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The Century of the Americas: Dawn of a New Century Dynamic

The Quebec City summit of democratically elected leaders of the Americas represents a significant marker if leaders—particularly those in Washington—capitalize on a unique set of opportunities. The meeting, at which progress toward the Free Trade Area of the Americas (FTAA) will be renewed, can potentially transform U.S. strategic priorities throughout the world. If U.S. policymakers wish to do so, they can highlight the salience of the Western Hemisphere in a manner that has not come naturally to most U.S. leaders in the post–World War II era.

President George W. Bush and his team are building on three overlapping policy anchors or, more accurately, are taking advantage of a unique set of circumstances facing the Americas in attempting to fulfill the notion of the "Century of the Americas." First is the concept that, beyond the North America Free Trade Agreement (NAFTA), the United States has in fact a "special relationship" with Mexico that competes with the historical significance of U.S. ties with Europe, most notably Great Britain. Beyond simply being a treaty, NAFTA demonstrates that the Latin world is penetrating deeply into U.S. domestic political calculations, which alludes to a gradual transformation of NAFTA into a more deeply integrated community. The forces behind this trend are particularly strong at the subnational level where new opportunities are reshaping central government conceptions of foreign policy. Law enforcement cooperation, emergency response, and more integrated business communities are examples of this interstate integration. A twenty-first-century North American community under the dynamic leadership of the United States and Mexico can fast become an even more powerful model for the rest of the hemisphere than it was a decade earlier.

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The second anchor of the Century of the Americas is the existence of a political process for liberalized trade in the Western Hemisphere, formalized in 1994 with the Miami summit, continued four years later at the Santiago summit, and climaxing at the upcoming Quebec meeting. Much has been made of the existence since the early 1990s of a post–Cold War "Washington consensus" in support of common economic and political reforms in the Americas, but achieving this consensus was far from simple. Considering the tensions in governance and economic dislocations shared by the region as recently as the 1980s, it is remarkable in retrospect that trade liberalization has come so far. Yet, arguably the experience of the United States in the past decade has most dramatically shaped the opportunities the Americas now face collectively.

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The Enterprise for the Americas Initiative (EAI) was proposed almost accidentally in 1990 by the previous Bush administration to the leaders of the hemisphere. At the time, it was little more than an open-ended concept of a hemispheric community. The initiative had an uncertain future until the triumph of the more subregional and substantive NAFTA. It is difficult to imagine how notions of hemispheric free trade could have been sustained politically without first testing its logic with immediate neighbors, but NAFTA's creation generated this U.S. national debate about closer relationships among American states. (The Canadians had undergone their own version of that debate in the late 1980s with NAFTA's precursor, the U.S.-Canada Free Trade Agreement.) The 1994 Miami summit codified negotiating procedures, culminating in a formal FTAA process. Thus far, this apparatus has laboriously addressed mostly technical trade and investment matters undergirding the FTAA. Its first negotiating harvests were adopted at the second summit in Chile in 1998 and now provide the bureaucratic underpinnings and political impetus for the Quebec City conclave. Showing foresight and much political fortitude, the FTAA process will be designed to be completed in 2005 with the two largest economies in the hemisphere—the United States and Brazil—presiding over the final stages of negotiations.

The third anchor for a Century of the Americas may in fact be more implicit than overtly expressed: the notion that a prosperous and democratic Western Hemisphere represents an extraordinary asset for U.S. foreign policy as well as the U.S economy. This concept is not based on an imperial vision of U.S. hegemony, nor does it dovetail with notions of hemispheric isolationism. Instead, this theory reflects a fairly harmonious and mutually beneficial sense of national relationships among states of the Americas. In this context, the United States clearly has global reach, but several actors—notably, Brazil, Canada, and Mexico—likewise play significant roles that collectively should generate hemispheric synergy.

Ironically, U.S. strategists have downplayed Latin America's importance because of the absence of a significant military threat to the United States, thus underestimating the strategic advantages of economic opportunities and a democratic community in the Americas. Washington must reverse this trend, taking into consideration new challenges of the twenty-first century into its overall strategic outlook—information technology, common terms of commercial market–oriented relations, and an admittedly still evolving international standard of democratic political behavior. The Quebec City meeting is ultimately about these themes.

Potholes and Paradox

If one looks more closely at some of the players at the Quebec City meeting—such as countries in South America, Central America, and the Caribbean—one finds the potential for, as well as the obstacles to, the FTAA's further development. Most national and many local leaders in Latin America and the Caribbean (LAC) today have learned from the experiences of recent decades, but have not sufficiently integrated and internalized them. In other words, the right policies are enacted and maintained but the returns are slow.

Liberalized economic management, regional and increasingly global market access, and an imperfect but remarkably active democratic political community are true achievements. Even with arguably uneven economic growth throughout the region, the attraction that major Latin American markets have become for investment from North America, Europe, and Asia is impressive.

Politically, an expanding family of nongovernmental organizations (NGOs) and other civil society actors continue to pressure unresponsive governments to conform to the region's developing democratic value system in a systematic and peaceful manner. Scott Palmer, an analyst at Boston University, calculated that between 1970 and 2000, a regional average of one in eight elected regimes suffered an unconstitutional breakdown, compared to one in two from 1930 to 1970.

Paradoxically, in many instances the tangible socioeconomic benefits—the trickle-down effects—have been slow to emerge. Recent World Bank analysis suggests that Chile is the only country whose segment of the population lying below the poverty line has begun to diminish in recent years.

The practical implication of this lag is not that the reforms are ineffectual, just that the process takes time.

A second inconsistency is that achievements of LAC countries in the past six to eight years have been viewed in the context of a vague and ambivalent U.S. strategic focus, creating an odd inverse relationship. The more the significance of the Americas rises in practical and economic terms, the less strategic it appeared to be to U.S. policymakers. In what may be one of the more severe rebukes of the Clinton administration, critics have noted that this rudderless U.S. policy began ironically after the 1994 Miami summit launch of the FTAA process.

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This judgment may be too harsh, given that Washington has been a critical player shaping the outcome of every recent Latin American financial crisis. Yet its role is complicated to say the least and implies a profound need for strategic thinking. For instance, multiple layers of U.S. diplomacy are associated with the democratic transitions in Mexico, Venezuela, and Haiti. Washington played cat-and-mouse diplomacy with Havana, become actively involved in the Peru-Ecuador border dispute, and provided extensive support to the reconstruction of Central America and the Caribbean after two successive hurricanes. The United States has also developed a complex policy infrastructure and committed resources to waging a regional war on drug trafficking.

By anchoring much of the U.S.–Latin American relationship in recent years to a less than energetic U.S. government agenda, the goal of hemispheric free trade by 2005 may be difficult to reach, creating a political challenge for the Quebec City meeting. The process itself is an isolated and technocratic bureaucracy, guided less by strategic considerations than by summitry timetables. Although this part of the relationship may be complete by 2005, the political-economic rhetoric and affinity among the American states may not have yet matured by then.

Alarmingly, the political enthusiasm demonstrated in Washington and in most regional capitals has to some degree eroded since 1994. Most governments in South America—Venezuela and Peru, in particular—face sociopolitical challenges to their free-market policies of the 1990s.

The most potentially counterproductive policy development may be an array of security issues, from drug trafficking to the open insurgency in Colombia, that are increasingly placing the armed forces in national leadership roles. This bundle of post–Cold War or new millennium security issues are a dangerous hybrid of traditional external defense concerns with quasi-militarized domestic missions.[1]

The election of a U.S. administration openly favorable to hemispheric cooperation, however, may change the psychology in the region. Additionally, the operational interests of the United States relating to issues ranging from weapons procurement to U.S. security assistance programs could act as pressure points on Latin American governments. Although professing to anchor relations on trade and democracy, some of the most longstanding and politically significant relationships for Washington continue to be embedded in security matters and military-to-military ties. Used properly, these relationships could strengthen hemispheric ties. If ignored, the substantial divisions could undermine the probability of reaching the 2005 deadline.

The Hemispheric Process

When initially proposed by the Bush administration in 1990, most LAC countries enthusiastically endorsed the idea of hemispheric free trade. The U.S. government, however, had not expected the resulting fervor and looked at the EAI speech largely as a symbolic nod toward a hemisphere to which it had paid scant attention. The media, at first, gave the EAI speech only modest coverage for the same reason. In this estimation, Latin America hardly mattered, and the Caribbean even less, unless a national economic disaster loomed. Besides, hemispheric solidarity, even free trade, had been proposed before by the United States only to be summarily dismissed as *yanqui* imperialism.

The difference this time—which the policy community failed at first to fully appreciate—was that economic policy in the LAC countries was undergoing a profound transformation that started in the 1980s, a change that made the free-trade initiative welcome and timely. Governing in these countries, essentially since the 1930s, included the following elements: import-substituting protectionism, export pessimism, populist fiscal policy, expansive monetary policy, acceptance of high inflation interspersed with failed attempts at correction, grudging toleration and even rejection of foreign direct investment (FDI), use of debt to finance foreign currency expenditures, nationalization of private enterprises, and little concern for the promotion of democracy. Each of these faults improved in just about all LAC countries during the dreadful economic decade that preceded the EAI speech.[2]

The new development model in the LAC countries was based instead on attracting foreign investment, promoting exports, and restraining inflation. No country was a more important partner in achieving these objectives than the United States. What would have been seen as imperialism in earlier decades now had the promise of reinforcing development aspirations. Even the move toward democracy in LAC countries was vigorous during the debt-driven 1980s, when most experts predicted that the burden of debt would lead countries to more authoritarian political regimes. Particularly noteworthy, the two most populous countries in South America—Brazil and Argentina—shed their military governments, as did Chile and Uruguay.

At first, the Clinton administration seized the hemispheric integration opportunity that its predecessor had bequeathed. The introduction of NAFTA, which went into effect on January 1, 1994, and the formal launch of the hemispheric free trade process of the Miami summit at the end of 1994 raised expectations that relations would now be based on regional trade, not U.S. foreign aid.

The goal of hemispheric free trade by 2005 may be difficult to reach.

The years since have not been squandered. An FTAA negotiating process is under way, but is difficult. The atmosphere has been soured by U.S. actions. Chile was told repeatedly that it was next in line to enter NAFTA and, repeatedly, it was left waiting at the altar. The labor unions opposed the FTAA as "another NAFTA," and the Clinton administration obligingly refrained from even mentioning NAFTA's existence, let alone coming to its defense, when seeking fast-track negotiating authority. In its final days, the administration upset the process when it implied that, because fast-track authority was not necessary to obtain approval for permanent normal trade relations with China or to conclude bilateral free trade agreements with Jordan, Singapore, or Chile, it was not necessary for the FTAA.[3]

The initiative is now the responsibility of the Bush administration, which will have to manifest its intentions during the Quebec City summit. Bush says that he favors free trade and prioritizes relations within the hemisphere. If he waffles on this position during his first one hundred days in office, recovery will not be easy. He should keep in mind the following considerations:

- No issue is more important to the rest of the hemisphere, given its current development policy, than the assurance of an open U.S. market.
- This assurance would stimulate the investment that the LAC countries need to invigorate their economic growth and bring nearly across-the-board U.S.-LAC cooperation.
- If the Bush administration does not offer the promise of an open U.S. market, it is difficult to envision any combination of other measures that can compensate for this omission.

The logical conclusion of these considerations is that a concrete demonstration of U.S. support for the hemisphere's outward economic orientation—such as securing fast-track authority—is the necessary ingredient for productive relations.

Putting the FTAA in Context

The responsibility for the success of the FTAA does not fall only on the United States. Latin American states must maintain their economic structures, but the liberal economic model adopted in the LAC countries has not always delivered the economic and social benefits its supporters predicted. Growth in gross domestic product (GDP) increased during the first half of the 1990s more than it did in the decade of the 1980s (3.3 percent versus 1.0 percent, according to the Inter-American Development Bank). It slowed again in 1999 and 2000, however, to about half the rate of the first part of the decade. Per capita GDP for the LAC countries as a whole actually declined in 1999. On a brighter note, the two most populous countries in Latin America, Brazil and Mexico, had good rates of GDP growth in 2000 (an estimated 4 percent and 7 percent, respectively), as did Chile (5.5 percent).

The most glaring shortfall of the LAC economies is the proportion of people living in poverty (defined roughly as those living on less than the equivalent of $1 a day), which has remained at about 40 percent and represents an increase in the actual number of people below subsistence level. The decline in the percentage of people living in poverty in Chile, noted earlier, is essentially the result of sustained, significant increases in GDP. When GDP growth falters, as is apparently occurring in many LAC countries, so too does poverty reduction and confidence in the liberal economic model. Because trade contributes importantly to GDP growth in most LAC countries, reducing poverty in the hemisphere as a whole without assurance of open markets will be difficult.

Experience has taught Latin America that closed markets are incompatible with flourishing democracy, but the proposition that open markets and democracy are Siamese twins has not yet been fully tested. The shift to democratic elections preceded economic change in a number of key countries, such as Brazil, Argentina, and Uruguay. In other cases, namely Chile and Mexico, the democratic transition came after the economic. In all of these countries, however, one opening followed the other. What seems to have happened in the extraordinarily complex economic-political Andean relationships is a vicious combination: weakening democratic institutions and faltering economies.

Perceived delays in the FTAA process may also be the result of national policy decisions. The most salient case study is the region's largest economy—Brazil. Brazil's motives for moving slowly seem to be its desire to first strengthen Mercosur; its wish is to increase South American negotiating leverage by affiliating many more countries with Mercosur. Brazil also believes that its import substitution process is not yet complete in the country's large domestic market.[4] Brazil's stance is often cited by anti-FTAA critics in the United States who want the initiative to fail. Yet, differences exist between U.S. and Brazilian motives. First, Brazil has committed itself to the FTAA process. Its partners in Mercosur (Argentina and Uruguay in particular) favor hemispheric free trade. Second, regardless of its hesitation, Brazil would be unlikely to stay out of the FTAA once completed. For now, most hemispheric countries believe that the lack of fast-track authority for the U.S. president is delaying the end-game of the negotiations much more than Brazil's stalling tactics.

The Rest of the World

After NAFTA went into effect, the European Union (EU) found that its proportion of Mexico's imports declined while that of the United States increased. The remedy, from the EU vantage, was to conclude with Mexico its own free trade agreement, which was completed in 2000. The Mexican market was becoming too large for the EU to ignore and it was willing to offer free entry to Mexican goods, after a short transition period, in exchange for largely eliminating the discrimination faced by EU goods (compared to goods from the United States) in Mexico.

The EU has been in discussion with Mercosur for some time, ostensibly looking toward a free-trade agreement. The main impediment is the EU's common agricultural policy (CAP) that, unless changed, would keep the majority of Argentina's exports out of the EU. If an FTAA were to come into existence, the situation in the Western Hemisphere as a whole would parallel that of Mexico after it entered into NAFTA—namely, discrimination in favor of the United States over EU countries. An FTAA, in other words, could provide an incentive for Western Hemispheric–European free trade if the EU found that it was losing market share in the LAC countries.

The incentive could work in the other direction as well. If the EU were able to overcome its expensive and trade-distorting CAP sufficiently to reach a free-trade agreement with Mercosur, then the discrimination would occur at the expense of the United States. The reluctance of the U.S. Congress to grant fast-track authority to the administration would then come under great pressure as U.S. exporters lost market share in "their" hemisphere. In either case—the United States first or the EU first concluding a preferential trade agreement in this hemisphere—the end result could be transatlantic free trade.

Most of the trade discussion thus far looks at the FTAA from an LAC vantage—that the U.S. market is essential to other hemispheric countries under their present economic model. The cited benefits to the United States have been in promoting nontrade political and security relations. The discussion is incomplete at that point. U.S. merchandise exports to the Americas, other than to Canada and Mexico where free trade already exists, increased from 1991 through 1999, from $30 billion to $55 billion. The annual rate of increase over this eight-year period was 7.8 percent, compared with an annual increase of 6.3 percent for merchandise exports to all locations other than the Americas. (Services trade increased by even greater percentages, but the data are less precise.)

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The rate of increase in U.S. exports to hemispheric countries is highly dependent on their overall economic performance—higher GDP growth there, as elsewhere, leads to increased imports. Omitting Mexico, some 32 percent of LAC imports come from the United States.[5] By contrast, exporters based in the United States capture only 8 percent of the EU market and 15 percent of the Asian market. The Western Hemisphere, in this sense, is our hemisphere, and an equal rate of GDP growth in all three areas (the Americas, Europe, Asia) translates into more marginal U.S. exports to the Americas, including or excluding NAFTA, than to the other two regions.

A Limited Time Offer

The Quebec City summit, like its two hemispheric predecessors, deals with many issues, but the centerpiece is the FTAA. The FTAA is about trade but, as has been explored here, a "trade" agreement deals with much more. Today's EU was based on trade first and has since expanded more widely. The elder Bush accepted the invitation of the then-president of Mexico, Carlos Salinas de Gortari, to enter into negotiations for a free trade agreement. This offer was made largely on political grounds because it represented a shift in the Mexican attitude from distancing itself from the United States to embracing it. In both the EU and NAFTA cases, trade among the participants has boomed, and so too have cultural, and political, relationships. They have obviously deepened much more in Europe, but NAFTA is only seven years old, and the Treaty of Rome establishing the European Economic Community is almost 45 years old.

Former President George Bush started the FTAA process in the early 1990s. The Clinton administration pushed the process forward, but it may be in danger of stalling if not given another push. President Bush can do this in Quebec City if he promises to seek fast-track authority from the Congress on terms that the other countries in the hemisphere are prepared to accept. The reward in hemispheric relations would not be confined to the trade field but would also include political and security relations.

The FTAA negotiations are scheduled to be completed no later than 2005, which means that the actual logistics should take place in the next few years. The opportunity that the administration has in Quebec is unlikely to repeat itself. Letting this opportunity to consolidate hemispheric relations pass without positive U.S. action would be a serious policy mistake.

Notes

1. Including local insurgency; terrorism; regional/global organized crime syndicate activities; cyber-warfare; border and immigration control; drug-trafficking; regional conflict avoidance measures; arms control/nonproliferation; local and international peacekeeping; law enforcement and judicial agencies support; and patrol, search and disaster relief missions. Georges Fauriol and William Perry, *Thinking Strategically about 2005* (CSIS, 1999), 4.
2. The change started in the 1970s in Chile under General Augusto Pinochet but underwent a correction after the disastrous economic performance in 1982.
3. Chile accepted the last-minute invitation of the Clinton administration to begin free-trade negotiations, even though the U.S. position on the content will be made in the Bush administration.
4. This belief may explain why Brazil reacted so angrily in December 2000 when Chile said it would postpone its negotiations to enter Mercosur and instead work toward a free- trade agreement with the United States.
5. This proportion is based on 1999 exports.