Hemispheric Free Trade
The Discussion in the United States

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There are currently two points of view regarding U.S. trade policy, its design and implementation on a regional level. From the point of view of the executive branch, and particularly for President William Clinton, the prevailing view is that free trade and specific agreements will yield positive results and advantages for the United States, even when the agreements are with less developed countries. This is the basis for his determination to actively support and promote trade agreements with different bodies and at different levels, both with global institutions and regionally and bilaterally with different governments.

In that sense, the White House view backs the most general interests of the nation at the same time that it takes into account its external implications, both economic and political. Among the economic considerations is the fact that markets opening up have strengthened U.S. exports, which have increased 42 percent in the last four years and are considered the basis for about one third of the country's overall growth. At the same time, export activity has stimulated the creation of high technology jobs and higher wages; between 1992 and 1997 1.5 million jobs linked to exports were created, with wages almost 15 percent over the national average.

On the other hand, however, another view is held by Congress, which is responsible for managing and domestically implementing trade policy, in particular measures that specifically protect U.S. companies and the different national economic players. The Congress authorizes the executive through fast track to begin trade negotiations. In contrast with the favorable 1997 Senate vote for fast

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The presidents at the April 1998 Second Summit of the Americas in Santiago, Chile.

track, the House of Representatives vote on the question was postponed since many members are concerned that free trade will harm U.S. workers and deepen the trade deficit.

It is Congress, through its International Trade Commission, that is responsible for determining possible damage that international trade might cause to U.S. producers. Therefore, both the Congress and the commission itself are subject to the pressure of powerful interest groups who lobby to try to protect themselves from foreign imports.

This is why the results of U.S. trade policy can seem and, indeed, be, contradictory, since the executive is less subject to this kind of specific pressure, while members of Congress are answerable directly to these pressure groups and demanding constituents can threaten their reelection.

THE UNCERTAINTY OF HEMISPHERIC FREE TRADE

The existence of these two sources of influence partially explains the difficulties encountered by the proposal made at the First Summit of the Americas in December 1994 to create a free trade area for all of the Americas that could be established by extending the North American Free Trade Agreement (NAFTA) to the countries of Central and South America, beginning with Chile.

Although President Clinton has repeatedly argued that the extension of free trade to the entire hemisphere would benefit the United States, the process has suffered a serious setback given that he was not able to get the power he needed through fast-track authorization to promote it at the Second Summit of the Americas this April in Chile.

Clinton continues to aim for a hemispheric free trade agreement for the year 2005, arguing that, despite the limited number of U.S. exports to Latin American countries, which, discounting Mexico, only account for 8 percent of its total exports, the region has shown dynamic growth and that it will probably increase its requirements on imports, one-third of which come from the United States. In addition, the trade barriers that the U.S. faces in Latin American markets are three times higher than those now in force at home.

FREE TRADE WITH MEXICO A MIRROR OF HEMISPHERIC FREE TRADE

The expectations for free trade in the hemisphere can be drawn from the analysis of the evolution of trade between Mex-

At the Second Summit of the Americas, the presidents did not discuss hemisphere-wide free trade.

ico and the United States, two profoundly unequal economies: the GDP of the former comes to only about 4 percent of the latter.

NAFTA has contributed to an enormous expansion of trade between the two countries despite the Mexican crisis and 1995 recession. For the first three years of NAFTA (1994-96), U.S. exports to Mexico rose 37 percent, while Mexican exports to the United States increased 83 percent; bilateral trade came to about U.S.$130 billion.

The first year the treaty was in effect, U.S. exports grew 22.1 percent and the U.S. surplus was 1.3 billion dollars. However, because of Mexico's financial crisis, in 1995, U.S. exports dropped 8.9 percent and the trade balance reversed, with a U.S.$15.4 billion trade deficit for the United States. This was caused by the devaluation of the peso, which made U.S. products more expensive at the same time that the average Mexican income dropped considerably. On the other hand, Mexican goods were cheaper for the United States, whose economy was clearly expanding.

Despite the crisis, U.S. exports to Mexico remained about 10 percent higher than they had been before NAFTA (in 1993 they made up 69 percent of Mexico's imports, while by 1996, they came to 76 percent). Mexico, for its part, kept its promises and complied with the schedule of annual tariff reductions agreed on in the treaty.

This situation contrasts sharply with Mexico's 1982 financial crisis, when measures to ensure total protectionism of trade were taken: absolutely all imports had to be authorized. There were 16 different tariff rates, averaging 27 percent, and reaching up to 100 percent. This led to a 50 percent drop in U.S. exports to Mexico between 1981 and 1983, while more than half the jobs —over 200,000— linked to these exports disappeared.

By January 1994, half of U.S. exports to Mexico entered the country duty free; in 1995, the most dynamic exports were semiconductors, computers, machinery, tools and medical equipment. By 1996, the average Mexican import duty on U.S. products was only 4.9 percent, less than half the 1993 10-percent level.

Even though, just like before, the states which exported most to Mexico were Texas and California, practically all the states in the U.S. increased goods sent to Mexico, which grew faster than those sent to other parts of the world: during the first three years of NAFTA, 39 of the 50 U.S. states increased exports to Mexico.

CONCLUSIONS

All this leads us to conclude that for the United States, a free trade agreement with a less developed country has been positive, despite its trade deficit with Mexico.

With growing, dynamic foreign trade, the United States can boost its economic power. In addition, domestically, promoting foreign trade serves the fundamental end of raising productivity, which in turn increases U.S. companies' competitiveness both in domestic and international markets. The most probable result of free trade for the U.S. economy is its specialization in high tech goods and services, a market niche that requires highly skilled jobs and high wages. These expectations arise out of the participation in the world market of the aerospace, electronic and telecommunications industries as part of total U.S. exports.

In fact, real U.S. exports of goods and services to the whole world have grown 20 percent since 1993, allowing it to once again take its place as the world's largest exporter, with 12 percent of global exports. However, despite its competitiveness in world markets, the United States still has a trade deficit, which, according to its own officials, is mainly due to macroeconomic factors, including increased investment (only a part of which is financed by domestic savings), increased income and a greater demand for goods and services. They argue, however, that this has not led to a drop in productive growth or employment.

Given this situation, the inability of the United States to negotiate a hemisphere-wide free trade agreement on the fast track becomes more important. In practice, it lowers its leadership ability vis-à-vis free trade, as was reflected at the recent Second Summit of the Americas in Santiago.

Despite the United States' excellent trade figures with Latin America and the Caribbean (not counting Mexico, its exports to the region grew 110 percent between 1990 and 1996), the Santiago agenda did not include the question of hemispheric free trade. The topics dealt with political and social conditions in the area, like democracy, the defense of human rights, freedom of the press, etc., which in the U.S. view are prerequisites for setting up the Free Trade Area of the Americas.

The fact that the discussion at the Santiago summit veered away from free trade toward other social and political topics shows the great weight that domestic questions have on the U.S. view of its policy toward the hemisphere. VM