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THE NEXT STEP AFTER NAFTA: EXPANDING FREE TRADE IN LATIN AMERICA AND THE CARIBBEAN

INTRODUCTION

The November 17 approval of the North American Free Trade Agreement (NAFTA) paves the way for the Clinton Administration to launch a program to spread free trade throughout the Western Hemisphere. The NAFTA, followed by the successful conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) on December 15, are victories for international engagement and economic competition over withdrawal and complacency. The White House now has the momentum to develop a constructive and prosperous free trade agenda in the Americas.

The legislation to implement the NAFTA calls on U.S. Trade Representative Mickey Kantor to report on the pace of free market reforms in the region to President Clinton, the Senate Finance Committee, and the House Ways and Means Committee by May 1. Kantor also is charged with determining how ready Latin American and Caribbean countries are for free trade agreements with the U.S. The President must transmit Kantor's findings to Congress by July 1. The White House thus is facing some critical deadlines for outlining the future of trade policy in the Americas.

NAFTA: A First Step

President Clinton correctly has described the free trade agreement with Mexico as "just a first step," implying that he is prepared to reach out to other Latin American and Caribbean countries.[1] The actions of Mexico and others bear out his assessment. Mexico, which already has a bilateral free trade agreement with Chile, has concluded similar accords with Venezuela and Colombia. Mexico also is negotiating a free trade zone with the seven Central American countries. With free market reforms well underway from

1 Steven Greenhouse, "U.S. Plans Expanded Trade Zone," *The New York Times*, February 4, 1994.

Mexico to Argentina, most Latin leaders are looking to Washington for a commitment to expanding trade ties.

The President should begin negotiations immediately for free trade agreements with other Latin and Caribbean nations. He should focus on Chile, Argentina, Venezuela, and Colombia—countries whose leaders have voiced support for free trade with the United States and have done the most to liberalize their own trade policies in recent years. His aim should be eventually to include the entire Western Hemisphere in a comprehensive free trade agreement, similar to that proposed by George Bush in his Enterprise for the Americas Initiative (EAI).[2]

Clinton took a tentative step in the right direction when he met at the White House on November 30 with the presidents of the Central American nations, stressing the need to expand free trade throughout the hemisphere. Assistant Secretary of State Alexander Watson backed up the President's commitment to free trade during a January 7 speech in Miami by stating: "The U.S. welcomes [the movement in Latin America toward free trade.] We want to see a region of countries open to each other and to the world—with increased trade, investment, and other exchanges throughout the hemisphere and the globe. We see the growth of subregional free trade and integration as a sound basis for further progress toward hemispheric free trade."[3]

In order to advance the free trade agenda in the Americas, and live up to his own stated commitment to free trade, President Clinton should:

- ✔ **Seek renewal of the fast track trade negotiating authority this spring.** Granted to the Bush Administration by Congress in May 1991, fast track authority expired last year. Under fast track authority, trade agreements are guaranteed an up-or-down vote by Congress, without amendments and protectionist tinkering that would almost certainly kill most trade negotiations.

- ✔ **Announce to Congress as soon as possible his intention to negotiate a Free Trade Agreement with Chile.**

- ✔ **Negotiate Free Trade Agreements with as many Latin American and Caribbean countries as possible.** The Administration should be willing to undertake simultaneous negotiations with those countries that are most ready, rather than waiting until one is completed before starting new negotiations.

- ✔ **Tailor negotiating style to the individual needs of each country.**

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2 The EAI was first announced by Bush at the White House on June 27, 1990, and has attracted widespread support from hemispheric leaders. Besides creating a free trade zone stretching from Alaska to Antarctica, the EAI seeks to spur regional prosperity and stability by assisting Latin American countries in attracting foreign investment, offering debt relief, and advancing free market solutions to environmental protection.

3 Alexander F. Watson, "Key Issues in Inter-American Relations," *U.S. Department of State Dispatch*, Vol. 5, No. 3, January 17, 1994.

- ✔ **Explore whether to create a Western Hemisphere energy sector agreement.** This could guarantee access to energy resources during times of crisis and lessen the dependence on the Middle East.
- ✔ **Refrain from engaging in the managed trade policies that the Administration has pursued with respect to Japan.**
- ✔ **Make free trade and economic reform the top priority during the upcoming summit of Western Hemisphere leaders scheduled for later this year.**
- ✔ **Set a deadline for creating a Western Hemisphere free trade zone.**

THE RISING IMPORTANCE OF U.S-LATIN AMERICAN TRADE

Expanding exports is the key to the future of U.S. economic growth and the creation of American jobs. The U.S. cannot rely on its domestic market alone to keep economic prosperity growing. It needs to look beyond its borders for new markets where it can sell its goods and service. The economic rule of thumb for the American economy is that for every one billion dollars in additional sales overseas, some 19,000 jobs are created. Those jobs in the export sector tend to be 17 percent better paying than the average ones in the manufacturing sector of the economy.

While foreign trade is critically important to the U.S. economy, it is still too small. Exports of goods and services account for only 11 percent of the U.S. gross domestic product (GDP). This compares to 15 percent to 30 percent for most U.S. trading partners. The U.S. obviously needs to increase its exports, and the Latin American region is an obvious candidate for expanded trade. Despite sluggish growth worldwide, the economies of the Western Hemisphere are expanding rapidly at an average rate of around 4 percent a year. These countries, with their combined 462 million people, also have young populations with consumer tastes similar to those in the U.S. Moreover, since they are located close to U.S. borders, Latin American and Caribbean countries can cut the transportation costs of goods traded with their neighbor to the north.

Fastest Growing Market

According to former Secretary of Commerce Barbara Franklin, as a result of the market-opening policies and other reforms undertaken by such leaders as Argentina's Carlos Menem, Mexico's Carlos Salinas de Gortari, and Chile's Patricio Aylwin over the past several years, "Latin America has become the world's fastest growing market for U.S. exports—faster by far than the markets in Europe and Asia."[4] Since 1986, U.S. exports to the region have increased by 145 percent to a total of $76 billion in 1992. This was a $13 billion, or 21 percent increase, over the value of U.S. exports to the region in 1991. As the Latin economies continue to grow, the demand for American-made goods and serv-

4 Speech given by the Honorable Barbara Hackman Franklin at a meeting sponsored by Holleb & Coff, Chicago, Illinois, February 8, 1994.

ices will steadily expand. Indeed, Latin America (including the Caribbean countries) was the only region in the world where America enjoyed a trade surplus.

Moreover, one in seven dollars of total U.S. exports is now made on the export of goods and services to Latin America and the Caribbean. U.S. businesses are very competitive, accounting for 57 percent of the region's imports from industrialized countries, as compared with 29 percent from Europe and 11 percent from Japan. By the same token, Latin American and Caribbean countries also have become ideal places for Americans to invest. Foreign investment in the region totalled $57 billion in 1992, as compared to only $4 billion in 1989.[5]

For decades, Latin leaders have paid lip service to forging free trade pacts with each other, but today they are backing their rhetoric with action. Over the past several years, most of the nations in Latin America and the Caribbean have moved toward freer markets and free trade pacts. Currently, there are more than a dozen bilateral and multilateral trade pacts throughout the region, with most of them signed since the end of 1989. In preparation for free trade with the U.S. or free trade among themselves, the average tariff charged by Latin American nations to outsiders has dropped from 56 percent in 1985 to less than 15 percent last year. As a result, commerce among Latin American nations has surged over the past decade. For example, trade among Latin America's eleven largest economies jumped 28 percent in 1992, reaching $19.4 billion. In the same year, Latin America's exports to the rest of the world stagnated. According to Colombian Trade Minister Noemi Sanin: "The free trade agreements have developed beyond all expectations. Before the end of the century, we plan to achieve the planet's most important trading bloc —the American bloc." Currently, Colombia is negotiating free trade agreements with 22 other regional countries.[6]

Similar results have been seen elsewhere. In 1993, for example, trade between Colombia and Venezuela reached some $2 billion—four times the level of 1991, the year before they signed their bilateral Free Trade Agreement (FTA). Within the Andean region, trade increased by 50 percent since 1992, the year that Bolivia, Colombia, Ecuador, and Venezuela slashed almost all regional tariffs to zero. And in the Southern Cone Common Market (known as "Mercosur" for its Spanish abbreviation) regional trade expanded by more than 25 percent in 1993, reaching $9 billion. Trade was only one-third that level in 1990, the year before Argentina, Brazil, Paraguay, and Uruguay signed the agreement that established the Southern Cone Common Market. In Mercosur, there is more at stake than just trade. According the United Nations Economic Commission on Latin America and the Caribbean, "The goal is even deeper integration than Western Europe has achieved, going directly to a customs union with common external tariffs and zero duties by January 1, 1995....Mercosur is trying to do in five years what the Europeans did in 30."[7]

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5 Speech by Undersecretary of the Treasury for International Affairs Lawrence H. Summers, Citizens Network Conference on Latin America in the Global Economy, Washington, D.C., November 3, 1993.

6 James Brooke, "Latin American Region Freeing its Own Trade," *The New York Times*, December 29, 1993.

7 Don Podesta, "South American Give More than Lip Service to Economic Integration," *The Washington Post*, January 18, 1994.

THE NAFTA: A VICTORY FOR FREE TRADE

The U.S. House of Representatives approved the free trade pact with Mexico and Canada on November 17 by the comfortable margin of 234 to 200. The NAFTA won final U.S. congressional approval on November 20 when the Senate joined the House in ratifying the pact by a vote of 61 to 38. The agreement was approved by the Mexican Senate on November 23 by a margin of 56 to 2. These developments paved the way for the signing of the NAFTA by President Clinton at a December 8 White House ceremony.

The agreement, which was first promoted by Ronald Reagan during his 1980 presidential campaign and signed by George Bush on December 17, 1992, was a crucial victory for the American people. The NAFTA will eliminate tariffs on goods and services between the United States, Canada, and Mexico over a fifteen-year time span. It also will build on the 1989 U.S-Canada Free Trade Agreement, creating the world's largest and most prosperous market. The three NAFTA countries have a combined gross domestic product 25 percent larger than the European Union. Thus, the agreement gives North America enough economic muscle to challenge the emerging unified market in Europe and an East Asia market dominated by Japan. The NAFTA also will offer Americans cheaper goods and increase U.S. exports by making them more affordable in the absence of tariffs.[8]

Mexico is the second largest and fastest growing market for U.S. exports in the world. American exports across the Rio Grande have risen at an average annual rate of 22 percent since 1987. The U.S., moreover, exported a record $41 billion in goods and services to Mexico in 1992, resulting in a trade surplus with that country of some $5.4 billion and supporting at least 600,000 American jobs. It also is estimated that 70 percent of Mexico's total exports come from the U.S.—an indication that the Mexican consumers like American-made products. According to the U.S. Department of Commerce, Mexicans spend 15 cents of every dollar earned on U.S. goods and services. Now that the NAFTA is in place and falling tariffs make U.S. goods cheaper and services more accessible, Mexican consumers will buy even more U.S. manufactured goods. The result: economic growth and job creation north of the border.[9]

George Bush and the EAI

But the NAFTA should be seen as a first step toward establishing a free trade area spanning all of the Americas. This idea is not new. It was embodied in George Bush's 1990 Enterprise for the Americas Initiative (EAI). The EAI was designed to expand trade and investment ties between the U.S. and Latin American countries, with the eventual goal of building a free trade zone spanning the entire hemisphere.[10]

8 See Michael G. Wilson, "The North American Free Trade Agreement: Ronald Reagan's Vision Realized," Heritage Foundation *Executive Memorandum* No. 371, November 23, 1993.

9 Franklin, *op. cit.*, pp. 2-3.

10 The Heritage Foundation has long championed the EAI. For more information see: Michael G. Wilson, "Toward the Next American Century: Building a New Partnership with Latin America," Heritage Foundation *Backgrounder* No. 877, February 4, 1992, and Michael G. Wilson, "An Agenda for Latin America and the Caribbean," Heritage Foundation *Memo to President-Elect Clinton* No. 7, January 13, 1992.

In contrast to previous U.S. policy proposals for the region, such as John F. Kennedy's 1961 foreign assistance program known as the Alliance for Progress, the EAI relied primarily on trade and investment, rather than aid. The EAI's four principal goals were to: 1) create a free trade zone in the Americas, 2) stimulate foreign investment in the region, 3) cancel some $12 billion in U.S. government loans to countries that pursue free market reforms, and 4) find free market solutions to protecting the environment.

The Clinton Administration has reiterated its support for the goals of the EAI. While its free trade program for the Americas probably will come under some other name, the White House on numerous occasions has voiced support for a EAI-style program.[11] During a February 1 speech in Miami, for example, Undersecretary of Commerce Jeffrey E. Garten stated that: "President Clinton has made it very clear that he does not intend to stop with NAFTA, but favors expanding free trade throughout the region." Garten added: "For 1994, no [trade] priority ranks higher than deepening our economic and commercial ties with Latin America and the Caribbean. Our most immediate task is to follow up on NAFTA."[12] U.S. officials have also said that beyond seeking to build on the NAFTA, the EAI's debt relief program will continue to be funded through 1994.[13]

CLINTON AND HEMISPHERIC TRADE POLICY

With the passage of NAFTA, the leader of every major Latin American nation except Brazil has said that his country should be next in line for a free trade pact with the U.S. Clinton has encouraged such hopes, saying, "I'll reach out to the other market-oriented democracies of Latin America to ask them to join in this great American pact."[14]

Trade, Not Aid

With trade rather than aid as the stated centerpiece of Clinton's economic agenda for Latin America and the Caribbean, the Administration is determining which countries are ready for a free trade pact with Washington and how those nations should be brought into an FTA with the U.S. During a January 21 speech at the Georgetown University Law Center, U.S. Trade Representative Mickey Kantor stressed a "building bloc approach" to expanding free trade in the Western Hemisphere. This would entail separate agreements between the U.S. and those Latin American and Caribbean countries whose economies are not sufficiently developed to assume the obligations of the NAFTA. According to Kantor: "For less developed nations in the hemisphere, the United States might initially be looking to an expanded or free trade agreement on a bilateral basis...with obligations somewhat different that in the NAFTA in order to get those economies developed [and reformed]. And as their laws develop and their enforcement develops, they will be able to take on NAFTA-like obligations."[15] Kantor did not name those countries that were

11 Stephen Fidler, "U.S. Renews its backing for Trade and Debt Initiative," *The Financial Times*, March 31, 1993.

12 Jeffrey E. Garten, "United States-Latin American Relations in the New Global Economy," The World Trade Center, Miami, Florida, February 1, 1994.

13 For a detailed overview of the EAI, see "U.S. Market Access in Latin America: Recent Liberalization Measures and Remaining Barriers," Report to the Senate Committee on Finance, U.S. International Trade Commission, June 1992, pp. 4-1 through 4-7.

14 James Brooke, "Latin American Region Freeing its Own Trade," *The New York Times*, December 28, 1993.

still not ready for FTAs with the U.S., but he stressed that direct accession to NAFTA should be possible for Latin American nations like Chile, which "seem to be in a position to be able to take on NAFTA obligations."[16] The Chilean government, however, has yet to decide if it wants to join the NAFTA through its accession clause, or whether it would rather negotiate its own bilateral FTA with the U.S.

Kantor also said that the Clinton Administration would work with Congress to get fast track negotiating authority "on a broad basis" for new free trade agreements "especially in Latin America." The Chilean government, for example, is hoping to be included in the next fast track extension so that FTA talks with the Administration can begin this year. The USTR meanwhile is undertaking an Administration review of U.S. trade policy in the Americas. Based on USTR's findings, the President must develop a "short list" of countries that are ready to negotiate free trade pacts with the U.S. The list—expected to include Chile and Argentina—is to be presented to Congress by July 1 along with a report on how the various countries will reach agreements with Washington. In some cases they may join the NAFTA, while in others they could sign bilateral agreements. Others may sign FTAs with the U.S. as blocs.[17] It would be far too cumbersome to sign separate bilateral pacts with every country in the hemisphere.

A FREE TRADE AGENDA FOR THE U.S. IN THE AMERICAS

With the world divided into what is becoming three regional trading blocs—Europe, Asia, and the Americas—the U.S. must look to its neighbors in the Western Hemisphere for trade and investment opportunities. The U.S. has a natural trade advantage in the region because of the skill and productivity of its work force. Moreover, by striking free trade agreements with Latin American and Caribbean countries, the Clinton Administration will have greater leverage in other parts of the world to encourage free trade policies. Passage of the NAFTA, for example, clearly helped advance the December 1993 GATT agreement. The expansion of NAFTA could put pressure on Japan to open its markets.

In order to build on the NAFTA's success and create a hemisphere-wide free trade zone stretching from Alaska to Tierra del Fuego, Bill Clinton should:

✔ **Seek renewal of the fast track trade negotiating authority this spring.** "Fast track" authority is given to the President by Congress and has a limited lifespan. The last fast track extension was granted to George Bush in May 1991 and expired in May 1993. It was temporarily extended through December 15 to facilitate the GATT negotiations. Fast track powers allow the President to negotiate an agreement and then present it to Congress for approval or rejection without congressional amendments.[18]

15 "Kantor Signals the Need for Interim Trade Pacts in Latin America," *Inside U.S. Trade*, January 28, 1994.

16 *Ibid.*

17 *Ibid.*

18 For more information on the fast track process, see: Wesley R. Smith, "Why Bush Needs the Fast Track for Trade Negotiations," Heritage Foundation *Issue Bulletin* No. 163, April 30, 1991.

The Clinton Administration will need renewed fast track trade negotiating authority in the coming months to negotiate further trade pacts. Specifically, Clinton will need fast track powers to reach a final GATT agreement, as well as to begin free trade negotiations with Chile and other countries. Explains former U.S. Trade Representative Carla Hills: "Fast track gives the President the same bargaining power already possessed by his counterparts: The ability to assure that the deal that they strike at the bargaining table will be the deal that is voted on by Congress."[19] Without that assurance, foreign government are reluctant to negotiate with the U.S., and are less likely to make the tough concessions that are often needed to reach trade agreements. No government would give its bottom line knowing that a deal could be re-opened by Congress.

✔ **Announce to Congress as soon as possible his intentions to negotiate a Free Trade Agreement with Chile.** Chile is the most obvious candidate to be the next free trading partner with the United States. It has been making free market reforms for nearly two decades. Since the mid-1980s, the economy has grown at an average rate of 5.7 percent and exports have increased to over 30 percent of GDP.[20] Meanwhile, U.S.-Chilean economic ties have been expanding for several years. Trade between the two countries has grown for seven straight years, reaching some $4 billion in 1992. The U.S. is Chile's principal trading partner, accounting for about 21 percent of total imports and absorbing 16 percent of its exports. Over the past decade, U.S.-Chilean trade has doubled in volume.[21]

With NAFTA firmly in place, the Clinton Administration should begin to negotiate a free trade pact with the new Chilean government of Eduardo Frei once he takes office as president on March 11. Frei has said that his administration is committed to advancing free market reforms and free trade, and would like to see negotiation get underway as soon as possible. In the days following Frei's inauguration, the White House should send a high-level delegation to Santiago to discuss a time frame for negotiations. The Chilean government favors a bilateral agreement rather than accession to the NAFTA, because there are numerous components in the U.S.-Mexico-Canada agreement, including the sections on the automotive industry and energy, that are not relevant to U.S.-Chilean trade relations. The Clinton Administration should remain open to this option. The Chileans have moved farther and faster than any other Latin American nation on free market and democratic reforms and deserve to be recognized for their accomplishments.

✔ **Negotiate Free Trade Agreements with as many countries as possible.** The Clinton Administration should not limit itself, as the Bush Administration did, to negotiating one free trade pact at a time. The free trade process should not be viewed as a linear one. For example, if Argentina is prepared to negotiate with the U.S., Washington should not wait until its negotiations with Santiago are con-

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19 Carla A. Hills, "Sailing the Tide of Free Trade to Fortune," *Heritage Lecture* No. 313, May 1, 1991.

20 See Chile Economic Newsletter, No. 6, Chilean Ministry of Finance, August/September, 1993, and Alejandro Foxley, "The Future of U.S.-Chilean Relations," *Heritage Lecture* No. 323, May 3, 1991.

21 "Chile Economic Newsletter, No. 8, Chilean Ministry of Finance, December 1993.

cluded before launching talks with Buenos Aires. Now that a free trade pact has been negotiated with Canada and Mexico, follow-up talks with other Latin American and Caribbean countries will not be as complex.

Because they share a 2,000-mile border, are major trading partners, and have had a long and sometimes difficult relationship, the U.S. and Mexico encountered numerous obstacles during the NAFTA talks. These included disputes over environmental and labor laws, foreign investment rules, and energy sector concerns. These issues will not be as difficult to overcome with the smaller economies of Central America, South America, and the Caribbean. The NAFTA, moreover, has helped pave the way for future FTA talks by setting certain standards. The staff and resources of the U.S. Trade Representative, therefore, should be bolstered to meet the demand of expanding free trade.

✔ **Tailor negotiating style to the individual needs of each country.** The Clinton Administration's free trade negotiating policy must remain flexible. The economic, labor, environmental, and political interests of the U.S. will vary from country to country. Talks with Chile, for example, will not encounter many of the same problems that hindered the NAFTA negotiations because of the relative small size of the Chilean economy, fewer labor and environmental concerns, and because the two countries have opposite growing seasons. Additionally, U.S. labor unions, which vigorously opposed the NAFTA, have pledged publicly not to derail the talks with Chile. Moreover, such issues as energy, investment rules, and the automotive sector will hardly come into play with a country like Chile because they are not major sectors of its economy. However, talks with countries like Colombia and Venezuela could be heavily focused on energy issues. FTA negotiations could be facilitated or hindered based upon the willingness of these countries to consider U.S. exploration, drilling, and investment opportunities under a free trade pact.

The Clinton Administration must also decide whether a country or groups of countries should enter as a bloc, sign a bilateral accord, or join the NAFTA. In the case of the Central American countries, for example, it might be better to bring them in as a bloc or have them join the NAFTA because of their relative small size and the similarity of their economies. Chile and Argentina, however, may be better off negotiating bilateral pacts with the U.S. because they have done the most to liberalize their economies and because they share a larger percentage of U.S. trade in Latin America. When Mickey Kantor presents his free trade report on May 1, he should stress the need for such flexibility and avoid creating a "cookie cutter" approach to free trade in the Americas—one that assumes one strategy fits all.

✔ **Explore whether to create a Western Hemisphere energy sector agreement.** The Persian Gulf war demonstrated that access to foreign oil is a vital interest of the United States. Notwithstanding its brevity and favorable outcome, the crisis highlighted the potential problems with remaining overly dependent on Middle Eastern oil supplies. This being the case, a comprehensive review of inter-American energy cooperation would be wise. It would involve considering ways in which capital and technology could be channeled toward achieving greater hemispheric self-sufficiency. It also could explore how supplies and reserves of both fossil and non-fossil energy resources might be developed and administered.[22] The goal would be adequate access for all states in the region at all times, including during crises.

As early as 1990, Presidents Cesar Gaviria of Colombia, Carlos Salinas of Mexico, and Carlos Andres Perez of Venezuela called for the formation of a Western Hemisphere energy community. The U.S. Department of Energy responded with a study that such an initiative might make sense and should be explored further. Recent large discoveries of oil in Colombia and Venezuela, combined with the known reserves of heavy crude in Venezuela, Mexico, and Ecuador, promise enough oil to meet the energy needs of the entire hemisphere for the foreseeable future. A regional energy agreement, therefore, could possible eliminate the heavy reliance on oil from the Middle East—clearly one of the world's most unstable regions.[23]

Such an agreement, however, should be based on free market principles, and not be the basis for forming an oil cartel. The agreement would not allow fixed or guaranteed prices; and would not set any quotas for production. Rather, it would explore ways to stockpile fuel sources, allow for preferred access during times of international crisis to those that need it the most, analyze ways of privatizing oil ownership in the Americas, and explore opportunities for greater foreign investment in the oil sectors of the participating countries. President Clinton should direct Energy Secretary Hazel O'Leary and other Administration officials to study the feasibility of such an endeavor.

✔ **Refrain from engaging in the managed trade policies that the Administration has pursued with respect to Japan.** The complexity of the international economy is beyond the ability of Washington bureaucrats to manage. The market is better able to determine how resources are allocated, how prices are set, and what products are produced. The Clinton Administration, therefore, should avoid as much as possible the use of subsidies, setting target levels of certain imports and exports, and regulating trade and international investment in an effort to enhance the performance of the U.S. economy.[24]

According to a study released by the Washington-based Institute for International Economics on January 11, "Tariff barriers, quotas and other managed trade arrangements in the U.S. cost American consumers about $70 billion a year." The report concludes that even with the tariff cuts mandated in the new GATT accord, these costs will still reach up to some $30 billion. "The textile and apparel sectors continue to be the Mt. Everest of U.S. trade protection," say the study's authors, Gary Hufbauer and Kimberly Elliott.[25] The lesson of these findings should be applied when crafting U.S. trade policy: managed trade should be avoided at all costs.

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22 See Norman A. Bailey and William Perry, "The Strategic Impact of Hemispheric Free Trade," *The Annals*, March 1993, pp. 73-76

23 *Ibid.*

24 For more information, see: Bryan T. Johnson, "How to Expand World Trade to Spur U.S. Economic Growth," Heritage Foundation *Memo to President-Elect Clinton* No. 5, December 31, 1992.

25 David Dodwell, "Managed Trade Costs Americans $70 billion Each Year," *The Financial Times*, January 12, 1994.

- ✔ **Make free trade and economic reform the top priority during the upcoming summit of Western Hemispheric leaders.** The Clinton Administration is planning to hold a 34-nation Western Hemisphere summit in the U.S. sometime late this year. Statements by the Administration suggest that such issues as democracy, the environment, and human rights, rather than trade, will dominate the U.S. agenda at the summit. This would be a mistake. To be sure, these issues should be discussed, but the most pressing needs in the region are trade, investment, and market reforms that bring the economic wealth necessary to tackle poverty, health care, a lack of educational facilities, human rights abuses, drug trafficking, and corruption. Moreover, a strong economic commitment by Washington to the region will help guarantee that there is not a backlash of military regimes, populists, and ultra-nationalist governments. Consequently, Clinton should make it clear that trade will be the top priority of the Inter-American summit. The Latin leaders are looking for such a signal.

- ✔ **Set a deadline for creating a Western Hemisphere free trade community.** As part of the May 1 USTR report on free trade in the Americas, the Administration should establish a target date for the creation of an EAI-style Western Hemisphere free trade zone. The Clinton Administration should set a goal to have a hemisphere-wide free trade zone established within ten years. Doing this will help keep negotiators focused and maintain the momentum for free trade. It also will show a strong commitment from the U.S. that future Presidents should honor. The Administration has indicated that such a deadline is feasible. Secretary of Commerce Ron H. Brown recently told an audience in Mexico that "Most of it [the creation of a hemisphere-wide free trade zone] could happen before the end of the century."[26]

CONCLUSION

The Clinton Administration has a chance to build on the success of the NAFTA. By reaching out to other countries in the Americas, Clinton can begin to construct the building blocs for a hemisphere-wide free trade community. Between now and July 1, the Clinton Administration will craft a regional trade policy that will either look toward the future and embrace free trade or pursue managed trade and protectionism. As the NAFTA and other free trade pacts in the Americas show, the wave of the future is surely free trade.

The countries of Latin America, especially Chile, Argentina, Venezuela, and Colombia await a signal from Washington. These countries and others have launched impressive free market and democratic revolutions. Today, the Americas stand on the brink of creating the first free-market, democratic hemisphere in world history. Latin America is emerging as Washington's fastest growing trading partner and the only region where the U.S. enjoys a trade surplus. The White House can not afford to turn its back on its neighbors.

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26 Brooke, December 29, 1993, p. C2.

Indifference or inaction by Washington, however, could dampen the pace of reforms in the Americas and give new life to populists and ultra-nationalists in the region. Such a setback could not only lead to closed markets in Latin America and the Caribbean, but would likely unleash new waves of political and social instability. Moreover, a deterioration in U.S.-Latin American relations and a setback in the spread of free trade would curtail U.S. exports to the region, thereby undercutting U.S. job growth and economic competitiveness.

The window of opportunity is open, but no one knows for how long. This year will be a crucial test of the Clinton Administration's international trade and foreign policy leadership capabilities. Relations between the U.S. and Latin America today are at an all-time high. This may not be the case in a year or two. Clinton should follow through with his commitment to help Latin America help itself and begin to forge a hemisphere-wide free trade zone.

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