United States General Accounting Office

GAO

Report to the Chairman, Committee on Finance, U.S. Senate

March 2001

FREE TRADE AREA OF THE AMERICAS

Negotiations at Key Juncture on Eve of April Meetings

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Abbreviations

CACM	Central American Common Market
CARICOM	Caribbean Community
FTAA	Free Trade Area of the Americas
NAFTA	North American Free Trade Agreement
USTR	U.S. Trade Representative
WTO	World Trade Organization

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United States General Accounting Office
Washington, DC 20548

March 30, 2001

The Honorable Charles Grassley
Chairman, Committee on Finance
United States Senate

Dear Mr. Chairman:

The negotiations toward establishing a Free Trade Area of the Americas, which would eliminate tariffs and create common trade and investment rules within the 34 democratic nations of the Western Hemisphere, are among the most significant ongoing multilateral trade negotiations for the United States. Two meetings in April 2001 offer opportunities to inject momentum and set an ambitious pace for the next, more difficult phase of the negotiations to come. The first is the meeting of the trade ministers of the 34 countries participating in the negotiations in Buenos Aires, Argentina, on April 7. The second is the Summit of the Americas in Quebec City, Canada, on April 20-22.

Because of the significance of the Free Trade Area of the Americas initiative, you asked us to report on the current status of the negotiations. In this report, we (1) discuss what progress has been made in the free trade negotiations to date, (2) identify the challenges that must be overcome to complete a free trade agreement, and (3) discuss the importance of the April meetings of trade ministers and national leaders of the participating countries.

Results in Brief

The Free Trade Area of the Americas negotiations have so far met the goals and deadlines set by trade ministers. To date, the 34 participating countries have succeeded in building a technical foundation for the Free Trade Area of the Americas negotiations since beginning the process in 1994. From December 1994 to March 1998, the participants developed the overall structure, scope, and objectives for the negotiations. The participating countries then formally initiated the negotiations at the San José Ministerial and Santiago Summit of the Americas in 1998. The negotiators recently produced a first draft of chapters for specific issues (such as agriculture, services, and investment). Participants described this draft text as an important accomplishment and stated that it will form the basis for future negotiations. The negotiations have also produced several business facilitation measures and improved coordination between participating countries on trade matters.

Significant challenges will need to be overcome to successfully conclude an agreement. Hard bargaining will be required to turn the accumulation of proposals currently on the table into a mutually agreed-upon, binding document. Negotiations on actual market access concessions have yet to begin. In fact, when these talks will start and how they will proceed are still being discussed. Further, the sheer scope and complexity of the trade rules contemplated and the number and diversity of countries participating will make it difficult to reach consensus. Although many countries have negotiated as part of regional blocks, making it easier for smaller economies to participate, resource and technical capacity challenges remain. Finally, a number of participants believe that a Free Trade Area of the Americas agreement can be successfully concluded only if the key Western Hemisphere leaders demonstrate they have the political will to conclude the agreement. However, some participants believe the United States has been distracted from pursuing trade liberalization because it is without a domestic consensus on the benefits of trade and the way in which to handle the overlap between trade and labor rights and the environment. In addition, Brazil has appeared reticent to embrace an agreement, despite participating actively in the negotiations.

Negotiations are now at a critical juncture, because the phase of negotiations where countries set out initial positions is ending and the next phase is expected to narrow the many substantive differences that remain. The April 2001 Free Trade Area of the Americas Trade Ministerial in Buenos Aires and the Summit of the Americas in Quebec City mark an important point in the negotiating process because they offer a key opportunity to inject high-level political support and will set the pace for the next several years of negotiations. If they result in high-level political direction across the hemisphere and a boost in U.S. congressional and public support, the April meetings could lend fresh momentum to the negotiations. The meetings will also set the goals for the next phase of negotiations. For example, the meetings must provide guidance on how negotiators should proceed to narrow substantive differences on the draft text. On the eve of the Buenos Aires Ministerial, ministers face an ambitious agenda. The outcome will determine whether the next phase of negotiations starts on a sound footing.

Background

Economic Integration in the Western Hemisphere Has Been Advancing During the Past Decade

Western Hemisphere countries have gone beyond their multilateral trade commitments during the past decade and pursued economic integration through numerous free trade and customs union agreements.[1] The largest of these are Mercosur,[2] signed in 1991, and the North American Free Trade Agreement (NAFTA), which entered into force in 1994. Other regional groups such as the Central American Common Market, the Andean Community, and the Caribbean Community have either been initiated or expanded. (See app. I for more information on the 34 countries of the Free Trade Area of the Americas.) Also, countries in the region have concluded numerous bilateral free trade and investment agreements with others in the region and worldwide. In addition, Chile and the European Union have recently started trade negotiations, while similar European Union and Mercosur negotiations are already under way.

In December 1994, the heads of state of the 34 democratic countries in the Western Hemisphere agreed at the first Summit of the Americas in Miami, Florida, to conclude negotiations on a Free Trade Area of the Americas (FTAA) no later than 2005. The FTAA would cover a combined population of about 800 million people, more than $11 trillion in production, and $3.4 trillion in world trade. It would involve a diverse set of countries, from some of the wealthiest (the United States and Canada) to some of the poorest (Haiti) and from some of the largest (Brazil) to some of the smallest in the world (Saint Kitts and Nevis).

[1]Free trade agreements generally eliminate tariff duties and other barriers on substantially all trade between the member countries and may include other provisions covering subjects such as antidumping, investment, and government procurement. Customs unions go beyond free trade agreements by not only eliminating duties between partners but also by setting common external tariffs applied to countries not party to the agreement.

[2]Mercosur is the Common Market of the South and includes Argentina, Brazil, Paraguay, and Uruguay.

A Free Trade Area of the Americas Agreement May Provide the United States Economic and Noneconomic Benefits

Proponents of the FTAA contend that a successful negotiation could produce important economic benefits for the United States. The FTAA region is already important economically for the United States, purchasing about 36 percent of U.S. exports of goods and services in 1999 and receiving over 23 percent of U.S. foreign direct investment.[3] Business groups point out that if relatively high tariffs and other market access barriers are removed, U.S. trade with the region could expand further. U.S. exports to many FTAA countries face overall average tariffs above 10 percent, whereas all 33 other countries participating in FTAA negotiations already have preferential access to the U.S. market on certain products through unilateral programs or NAFTA. In addition, some U.S. industry representatives assert that they have lost sales and market share to competitors that have preferential access into other Western Hemisphere markets through bilateral free trade agreements that exclude the United States. For example, the U.S. Trade Representative testified before the House Committee on Ways and Means in March 2001 that because of the Canada-Chile trade agreement, Canadian products will enter Chile duty free, while U.S. products face an 8 percent duty. The FTAA would help remedy this disadvantage by providing U.S. exporters with access equivalent to that provided to U.S. competitors. Supporters also assert that the FTAA would benefit the United States by stimulating increased trade and investment and enabling more efficient production by allowing businesses to produce and purchase throughout an integrated hemisphere. Beyond these economic benefits, the FTAA is widely regarded as a centerpiece of efforts to forge closer and more productive ties to Western Hemisphere nations, increase political stability, and strengthen democracy in the region.

An FTAA May Harm Some Sectors and Has Raised Other Concerns

While an FTAA may provide benefits for the United States, it may also adversely impact certain import-competing sectors. Some U.S. business and labor groups argue that import restrictions are necessary to help them to compete against imports produced with more favorable labor costs, less restrictive environmental regulations, or imports that receive government assistance. Also, some labor and environmental groups argue that potential FTAA provisions may reduce the ability of countries to set and enforce high standards for health, safety, and the environment. For

[3]Canada and Mexico are the largest export markets for U.S. products and accounted for about 29 percent of U.S. total exports in 1999. Both Canada and Mexico are already linked to the United States through NAFTA. However, both are also negotiating the FTAA, which may provide additional market access.

example, some opponents are concerned that the FTAA would contain NAFTA-like investment provisions, which they argue give corporations a greater ability to challenge government regulations than is provided for under domestic law. Finally, as is the case with other international trade agreements, the FTAA has drawn the attention of organizations and individuals apprehensive about the FTAA's effects on greater global integration and the resulting impact on society and the environment.

Negotiators Have Succeeded in Laying Groundwork for an FTAA

Between December 1994 and March 1998, FTAA countries laid the groundwork for an FTAA. Efforts over the past 18 months have produced a first draft of text on the major negotiating topics, which will constitute the basis from which negotiations will proceed in those areas. The FTAA negotiations have also resulted in the adoption and partial implementation of several business facilitation measures and improved coordination between FTAA countries on trade matters.

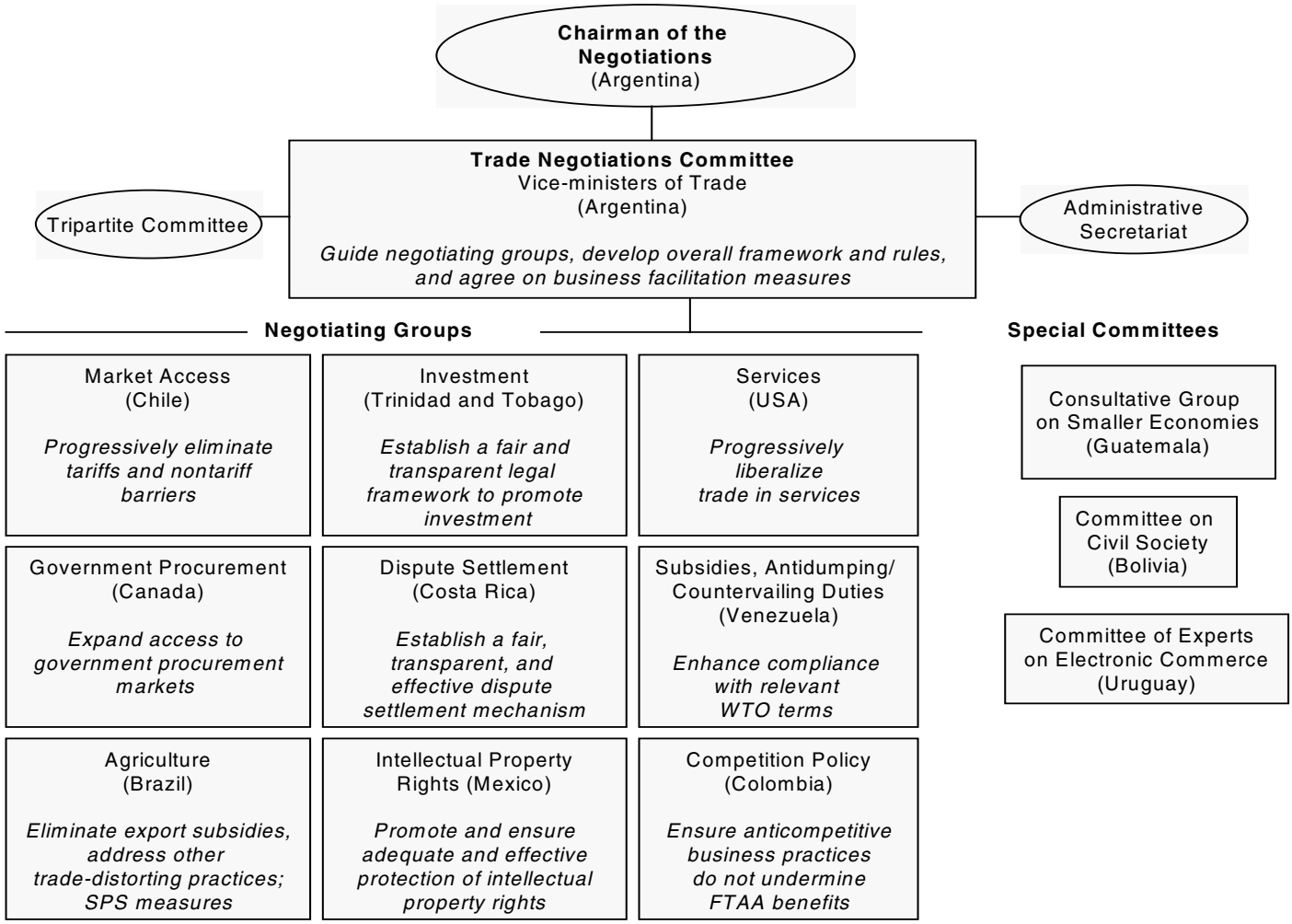
Ministers Agreed to Overall Structure, Scope, and Objectives of the FTAA Negotiations

In the first years of the FTAA process, FTAA negotiators agreed on the overall structure, scope, and objectives of the negotiations. FTAA participants formally initiated the negotiations at the San José Ministerial and Santiago Summit of 1998, where they agreed on how the negotiations would proceed. Specifically, they agreed in 1998 at San José that the FTAA would be a single undertaking, meaning that the agreement would be completed and implemented as one whole unit instead of in parts. Ministers also agreed that the FTAA could coexist with other subregional agreements, like Mercosur and NAFTA, to the extent that the rights and obligations go beyond or are not covered by the FTAA. An eventual FTAA agreement would contain three basic components: (1) chapters on general issues and the overall architecture of the FTAA and its institutions, (2) schedules for reducing tariff and nontariff barriers, and (3) chapters on specific topics.

The specific topics currently under negotiation include (1) market access for goods, (2) investment, (3) services, (4) government procurement, (5) dispute settlement, (6) subsidies/antidumping/ countervailing duties, (7) agriculture, (8) intellectual property rights, and (9) competition policy. As illustrated in figure 1, FTAA participants formed negotiating groups on each of these topics; agreed on a general mandate for each group; formed special committees on smaller economies, the participation of civil society, and electronic commerce; and determined that the negotiations would be led by a vice-ministerial-level Trade Negotiations Committee. Chairmanship of the negotiations changes every 18 months, with

Argentina serving as the current chair, to be succeeded by Ecuador for the next round of negotiations following the April meetings. Brazil and the United States are set to co-chair the final round from November 2002 to December 2004. Ministers set out the workplans for the negotiating process and select new chairs for the negotiating groups in the same 18-month increments.

Figure 1: Organization of the FTAA Negotiations, November 1999-April 2001



Legend

SPS=Sanitary and phytosanitary measures (These measures are taken to protect human, animal, or plant life or health)

WTO=World Trade Organization

Note 1: Current chairs of the various FTAA structures are listed in parentheses. The objectives of each negotiating group and the Trade Negotiations Committee appear in italics.

Note 2: The Tripartite Committee provides technical assistance to the negotiations and is composed of the Organization of American States, the Inter-American Development Bank, and the United Nations Economic Commission for Latin America and the Caribbean.

Note 3: The FTAA ministers and negotiating groups are serviced by an Administrative Secretariat.

Note 4: The venue for the actual negotiations was initially located in Miami and will rotate to Panama City and Mexico City.

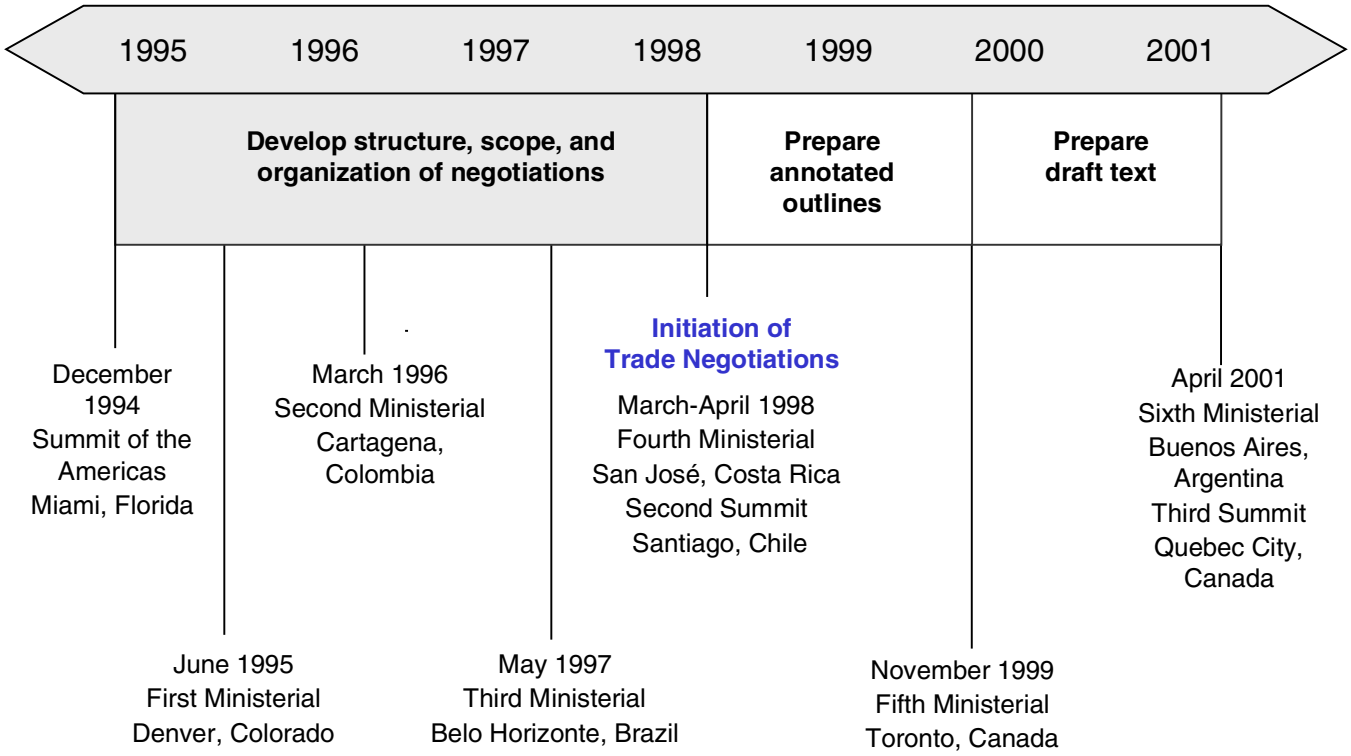
Source: GAO.

Negotiators Have Produced First Draft of Issue Chapters

Since the 1998 launch of the negotiations, the nine FTAA negotiating groups have met the ministerial goals set for them of producing first drafts of their respective chapters, which contain the agreement's detailed rules. As illustrated in figure 2, negotiators were directed by ministers in November 1999 to submit first drafts of their chapters to the Trade Negotiations Committee by December 2000, using annotated outlines developed in the previous phase as frames of reference.[4] According to FTAA participants and other observers, these were ambitious goals, and working-level activity since 1998 has been fairly intense in order to meet them. They stated that merely providing the first drafts of the chapters marks important progress, as the drafts are necessary groundwork for future negotiations. Under FTAA negotiating procedures, individual countries may still propose new text to be included in the draft chapters; the removal of brackets and text can only be done by consensus.

[4]Annotated outlines are detailed descriptions of what each negotiating group would address in its chapter.

Figure 2: History of the FTAA Negotiations, 1994-2001



Source: GAO.

According to U.S. and foreign negotiators, however, the draft text is heavily bracketed,[5] indicating that agreement on specific language has not been reached. The draft text generally represents a consolidation of all proposals submitted by FTAA countries so far. FTAA participants state that the draft conveys wide differences between the countries over substance and philosophical approaches to key issues. The Trade Negotiations Committee is currently in the process of assembling a report that will be provided to trade ministers at the upcoming Buenos Aires Ministerial on April 7.

[5]The term "bracketed" refers to the punctuation placed around language in the draft chapters for which agreement has not yet been reached. For example, if two countries submitted different proposals for language in a chapter, brackets would be placed around each proposal until a consensus is reached on the differences between the two.

FTAA Has Also Yielded Other Accomplishments

In addition to making progress on producing the first drafts of the chapters, the negotiations have yielded several other accomplishments. Ministers agreed to adopt eight customs-related business facilitation measures (for example, expediting express shipments) and 10 additional transparency (openness) measures (for example, posting tariff and trade flows to the FTAA website) at the Toronto Ministerial in 1999. U.S. officials report that the FTAA countries immediately began to implement all 10 transparency measures and are in various stages of carrying out the customs measures. Outside of the concrete accomplishments, many observers feel the negotiations have greatly improved coordination and provided a broader understanding of trade and its impacts among FTAA countries, in part through technical assistance in the form of reports, databases, seminars, and financial assistance provided by the Inter-American Development Bank, the Organization of American States, and the United Nations Economic Commission for Latin America and the Caribbean.

Significant Challenges Ahead for the FTAA Process

A number of challenges must be overcome in order to successfully complete the FTAA. For example, to build on the technical foundation of the first years of negotiations, much work remains to be done in three areas: setting the agreement's detailed rules, deciding on the market access concessions, and devising the institutional structure to implement the completed agreement. However, negotiators have not yet begun to bargain on the agreement's detailed rules or market access concessions, and vice-ministers have not begun to formulate the agreement's institutional structure. Negotiators will conduct their work in an environment filled with challenges, due to the complex and controversial character of some of the issues, and the diverse nature and fluid political and economic condition of the participants. Many observers believe these challenges will be resolved only if the governments demonstrate their commitment to the agreement's completion.

Finalizing Detailed Rules

In order to conclude the FTAA, the negotiating groups will first need to begin negotiating on the removal of the brackets that signify disagreement in the text on the agreement's detailed rules. However, this task will be difficult, because the text deals with controversial and complex issues. For example, agricultural support measures and antidumping provisions are widely understood to be controversial; observers feel that some of the more difficult issues will not be resolved until the deadline for completing the negotiations. Other negotiating groups' tasks are complex by virtue of

the extent of the subject matter to be covered. For example, the market access negotiating group is responsible not only for the elimination of tariffs but also for devising rules of origin, customs procedures, safeguards, and technical barriers to trade.[6] Other negotiating groups' tasks are complex because they break new ground for many of the FTAA countries. For example, competition policy has not been the subject of a multilateral agreement on which to build, and only two of the FTAA countries are signatories to the multilateral Agreement on Government Procurement.[7]

Negotiating Market Access Concessions

Before countries can begin to negotiate on market access concessions, they must agree on the basic ground rules of the negotiations. Negotiators refer to these as the "modalities."[8] Once the FTAA participants agree on the modalities, market access liberalization negotiations can begin. Decisions on these procedural matters are especially important for five of the nine negotiating groups: market access, agriculture, government procurement, investment, and services. In addition, some negotiating groups need guidance on whether their groups can share procedural processes. For example, the market access and agriculture groups could have a common approach to tariff reduction starting points or the pace of tariff elimination.

Devising an Institutional Structure

Much work remains to be done in order to establish an institutional structure for the implementation of the agreement. This involves such key issues as the role and location of a permanent secretariat and the institutional mechanism by which the participants will oversee implementation of the agreement, including dispute settlement provisions. FTAA experts expect it can only be completed near the end of the

[6]Rules of origin are the criteria used to define where a product was made. A safeguard is a temporary import control or other trade restriction that a country imposes to prevent injury to a domestic industry from import surges.

[7]Competition policy consists of rules and regulations designed to foster the competitive environment in a national economy. The Agreement on Government Procurement is a plurilateral agreement whose current commitments were negotiated under the Uruguay Round of the General Agreement on Tariffs and Trade. It is designed to make laws, regulations, procedures, and practices regarding government procurement more transparent and to ensure they do not discriminate against foreign products or suppliers.

[8]Key modality decisions include, for example, the starting point from which tariffs will be reduced, and the period of time in which the tariff reductions will occur.

negotiation process because the structure is largely dependent on the results of the negotiations. The ministers also need to address administrative issues related to the negotiation process. The final negotiation period will be chaired jointly by the United States and Brazil. However, both U.S. and Brazilian government officials told us that they have not yet determined how a joint chair relationship will function.

Dealing With Diverse Objectives of Key Participants

The very fact that 34 widely differing countries are participating in an endeavor to create a hemispheric free trade zone in itself complicates the process. Since the participants range from some of the world's largest and most economically powerful to the smallest and most economically disadvantaged, their objectives and incentives for the negotiations naturally differ. For example,

- the United States seeks broad improvements in trade rules and access, in addition to the lowering of regional tariffs;
- Brazil is primarily interested in gaining access to certain sectors of the U.S. market in which it faces relatively high barriers;
- the smaller economy countries are interested in protecting their economies from becoming overwhelmed by the larger ones while securing special treatment in an eventual FTAA; and
- Mexico has less economic incentive to pursue an FTAA because it already has preferential access to most hemispheric markets through a comprehensive network of free trade arrangements.

Finally, several FTAA experts told us that the 2005 deadline has seemed far away to many participants, thus sapping needed momentum from the negotiating process.

Achieving Consensus

The FTAA negotiating process is challenging because it requires consensus. Interests of specific individual countries or negotiating blocks may not be ignored even if they are not accepted in their entirety. For example, the United States pressed for the inclusion of labor rights and environment provisions in the FTAA. This proposal was met with steadfast opposition by some FTAA countries, but the United States was ultimately accommodated with the creation of the Committee of Government Representatives on the Participation of Civil Society. The Committee, which is to provide a vehicle for public input on these issues, remains a point of contention for both the United States and some of its FTAA partners. For example, the United States proposed that the Committee release a report containing recommendations based on the first round of

public input but was initially blocked from doing so by another FTAA country. Eventually, a compromise was reached, and the Committee issued a summary report of the public input.

Recognizing the Resource Capacity of Participants

Another challenge is the varying resource capacity of the FTAA participants. Many of the countries, including most of those with smaller economies, negotiate in blocks, which helps them to pool resources in the negotiations.[9] However, government officials from some FTAA-participating countries told us that they are concerned about the demand placed on their limited budgets and staff. For example, the market access negotiating group, which has a very broad portfolio of issues, was not able to be broken up into more manageable components because of resource capacity limitations. In addition, potential competing trade negotiations could also challenge the FTAA process. For example, several foreign government officials explained that the start of a new round of negotiations at the World Trade Organization (WTO) would require them to choose between the WTO and the FTAA for their most qualified negotiators and experts.

Dealing With Changing Political and Economic Conditions

The domestic political and economic climate of the participants influences not only their internal policies but also the reaction of the other participants. The recent U.S. election is a good example. FTAA experts told us that uncertainty in the fall of 2000 over how the election would affect the direction of U.S. trade policy impacted the progress of the negotiations. In addition, the United States had not developed its negotiating position for several important issues. Some FTAA experts told us that they believed the United States did not have a mandate to make meaningful concessions on market access, which are, in their view, necessary to complete an agreement. In addition, some experts believe that progress in the FTAA in certain areas such as agriculture is reliant on progress in the WTO. Meanwhile, economic hardship and political uncertainty have made some participants more reluctant to pursue an FTAA. FTAA experts noted that in the future, participating countries could face other distractions that would direct their energies away from the

[9]For example, some of the FTAA regional groups, such as the Caribbean Community, share negotiators, while others, such as the Andean Community, coordinate their strategy and objectives.

FTAA. This includes increased opposition from groups that have not yet fully mobilized against the FTAA.

Summoning Political Will to Conclude an FTAA

A number of participants told us that the FTAA could be successfully concluded if the key Western Hemisphere leaders demonstrate that they have the political will to conclude the agreement. However, some observers have concerns about whether this climate currently exists in the two main FTAA countries: the United States and Brazil. In particular, FTAA experts and participants have been closely following the debate within the United States on the overall direction of U.S. trade policy and its implications for the FTAA. Some FTAA participants believe that the United States has been distracted from pursuing trade liberalization because it lacks a domestic consensus on the benefits of trade and the way in which to handle the overlap between trade and labor rights and the environment. Several told us that they believed the absence of trade promotion authority[10] has hampered the process to the extent that other countries have held back making concessions on free trade agreement rules and procedures. Others stated that the primary cost of the President's lack of trade promotion authority was in giving others an excuse to slow progress. Many observers we consulted believe that trade promotion authority is essential for the next phase of negotiations, particularly completion of the market access concessions. These experts said that the foreign partners will not make significant concessions unless they have credible assurance that the deal will not come undone when submitted to Congress for approval.

Concerns also exist about Brazil's commitment to the FTAA process. Even though Brazil has actively participated in the negotiations, observers have noted that Brazil has appeared reticent to embrace an FTAA, and Brazilian officials admit that Brazil has held back during the negotiations. They explained that this reticence is because they believe the United States is not ready to negotiate on issues of greatest interest to Brazil such as high U.S. tariffs on key Brazilian exports and changes to the U.S.'s antidumping regime. In addition, Brazil's Foreign Minister recently stated that the FTAA is less of a priority for Brazil than the expansion of Mercosur in South America.

[10]In the past, Congress has enacted trade promotion authority (also known as "fast track") to implement trade agreements with other countries. This authority provided for a congressional vote within a limited period of time to accept or reject the implementing legislation for a negotiated agreement without making any changes.

April Meetings Represent Critical Juncture in FTAA Process

The April 2001 meetings of ministers in Buenos Aires and leaders in Quebec City represent a critical juncture in the process. Successful meetings in April could lend fresh momentum and clear direction to the FTAA at an important point in the negotiations. At a minimum, FTAA negotiators need guidance for the next 18 months to proceed. However, while the time allotted to settle numerous outstanding decisions is tight, there has been considerable high-level political activity recently that might improve the chances for a favorable outcome.

April Meetings an Important Opportunity to Inject Needed Momentum Into FTAA Negotiations

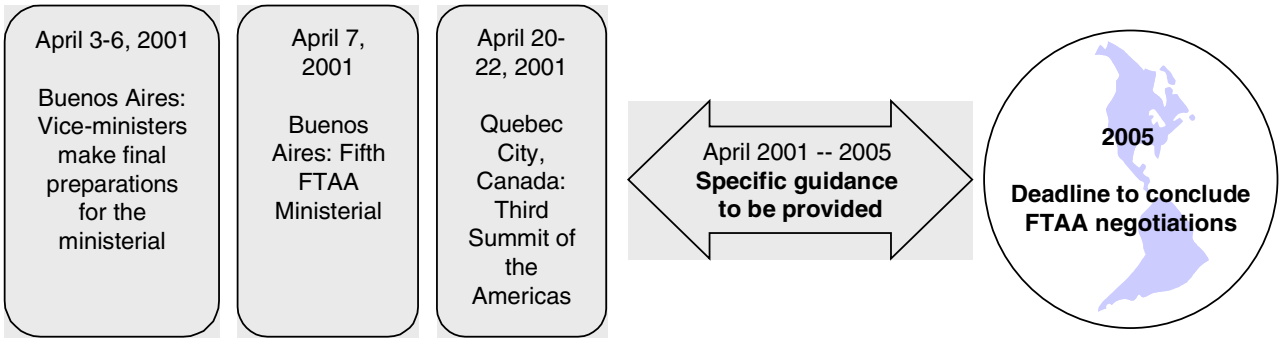
Both April meetings, but particularly the April Summit of hemispheric leaders, provide an opportunity to inject momentum into the negotiating process at a critical point in the FTAA's development. Past summits have been used to make major advancements in the FTAA process. For example, the first summit, held in Miami in 1994, resulted in the leaders' commitment to achieve the vision of an FTAA by 2005. The April Summit will engage President Bush and other newly elected heads of state in the FTAA process and provide an opportunity for all 34 leaders to renew their countries' political commitment to the FTAA. Doing so at this time is particularly important, because the phase of negotiations where countries set out initial positions is ending. The next phase is expected to narrow the many substantive differences that remain, which will require political direction and support.

The April meetings will provide an indication of the U.S.'s and other countries' willingness to make the effort and tough choices required for the bargaining that lies ahead. The April meetings also represent an opportunity to generate interest in and support of the FTAA within the U.S. Congress, the U.S. business community, and the U.S. public. This support will be crucial if the United States is to provide the forceful leadership many FTAA participants believe is necessary for concluding a deal. It is also required for ultimate approval of an FTAA in Congress and in the U.S. "court of public opinion." Until recently, congressional interest in the FTAA has been limited, and business support has been muted, according to both business and government officials. The April meetings could highlight the importance attached by hemispheric leaders to an FTAA and provide reasons for optimism about its potential viability.

Ministers Must Provide Direction for the Next Phase

The political boost FTAA supporters hope to achieve in April depends, in part, on the meetings' success in addressing key questions about how negotiations will proceed. These decisions will set the pace, goals, and structure for the next phase of negotiations, since the ministers typically set out the agenda for the next phase of the process at the ministerial meeting. As shown in figure 3, specific direction needs to be provided for the remainder of the negotiations.

Figure 3: Upcoming FTAA Milestones



Note: Direction for the next 18 months of the negotiations will be provided at the Buenos Aires Ministerial and Quebec City Summit. Specific guidance for the remaining phases of the negotiations will be provided at future ministerials to be held in Ecuador, the United States, and Brazil.

Source: GAO.

At a practical level, the negotiators are seeking specific direction as follows:

1. The additional work to be done in refining the rules and disciplines contained in the draft texts, such as removing the brackets that currently signify disagreement.

2. The date for deciding on how negotiations on specific market access commitments will be negotiated.

3. General and institutional provisions of an FTAA.

4. The chairs of the various groups and committees for the next 18 months, and whether to create new committees or groups.[11]

However, these practical decisions may be affected by broader issues. For example, Chile has floated the idea of moving up the target date for completion of the negotiations to December 31, 2003, with a final agreement entering into effect on January 1, 2005. This idea of accelerating negotiations is still being debated within and among FTAA governments and may be actively discussed at the April meetings. Some FTAA participants, notably Brazil, have publicly stated that a 2003 deadline is unrealistic. Others believe that a 2003 deadline is both doable and desirable.

Ministerial Decisions Could Also Affect Public Perceptions

Decisions made at the April meetings could affect public input into and support for the next phase of FTAA negotiations. For example, trade ministers are expected to consider adopting additional business facilitation measures. In addition, whether and how to respond to the input from civil society groups must be decided. U.S. groups that submitted formal input to the FTAA Committee of Government Representatives of Civil Society told us they are disappointed because there is little evidence that their input is being given serious consideration in FTAA negotiations. Some U.S. government officials we interviewed concurred with this assessment. Others said that U.S. negotiators are considering the input, as are some foreign negotiators. The United States is seeking a more in-depth report on civil society views this year and an expansion of public outreach efforts in future years.

In addition, Canada, more than 50 Members of Congress, and various U.S. nongovernmental groups are calling for public release of the bracketed text. Publicly available information on the FTAA negotiations is limited, a fact that has caused suspicion and concern among the nongovernmental groups. These groups see the release of the text as an important confidence-building measure in its own right and as concrete evidence of ministers' commitment to transparency in decision-making. However, this is likely to prove controversial among FTAA governments in April, given the ongoing and confidential nature of FTAA deliberations. The issue of transparency is also controversial domestically. U.S. negotiators note that releasing the text could hamper their flexibility in exploring creative

[11]The United States has proposed creating a negotiating group on financial services.

options to obtain their objectives. Even though the U.S. government released public summaries of U.S. negotiating positions in the FTAA in late January, it faces a lawsuit by two environmental groups seeking access to the full text of U.S. proposals.

Ministers Face Ambitious Agenda

A large number of issues remain to be resolved between now and the conclusion of the April meetings. When vice-ministers met in January 2001 to prepare for the April meetings, their discussions focused on solving controversies associated with the bracketed text. They spent less time discussing other decisions required in April, or resolving issues, such as whether more business facilitation measures are practical. In addition, the vice-ministers could not schedule an anticipated follow-up planning meeting. As a result, FTAA countries will be forced to tackle their ambitious agenda for April in a very short time frame. Only 4 days of official meetings have been scheduled, and these immediately precede the Ministerial. Expected protests by opponents of the FTAA may complicate the situation further.

The United States has faced unique constraints in preparing for the Buenos Aires Ministerial. The new U.S. administration has yet to decide its position on key issues, such as whether to support a 2003 deadline for completing FTAA negotiations, and public release of the bracketed text. In addition, Robert Zoellick, the chief U.S. trade negotiator, was sworn in as U.S. Trade Representative on February 7, just 2 months before the Buenos Aires Ministerial.

While significant work remains to be completed for the April meetings, there has been considerable high-level political activity that might improve the chance for a favorable outcome. The new U.S. administration has initiated a number of high-level contacts between President Bush and key hemispheric leaders in advance of the Quebec Summit of the Americas. Already, President Bush has met Mexican President Vincente Fox, Canadian Prime Minister Chrétien, Colombian President Pastrana, and Salvadorean President Flores. Meetings with Brazilian President Cardoso, Chilean President Lagos, and Argentinian President de la Rua have been announced. Among other things, the meetings are intended to establish personal rapport and to reassure these leaders of President Bush's intention to make the region a priority and to conclude the FTAA. The President's Trade Policy Agenda released in early March underlines these ideas, as well as the President's seriousness in securing trade promotion authority from Congress to implement an FTAA. These statements, and others like it, may help the administration establish political support for

the decisions required to start the next phase of FTAA negotiations on a solid footing.

Agency Comments and Our Evaluation

We obtained oral comments on a draft of this report from the U.S. Trade Representative's Director for the Free Trade Area of the Americas. USTR generally agreed with the information in the report and provided technical comments that we incorporated as appropriate.

Scope and Methodology

To meet our objectives of (1) discussing what progress has been made in the free trade negotiations to date, (2) identifying the challenges that must be overcome to complete a free trade agreement, and (3) discussing the importance of the April meetings of trade ministers and national leaders of the participating countries, we reviewed FTAA and executive branch documents and related literature and economic literature, and held discussions with lead U.S. government negotiators for each of the FTAA negotiating groups. We also had discussions with foreign government officials representing the negotiating blocks, and from officials with the Inter-American Development Bank, the Organization of American States, and the United Nations Economic Commission for Latin America and the Caribbean, who each provide technical assistance to the negotiations. In addition, we met with experts on the FTAA and international trade negotiations, and business and civil society groups that have expressed interest in the FTAA process. This report is also based on our past and ongoing work on Western Hemisphere trade liberalization.[12]

We conducted our work from September 2000 through March 2001 in accordance with generally accepted government auditing standards.

As you requested, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after its issue date. At that time, we will send copies to appropriate congressional Committees and to the Honorable Robert Zoellick, U.S. Trade Representative. Copies will be made available to others upon request.

[12]Early developments in the FTAA process were discussed in *Trade Liberalization: Western Hemisphere Trade Issues Confronting the United States* (GAO/NSIAD-97-119, July 21, 1997).

If you or your staff have any questions about this report, please contact me on (202) 512-4128. Other GAO contacts and staff acknowledgments are listed in appendix II.

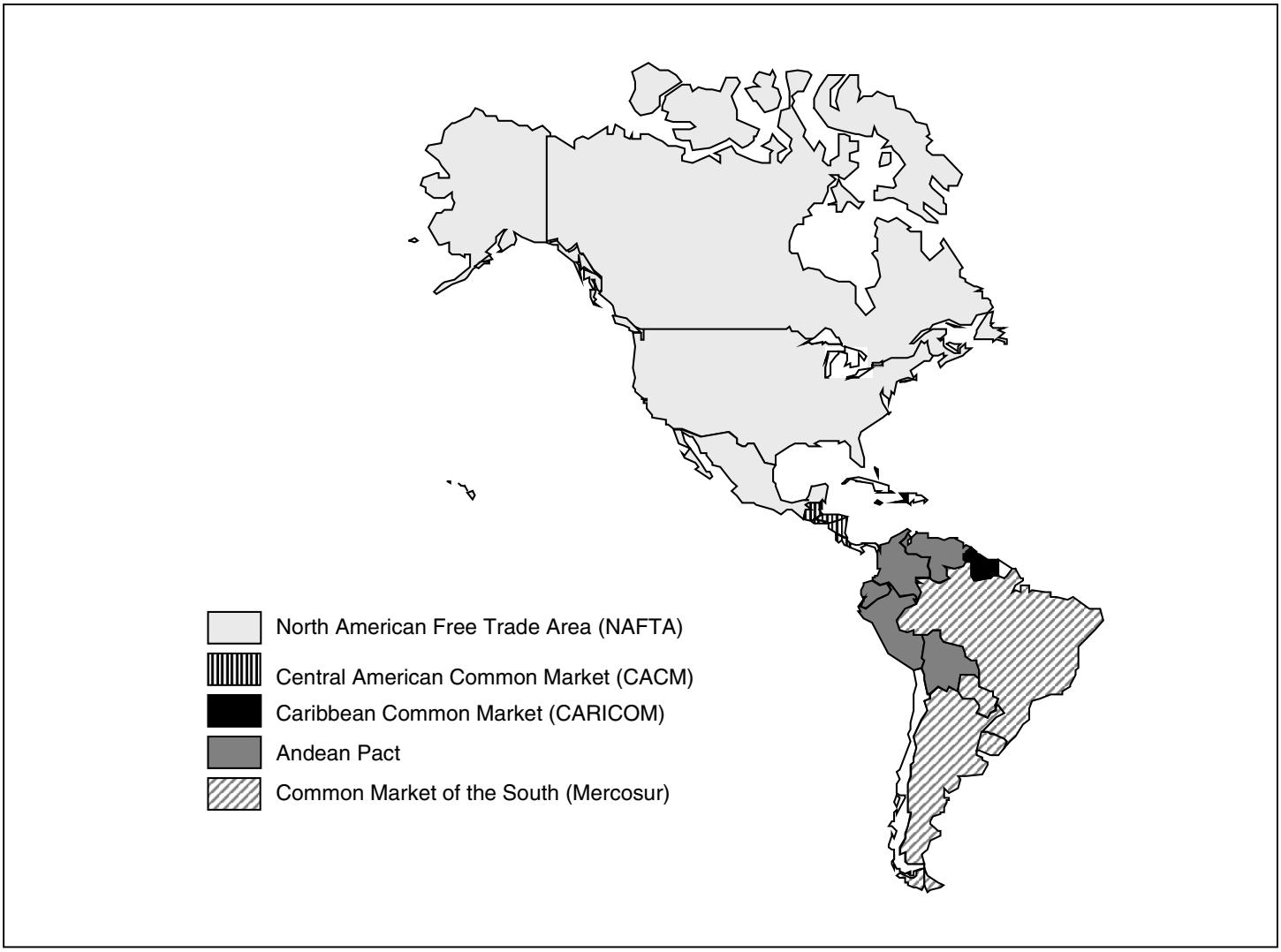
Sincerely yours,

Loren Yager
Director,
International Affairs and Trade

Appendix I: The Free Trade Area of the Americas (FTAA) Countries

The 34 FTAA countries include some of the U.S.'s largest trading partners and some of its smallest. Many of them are members of regional trade groups or free trade agreements. Figure 4 shows the countries of the FTAA region and some of the regional trade groups. Table 1 shows the U.S. trade and investment relationship with the 33 other FTAA countries, organized by regional trade groups.

Figure 4: Regional Trade Agreements in the Western Hemisphere



Source: GAO.

Table 1: U.S. Trade and Investment With FTAA Countries, 1999

Dollars in million

Country	U.S. exports of goods and services[a]	U.S. imports of goods and services[b]	Share of country in U.S. world exports	U.S. direct investment abroad (stock)[c]	Share of country in U.S. direct investment abroad	GNP per capita[d] (actual dollars)
Andean Community	**$14,731**	**$20,939**	**1.64%**	**$14,717**	**1.30%**	
Bolivia	307	224	0.03	204	0.02%	$2,205
Colombia	3,430	5,883	0.38	4,029	0.36%	5,861
Ecuador	896	1,853	0.10	1,202	0.11%	3,003
Peru	1,631	1,871	0.18	2,532	0.22%	4,180
Venezuela	8,468	11,108	0.94	6,750	0.60%	5,706
CACM	**8,181**	**11,019**	**0.91**	**3,044**	**0.27%**	
Costa Rica	2,281	3,954	0.25	1,646	0.15%	5,812
El Salvador	1,482	1,603	0.17	722	0.06%	4,008
Guatemala	1,734	2,258	0.19	453	0.04%	3,474
Honduras	2,328	2,712	0.26	56	*	2,338
Nicaragua	356	492	0.04	167	0.01%	1,896
CARICOM	**4,473**	**2,921**	**0.50**	**6,093**	**0.54%**	
Antigua and Barbuda	88	2	0.01	4	*	8,200
Bahamas	801	194	0.09	1,065	0.09%	20,000
Barbados	274	59	0.03	1,131	0.10%	11,200
Belize	131	80	0.01	36	*	3,100
Dominica Island	32	23	*	38	*	3,400
Grenada Island	64	20	0.01	1	*	3,700
Guyana	134	101	0.01	132	0.01%	2,500
Haiti	599	301	0.07	56	*	1,379
Jamaica	1,264	664	0.14	2,469	0.22%	3,344
St. Kitts & Nevis	47	33	0.01	3	*	6,000
St. Lucia Island	91	28	0.01	**	**	4,300
St. Vincent & the Grenadines	53	8	0.01	**	**	2,600
Suriname	140	123	0.02	59	0.01%	3,400
Trinidad & Tobago	756	1,285	0.08	1,094	0.10%	7,208
Mercosur	**27,008**	**16,770**	**3.01**	**50,033**	**4.42%**	
Argentina	8,256	3,492	0.92	14,187	1.25%	11,728
Brazil	17,825	13,038	1.99	35,003	3.09%	6,460
Paraguay	484	47	0.05	229	0.02%	4,312
Uruguay	443	193	0.05	614	0.05%	8,541

Dollars in million

Country	U.S. exports of goods and services[a]	U.S. imports of goods and services[b]	Share of country in U.S. world exports	U.S. direct investment abroad (stock)[c]	Share of country in U.S. direct investment abroad	GNP per capita[d] (actual dollars)
NAFTA	**260,790**	**332,266**	**29.08**	**145,972**	**12.89%**	
Canada	166,865	213,464	18.61	111,707	9.86%	22,814
Mexico	93,925	118,801	10.47	34,265	3.03%	7,450
Other	9,941	8,216	1.11	44,267	3.91%	
Chile	4,317	3,600	0.48	9,886	0.87%	8,507
Dominican Rep	3,971	4,278	0.44	952	0.08%	4,337
Panama	1,652	338	0.18	33,429	2.95%	4,925
FTAA-Total	$325,125	$392,130	36.25%	$264,126	23.32%	
World	$896,854	$1,192,260	100.00%	$1,132,622	100.00%	

Legend:

* = Value is less than 0.005%

** = Information not available

GNP = Gross national product

[a]U.S. goods exports are domestic exports in FAS (free alongside) values. For some FTAA countries, services exports were not available.

[b]U.S. goods imports are imports for consumption in customs values. For some FTAA countries, services imports were not available.

[c]U.S. direct investment abroad is calculated on a historical-cost basis.

[d]GNP per capita values are from the World Bank's World Development Indicators, 2000, or when not available, from the Central Intelligence Agency's World Factbook, 2000; they are calculated by the purchasing power parity method, which provides a standard measure for comparing real price levels between countries. Some World Factbook figures are for gross domestic product (GDP).

Sources: World Bank; the Central Intelligence Agency's World Factbook, 2000; U.S. Department of Commerce official trade and investment statistics; GAO calculations.

Appendix II: GAO Contacts and Staff Acknowledgments

GAO Contacts

Kim Frankena, (202) 512-8124
Anthony Moran, (202) 512-8645

Acknowledgments

In addition to the persons named above, Tim Wedding, Jody Woods, Ernie Jackson, and Rona Mendelsohn made key contributions to this report.

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