agriculture, Brazilian exports, in terms of quantity (measured hectoliters), went from accounting for 53% of U.S. imports for consumption in 1995 to 71,6% in 1996. During the same period Mexico went from accounting for 34.9% of U.S. imports for consumption to 17.64%.

Brazil will hardly increase its orange juice access to the U.S. market outside the FTAA framework. This is a sensitive product and it would be politically complicated for the U.S. administration to give Brazil a unilateral concession due to the Florida lobby.

For other Brazilian goods, such as beef, poultry and fruits, the problems arise from sanitary and phytosanitary barriers. With regard to sugar exports, the main complaint is its exclusion from the Generalized System of Preferences (SGP). According to the Brazilian government, Brazil is, among the countries encompassed in the quota system, the only one that doesn't benefit from zero tariff in the U.S. Because of that, exporters pay $ 1.46 per kilo out of 160 thousand tons. Brazil has requested the reinclusion of sugar and other nine products in the SGP, but so far has received clearance on only two itens: tires and adipic acid.

Steel products rank among the oldest and most complicated issues in the Brazil/U.S. trade relationship. The steel sector has been charged with anti-dumping and countervailing duties were levied, inhibiting its access to the American market. Due to difficulties in solving the contentious areas, the Brazilian government is considering the possibility of taking the case to the World Trade Organization (WTO).

Both Brazilian and American officials agree that the bilateral relations in the future will be stronger and more complex, especially on trade issues. So far, the discussions and divergences regarding the creation of FTAA have produced new problems and challenges. But this must be seen as a natural pace toward the hemispheric integration.

U.S. INTEREST IN THE ESTABLISHMENT OF FTAA

The U.S.A. is the world's largest economy with a GDP of $ 7,000 billion with a population of 263.3 million, which represents less than 5% of the world's overall consumers.

The American unemployment rate is 5%, the lowest rate in 24 years. The saving's rate of the American population, on the other hand, is very low which signifies that the level of the domestic consumption has almost reached its full capacity.

The U.S.A. has enjoyed the longest period of sustained growth in a generation. International trade is an increasingly vital component of the U.S.' economic strength and leadership abroad. Since 1993, more than a third of the American economic growth has come directly from exports, and the number of export-related jobs has increased by 1.7 million. Approximately 11.5 million U.S. jobs depend on exports, and these jobs pay an average of 15% more than non-trade-related jobs.

The U.S.A.'s exports amounted to $ 774,700 million in 1996, roughly 10% of the American GDP and are expected to reach $ 900 billion this year.

More than 95% of the world's consumers live outside the U.S. Many emerging economies in Latin America are expected to grow in the next years at three times the rate of the U.S. economy. Therefore the U.S. needs to negotiate new trade agreements that will keep it competitive, expand its exports, create more jobs and contribute to its continued growth.

U.S. Trade Representative, Charlene Barshefsky, in her testimony on the Renewal of Fast Track Authority, addressed to the Senate Finance Committee in September, 1997 pointed out that "Latin America alone, if current trends continue, will exceed both Japan and Western Europe combined as an export market for U.S. goods by the year 2010. Already, Latin America is our fastest growing export market, even though the tariff barriers within the region average three to four times the average U.S. tariff. The elimination of these inequities is in America's fundamental interest, as we have the most competitive economy in the world".

Trade relations in the Western Hemisphere are still below potential despite the fact that most of the traditional obstacles to trade in its developing economies have been dismantled, mainly as a consequence of unilateral liberalization policies implemented after the debt crisis of the 1980s.

A significant number of bilateral and regional trade agreements are already operating in the Western Hemisphere, while the U.S.A. is party to only one. In fact, most U.S. trading partners in the hemisphere have been actively forging closer ties with neighboring countries, since 1992. MERCOSUR, formed by Argentina, Brazil, Paraguay and Uruguay, has a GDP of approximately $ 1 trillion and ambitions to expand to all of South America. MERCOSUR is the largest economy in Latin America and encompasses a population of 200 million. It has struck agreements with Chile and Bolivia, and is discussing agreements with some Andean countries - Colombia and Venezuela - as well as countries within the Caribbean Basin. Canada is also in discussion with MERCOSUR and the European Union (EU), the largest partner of MERCOSUR, and the latter have plans to conclude a reciprocal trade agreement by 1999.

Latin America - including Mexico - and the Caribbean Basin have a population estimated at over 470 million. The total GDP of Latin America and the Caribbean Basin was about $ 1.5 trillion in 1995, with growth expected to average 5% or more through the year 2000. The U.S. supplies over two-fifths of the region's imports. There is no other part of the world where the United States is so competitively positioned.

In just five years, from 1991 to 1996, U.S. exports to Latin America and the Caribbean Basin, including Mexico, have grown 58% from $ 63 billion to $ 109 billion. Latin America and the Caribbean, excluding Mexico, was one of only two major regions with which the U.S. recorded a significant trade surplus last year.

The United States exported $ 12.7 billion to Brazil in 1996, while the country's exports to China accounted to $ 11.9 billion, despite the fact that Brazil's population amounts to less than one-seventh of China's. Last year, U.S. exports to Central America exceeded those to the former Soviet Republics. Within the region itself, U.S. exports to all of the small Caribbean Initiative beneficiary countries exceeded those to the Andean Community by one-third.

The Western Hemisphere accounted for 39% of U.S. exports in 1996. Canada and Mexico are respectively the first and the third largest U.S. trading partners, while the American exports to the rest of Latin America and the Caribbean Basin grew more in 1996 in percentage terms than did the ones to Western Europe and the Pacific Rim.

The creation of the Free Trade Area of the Americas is therefore a major objective for the U.S. trade policy. It will open through free trade and duty reductions a greater market access for the American economy in the dynamic Latin American market.

The negotiations to build the FTAA will be officially launched at the Second Summit of the Americas to be held in Santiago, Chile, in April 1998. The U.S. President's renewal of traditional trading authority - fast track - is though fundamental to give the President credibility to negotiate tough trade deals. Fast track is an expedited procedure for congressional consideration of trade agreements, which means that Congress is required to vote on an agreement without reopening any of its provisions, thus making no amendments. Congress, nevertheless, retains the ultimate power of voting a trade agreement up or down.

Congress' failure to grant fast track authority will leave the U.S. sitting on the sidelines as trade agreements are negotiated without the country's participation.

The lack of fast track will also create difficulties in achieving U.S. objectives in the WTO Agenda. The "built-in" agenda of the World Trade Organization calls for negotiations on government procurement in 1997; intellectual property in 1998; agriculture in 1999; and trade in services in 2000. In each of these areas, the United States is the most competitive nation in the world and stands to benefit the most from writing the rules of trade.

Negotiations to establish the FTAA tend to slow considerably without the leadering participation of the U.S. Meanwhile, the Latin America countries' governments, which are extremely active in trade agreements, continue pursuing strategic trade policies, in some cases, preferential trade arrangements which may create new exclusive trade alliances to the detriment of U.S. interests. Preferential trade agreements with major U.S. competitors, once completed, will allow them to negotiate better access and treatment for their goods and services, thus putting U.S. exporters at a disadvantage in Latin America's large market.

The establishment of the FTAA is also vital to overcame the losses U.S. companies and producers are facing due to the country's currently inactive status toward free trade arrangements.

American wine producers are losing market share in Venezuela to Chilean producers because Chile has a free trade agreement with Venezuela that allows its wines to enter the country tariff free. American wines, on the other hand, carry a 20% duty. Industry experts believe that if the duty were eliminated, U.S. wine producers' share of the Venezuelan market would jump from the current 5% to over 30%.

The free trade agreement between Chile and Venezuela also hurts the U.S. fresh fruit producers. Chilean fresh fruit pays a 2% duty when entering Venezuela whereas the ones produced in the U.S. pay a 15% tariff. It's estimated that U.S.' market share would grow from its current 39% to 67% if American producers had equivalent access to the Venezuelan market.

U.S. apple growers are losing their share of the Mexican market to Chile due to a free trade arrangement between the two countries. There is increasing concern that as Chile expands the number of preferential arrangements it enters into, U.S. producers will have a greater disadvantage in other major markets such as Brazil where duties range from 10% to 30%. U.S. growers say that if Chile's advantage were eliminated they could export year round, instead of just seasonally.

It's worth noting that agriculture is one of the most important industries of the U.S. as the country is the largest exporter of food and farm products, commanding around a 22% share of global agricultural trade.

U.S. agricultural exports were estimated at around $ 140 billion in 1996.

The domestic U.S. agricultural market is relatively mature and growing slowly while the country already produces an abundance far in excess of domestic needs and its productivity continues to increase. Exports are therefore U.S. agriculture's source of future growth in sales and income.

The U.S. automotive industry which employees directly over 2.3 million workers is also experiencing losses due to other free trade arrangements.

Chile is importing Escorts from the Mexican Ford that formerly came from the United States.

U.S. vehicle exports totaled over $ 24 billion in 1996 and should grow 5% per year through 2002. U.S. automotive parts exports totaled $ 41 billion last year and are expected to grow 9% per year through 2002.

The FTAA countries are some of the greatest potential growth markets for U.S. vehicles and parts.

Sales to Brazil may grow 55% in the next five years while U.S. exports to FTAA markets are expected to grow from the current $ 1.7 billion to $ 5.6 billion in 2010.

The FTAA will also advance other U.S. interests as well. It serves as a building block for more open global markets toward liberalization in other forums, regional and global.

Besides that, a dynamic FTAA will lessen the Latin American tendency to look elsewhere - especially to Europe and Asia - for leadership in the international political economy.

Moreover, Latin America’s progress on the trade and capital initiative will also make the region’s capital markets more efficient and more open to U.S. equity and portfolio investors.

Latin America’s trend toward democratic stability was fortified by the Miami Summit. The U.S. has rarely, if ever, had the opportunity to work with so many political allies that share its core values throughout the Americas.

Many Latin American and Caribbean countries have already adhered to non-proliferation objectives, joined in international peacekeeping efforts and supported the promotion of human rights.

CHAPTER III -THE NEGOTIATING POSITIONS OF THE U.S. AND BRAZIL RELATIVE TO FTAA

THE NEGOTIATING POSITION OF THE U.S. RELATIVE TO FTAA

The FTAA’s Declaration of Principles establishes that the negotiations regarding the progressive elimination of barriers to trade and investment should be concluded by the year 2005. It’s also agreed that concrete progress to achieve this objective will have been made by the end of this century.

By "concrete progress" the U.S. understands the implementation of interim arrangements which could be enforced immediately, resulting from any negotiation occurred before the deadline - the so called early harvest. The definition of the "early harvest" concept varies from business facilitation measures to more significant market access procedures.

This position vis-a-vis the timing of implementation of the negotiations’ results is the major divergence between the U.S. and Brazil and other Latin American countries. Brazil insists that the negotiations must be made according to the single undertaking concept, which presumes that all issues have to be negotiated at the same time and the results have to be reached simultaneously. The Uruguay Round of GATT was negotiated according to the single undertaking concept.

President Clinton’s proposals regarding free and fair trade also support raising labor standards, protecting the environment and expanding worker retraining and educational opportunities to ensure that no American is left out of the global economy.

At the Organization of American States (OAS) Labor Ministerial Meeting in 1995, the U.S. Administration obtained a commitment from all countries in the Western Hemisphere recognizing the importance of protecting worker rights as the FTAA is negotiated.

Labor standards and worker rights are the major concerns of the U.S. Congress relative to the President's fast track authority extension.

In the early days of November, President Clinton postponed the vote on fast track until the beginning of 1998, due to the uncertainty of obtaining the necessary support to approve the bill.

The members of the Republican Party, traditionally in favor of free trade, agreed to support the President's proposal, though insisting on a bipartisan position in order to avoid the burden approval solely by their party, even though they are the majority.

The Democratic Party, on the other hand, failed to give the President the necessary support to approve the bill. The pressure from the labor unions which traditionally give financial contributions to the Democrats' elections was vital in the party's position toward the lack of support to the President's proposal.

Congressional skepticism toward the FTAA is partly a consequence of the negative political image that NAFTA and the Mexican peso crisis produced in some U.S. financial circles. Despite overwhelming evidence that the U.S. will benefit from increased hemispheric liberalization, the U.S. Congress has for the moment opted against adopting a leadership role on this initiative.

The Executive and Legislative Branches of the U.S. Government have therefore not yet agreed on the fundamental issues to build a coalition toward the Free Trade Area of the Americas and its implications to the American workers.

THE NEGOTIATING POSITION OF BRAZIL RELATIVE TO FTAA

Since the beginning of the FTAA's building process Brazil and the other Mercosur member countries have decided to negotiate as a block. Argentina, Uruguay and Paraguay led by Brazil adopted this strategy in order to bolster their bargaining power relative to the U.S.

The block's strategy has been based on three pillars: balanced, gradual and simultaneous negotiations. This means that the set of agreements must be part of the global arrangement, i.e. a single undertaking approach. By the single undertaking principle it is understood that all the subjects would be treated at the same time without concluding any negotiations until the round finishes as a way to achieve more balanced results. To have access to the agreements the countries have to apply a set of rights and obligations, according to the WTO rules.

This position, reinforced during the so called "Brazilian cycle" of meetings initiated in Florianópolis in September 1996, has also to do with the implementation schedule of the results obtained in the negotiations. The year 2005 would therefore be the starting point of the agreement enforcement.

In Florianópolis, Mercosur proposed the negotiations to be conducted by phases: the first one would seek the business facilitation, to be completed by 1999 in fields such as customs procedures and sanitary and phytosanitary measures. The second stage, to be ended in 2003, would include other issues (norms and disciplines) but not tariff reductions. The negotiations on tariff reduction schedules, the third phase, would begin in 2003.

Mercosur's schedule aimed to give the countries' economies more time to complete the macroeconomic reforms, to modernize their industries, to increase competitiveness and therefore allow them to face tariffs reduction.

Brazil repeatedly emphasized that it gave priority to consolidating Mercosur to allow its enterpreneurs to adjust gradually to market opening and more intensified international competition. The country also intends to expand Mercosur, as an enlarged and unified South American Free Trade Area would allegedly be in a better position to bargain with the U.S. and NAFTA.

At the ministerial meeting in Belo Horizonte, in May, 1997, the Ministers agreed to officially launch the FTAA negotiations in April 1998 in Santiago, Chile, during the Second Summit of the Americas. However, President Fernando Henrique Cardoso of Brazil stated that the negotiations on the fundamental aspects of the FTAA should only begin once the Clinton Administration has obtained fast track authority. The U.S. government has argued that fast track is not a prerequisite for negotiations but only to sign the agreements.

The Western Hemisphere countries failed to resolve their differences on how to conduct the negotiations on trade liberalization. Mercosur - with Brazil as a spokesperson - emerged stronger from the Belo Horizonte meeting, while the cohesion among its members states and the associate countries increased. Although Mercosur succeded in postponing a decision on the mechanisms for implementing the FTAA, it would be premature to refer to a Mercosur "victory": the present scenario could change rapidly if Congress were to approve fast track and if Chile were to accede to NAFTA.

CONCLUSION

Much has been done to prepare the launching of the most ambitious trade liberalization initiative in the Western Hemisphere. The three years of Ministerial Meetings provided the creation of the 12 working groups which with the technical support of IDB, OAS and ECLAC gathered and compiled a comprehensive data on trade related issues and trade arrangements in the Americas.

The U.S. and Brazil play the most significant roles in the negotiations toward the achievement of FTAA, respectively as leader countries of NAFTA and Mercosur, the two major trade arrangements of the Hemisphere.

Although there are currently few points of divergence in the negotiating positions of both countries, a long set of negotiations and good will will be needed to reach a consensus.

However much more has to be done in order to comply with the necessary steps to initiate the negotiations and further reach concrete results.

President Clinton’s setback on fast track may lead to a loss of momentum in the FTAA negotiations and diminish U.S. companies interests in trade liberalization with Latin America and other countries.

The lack of fast track, on the other hand, has been received by Brazil with relief. It serves for the country’s interest for the time being as the Brazilian government has just been obliged to release a package of economic measures resulting from the international turmoil on November 10, 1997. Mercosur countries have decided to increase their common external tariff, for some products, up to 25% over the average of 14%.

Besides that, Chile’s reaction to the lack of fast track has also indicated that Chilean authorities could become closer to Mercosur’s positions and therefore strengthen the block’s power and Brazil’s intention to expand the Mercosur into the South Free Trade Area of the America.

Nevertheless, it’s important to notice that the lack of fast track cannot be considered as a Brazilian "victory". The U.S. also needs fast track to negotiate important sectoral agreements in the upcoming WTO negotiations such as government procurement, intellectual property rights, agriculture and trade in services.

Besides that the U.S. Administration needs the grant of the legislative authority for future negotiations: Information Technology Agreement (ITA II), chemicals, automotive, oilseeds, energy equipment and services, environmental technology and services, medical equipment and services, wood and paper products.

Among these areas, there are some fundamentally important for Brazil such as agriculture, oilseeds, wood and paper and services. Important to notice is the major role of agriculture in the Brazilian foreign trade agenda. Brazil has many complaints against the U.S. in the agricultural sector due to the alleged American protectionism. The Brazilian government expects to reduce U.S. barriers related to sugar, orange juice and other agricultural products in the WTO talks. Therefore, the lack of fast track authority will also be against Brazilian interests.

The building blocks toward initiating negotiations on FTAA by the end of the century are already in place. What is lacking are political decisions in Washington and Brasilia. Leaders in both countries must build the political coalition necessary to sustain progress toward hemispheric free trade. Besides that, President Clinton must make it a clear priority to gain congressional renewal on fast track authority, and this authority should be broad enough to permit Chilean accession to NAFTA and to negotiate the FTAA.

As referred to before, the discussion of granting legislative authority has been a major debate in the U.S. political scene. It involves not only the opposition trade unions and environmentalists, who have large support in Congress, but also the resistance of Representative Richard (Dick) Gephardt, House Minority Leader. Gephardt has clearly indicated that he wants to be the Democrat candidate in the 2000 presidential elections and for this goal he will have to defeat Vice-President Al Gore, Bill Clinton’s favorite.

Therefore, one could say that the future of the FTAA is much more attached to the U.S. domestic politics context than to the degree of consensus among the participants of the hemispheric negotiations. On the other hand, it has been proven that with or without fast track American businesses in the region has been flourished and will continue to increase.

U.S./Brazil trade relations kept growing in the last three years without fast track. The economic reforms implemented by some emerging countries in Latin America, including Brazil, have already reduced trade barriers and attracted foreign investments.

At this point, it is important to notice the opinions of some U.S. entrepreneurial leaders regarding the debate on fast track and its importance for the FTAA. On the eve of the vote on fast track in Congress, at the beginning of November 1997, Robert Patterson, Caterpillar’s Vice-President for Latin America Operations, stated, according to The Washington Post, that the intention of his company is to preserve its dominating position in the region "with or without fast track". Caterpillar sales to Latin American countries increased 5% in 1996.

In the opinion of Robert Wood, Morrison Knudsen’s director for Latin America, fast track is rather a political than practical issue at least for his company’s sector, engineering and construction. "My clients are companies that look for countries where there is a good environment for investments. When these surroundings are good, politics doesn’t matter because investments lead to development and this promotes my business". (Gazeta Mercantil, November 10, 1997).

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