U.S. Power and the Politics of Economic Governance in the Americas

Nicola Phillips

ABSTRACT

This article examines the nature of the emerging regional economic regime in the Americas and argues that the dominant approach to economic governance is one defined by the assertion of U.S. power in the region and oriented toward distinctively U.S. interests and preferences. This has been clearly evident in the evolution of the Free Trade Area of the Americas but also, with the deceleration and fragmentation of that process during 2002 and 2003, in the growing prioritization of bilateralism. The leverage afforded by the bilateral negotiation of trade agreements acts to situate primary influence in shaping the rules that constitute the regional economic regime, and the primary functions associated with governing in this context, firmly within the agencies of the U.S. state. This essay therefore explores how the hegemonic power of the United States manifests itself in the substance of the hemispheric project and the shape of the economic regime associated with it.

A central dimension of the hemispheric project in the Americas is the construction of a regional economic regime, encapsulated primarily in the putative Free Trade Area of the Americas (FTAA) and defined in that context by a complex interaction of multilateral, hemispheric, subregional, and bilateral processes. Its construction remains tentative, its likely shape highly uncertain, and the process of its negotiation politically fraught. Indeed, the project for a comprehensive and encompassing FTAA gave way in late 2003 to an accelerating proliferation of bilateral trade negotiations as the primary avenue toward the realization of a trade and investment regime in the region, although the relationship of these bilateral processes to existing subregional projects and the multilateral trade agenda is still unclear. Yet in essence, whether pursued via the hemispheric or the bilateral route, the regional economic project aims to call forth a set of trade and investment structures that are envisaged to act as the cornerstone of a broader process of hemispheric cooperation, underpinned by the Summits of the Americas. That project, moreover, must be understood as aiming to foster the articulation of a system of economic governance in the Americas and the entrenchment of a particular approach to the governance of regional economic activity.

Understood in this way, the project alerts us immediately to the very specific nature of economic governance in the Americas. In the Euro-
The European Union, the principal laboratory and reference point for academic debates about regional economic governance, issues of economic “governance” are usually taken to refer to questions of supranational institutionalization, regional-level regulation, and the forms of “multilevel governance” that involve a significant degree of “decisional reallocation” to supranational and subnational governance structures (Hooghe and Marks 2001). The economic project in the Americas invites a rather different conceptualization of economic governance. It is not of a sort that envisages the construction of genuinely regional-level regulatory structures, or of supranational regulatory bodies comparable to those that are emerging, slowly and often contentiously, in the European arena. The challenges of economic governance in the Americas are also substantially different from those encountered in the EU, given that the scope and depth of integration in the latter, both projected and actual, significantly exceed those of the FTAA process or the Americas project more broadly conceived. The challenges of governance in the Americas relate instead to the construction of a regime of rules, associated at the most basic level with the negotiation and enforcement of the myriad dimensions of trade and investment agreements, and, furthermore, with the construction of appropriate institutional mechanisms for the governance of a regional economic regime of this nature.

They are also associated with the negotiation of the broader shape of the economic regime and the ways the various parts of the region will be gathered together within it. In this respect, the core governance challenges stem primarily from the huge diversity among the states and subregions in the Americas, the extent of which is unique among the regions of the world. Indeed, recent statistical calculations reveal that the differences in size and levels of development among the 34 countries participating in the FTAA negotiations (Cuba being excluded) are several times larger than those found among the member countries of the now-enlarged EU (Bustillo and Ocampo 2003, 4–5). Given the scale of the disparities in economic size and across the full gamut of development indicators, the construction of an economic regime in the Americas throws up a very particular set of economic governance challenges associated with the management of both national and subregional adjustment to the envisaged regime and the developmental consequences of participation in it. The key challenges thus lie most notably in the range of areas associated with special and differential (S&D) treatment for smaller and poorer economies, along with the management of such issues as labor and environmental standards. The term governance, in this sense, is advanced here as referring broadly to the myriad processes and strategies associated with the construction of a viable economic regime in the Americas and the management of the various economic processes on which it rests.
The central concern of this article is to address the question of what sort of approach to economic governance is emerging in the region, and what its implications are for the shape of the economic regime itself and the broader regional political economy. This essay argues that by far the dominant approach is based on the assertion of U.S. power in the region, and has taken a form peculiarly in line with the distinctively U.S. interests served by that exercise of power. The political and economic projects associated with the hemispheric agenda must be recognized, in this respect, as being fundamentally of an ideological nature, and part and parcel of the neoliberal project that underpins the global hegemonic project of the United States. That is to say, the political and economic objectives encapsulated in the regional project are intrinsically informed and molded by the broader ideological—neoliberal—foundation of U.S. hegemony and the world order associated with it.

The ideological dimensions of the regional project are often overlooked in a focus on the technical details of trade negotiations and the political bargaining processes under way in the region, but they are crucial to an understanding of the nature and the politics of the emerging regional economic regime. More specifically, this article argues that the U.S.-led approach to governance in the Americas has been fostered by the systematic orientation of U.S. trade strategies to the construction of a distinctly “hub and spoke” set of regionalist arrangements, as a key means by which to capture control of the governance agenda and to ensure that the regional economic regime takes a form consistent with U.S. interests and preferences. The growing prioritization of bilateralism has become the predominant strategy to this end. The leverage afforded to the United States by the bilateral negotiation of trade agreements acts to situate primary influence over the shape of the rules that constitute the regime, and the primary functions associated with the task of its governance, firmly in the agencies of the U.S. state.

This argument should not be taken to suggest, however, that the FTAA itself was a project that originated in or was sponsored predominantly by the United States. Indeed, the FTAA cannot be understood in any meaningful sense as a “U.S. project,” when that is taken to refer to the roots of its impetus and momentum. Although the FTAA project arose from President George H. W. Bush’s Enterprise for the Americas Initiative, announced in 1990, it was propelled predominantly by interest from Latin American and Caribbean governments, much as the North American Free Trade Agreement (NAFTA) was driven primarily by pressure from Mexico (Feinberg 1997, 2002). Indeed, over the 1990s, the FTAA process was characterized by a significant lack of political leadership or involvement from the U.S. government, as a consequence partly of the overall “benign neglect” of the region by the Clinton administration and partly of the disabling absence of fast-track negotiating author-
ity. To this extent, it is important to recognize that the neoliberal project, while intrinsically associated with the nature and exercise of U.S. power, is one that is also driven and entrenched by governments across the region and an array of business interests. Yet a distinction must be drawn between the origins of the project and the particular form it has taken since its inception. The argument here is that U.S. agencies have pursued a distinctive set of strategies for orienting and molding the regional economic project, strategies that directly and specifically reflect U.S. interests and priorities. That is, while the FTAA itself cannot be understood entirely as a U.S. project foisted on a reluctant or recalcitrant hemisphere, the manner in which the project has unfolded and the particular form it has taken reflect nonetheless an articulation of the structural power of the United States in the process and the pursuit of a set of objectives that are distinctively, and in important ways uniquely, those of the United States.

To flesh out these arguments, this essay proceeds in two parts. The first looks at the sort of political economy envisaged and implied by the evolving regional economic project and the sets of negotiating interests, including those of the United States, that have been brought to bear on it. The second addresses the emerging U.S.-led approach to governance in the Americas and seeks to understand the significance of the hub-and-spoke form of regional negotiation for the tasks of governing the economic project.

**The United States in the Emerging Regional Economic Regime**

The process of hemispheric integration represents a key dimension of the neoliberal project, both in the Americas and in the wider global political economy. It represents a device by which this global project is further embedded in the region and the region is further embedded in the globalizing world economy, reflecting “the triumph of economic liberalism, of faith in export-led growth and of belief in the centrality of the private sector to development processes” (Payne 1996, 106). Hemispheric regionalism thus represents a specific strategy on the part of its primary agents—various governments and business interests—to “lock in” a political economy and a mode of social organization that are ideologically and strategically hospitable to the rules of the neoliberal game. Of these agents, the U.S. government has been the principal driving force, and the exercise of its hegemonic power since the early 1970s has been molded systematically to the purpose of disseminating the twin values of neoliberalism and democracy. The hemispheric project thus constitutes not only an attempt further to reinforce the parameters of a neoliberal (and democratic) political economy in the Americas, but
also to consolidate the foundations of U.S. hegemony itself in the global and regional contexts.

Within this broadest of structural frameworks, however, the roots of U.S. interest in the region, or specifically in a hemispheric FTAA arrangement, are not entirely self-explanatory. Outside the NAFTA area, the region of the Americas is only modestly significant in the overall profile of U.S. trade, and, indeed, this modest significance extends only to the parts of the region clustered geographically around the United States itself. U.S. interests in the region decline steadily as one moves south, in both the economic and the broader foreign policy and security spheres, becoming, on the whole, minimal by the time one reaches the Southern Cone economies. Moreover, given the widespread processes of unilateral trade liberalization that have occurred across Latin America and the Caribbean, particularly throughout the 1990s, market access–related benefits from a free trade agreement would accrue predominantly to the Latin American region, for it is in the U.S. economy, not in Latin American and Caribbean economies, that barriers to trade and investment remain concentrated.

By the end of the 1990s, there remained some notable disparity between the low average tariff levels that prevailed in the United States and Canada (4.5 percent), the slightly higher levels in countries such as Chile, Bolivia, and most of Central America (under 10 percent), and the still higher levels across the rest of region, reaching over 14 percent in Brazil and over 16 percent in Mexico. The opportunities afforded by an FTAA for mitigating these barriers to U.S. trade have frequently been invoked by the trade policy establishment in Washington as one of the primary incentives for its successful negotiation, especially in view of their strong concentration in industrial sectors.

Yet simple tariff averages obscure the striking degree of sectoral variation in the U.S. tariff structure. Sectoral peaks reach 350 percent in the United States, 245 percent in Canada, and 260 percent in Mexico, compared with 35 percent in Brazil and 10 percent in Chile, for example, or a comparatively high 99 percent in Ecuador. Crucially, also, it is precisely in the sectors of most strategic interest to Latin American and Caribbean economies that market access has continued to be most impeded by high tariff and nontariff barriers in the United States (and, to an extent, in Canada). Agriculture is the most obvious case in point: the United States is responsible for about a fifth of total global agricultural subsidies (OECD 2003). Textiles, steel, and, of particular interest in the Canada-U.S. relationship, softwood lumber are other instances of high levels of protection in the structures of U.S. trade policy. Even where tariff barriers are relatively low, moreover, U.S. trade strategies have been marked by frequent resort to particular ad valorem duties and contingency measures, such as the notorious Section 301 and its extensive
armory of trade remedies (safeguards, antidumping measures, and countervailing duties). By comparison, the aggregate use of trade remedies in the rest of the region has remained fairly low, and their deployment has been confined almost exclusively to the five largest countries in the region, the United States, Canada, Argentina, Brazil, and Mexico (de Paiva Abreu 2002, 9–11; Tavares de Araujo 2002; Phillips 2004a).

While there are some market access benefits to be accrued by the United States from an FTAA, then, the structure of trade in the Americas is one in which the barriers to the U.S. market are significantly greater and more diverse than those encountered by U.S. exports to the rest of the region. Consequently, neither market access nor trade in goods has been foremost among U.S. interests in the FTAA process. Rather, these interests cluster around a set of wider concerns with trade-related disciplines and the various facets of the so-called new trade agenda. These include, notably, trade in services as the focus of commercial activity, and extend to issues such as investment, intellectual property, government procurement, competition policy, environmental protection, and labor standards. The hemispheric agenda in the Americas has been relevant to U.S. trade strategies inasmuch as it has been seen to offer significant opportunities for propelling this new trade agenda forward at a time when the dynamism of the multilateral process has slowed to the point of virtual paralysis. The extent of disillusion among developing countries with the content, conduct, and implementation of WTO negotiations has become one of the principal obstacles to continued trade negotiations (Finger and Nogués 2002; Panagariya 2002; Narlikar 2003), and U.S. engagement and compliance with multilateral rules has steadily and significantly retracted (Tussie 1998; Bergsten 2002). In other words, U.S. interest in an FTAA has been derived in large part from the possibilities both for compensating the deficiencies of multilateral liberalization processes and for implanting in the region the range of trade disciplines that are central to contemporary U.S. trade policy.

The principal negotiating areas of the FTAA correspond with those disciplines and translate directly into the architecture of nine technical working groups established at the 1998 San José ministerial meetings. In this way, the working group structure reflects and facilitates a significant degree of U.S. leverage over the shape and substance of the hemispheric negotiating agenda. Moreover, it establishes in the negotiations an intrinsically uneven playing field, given the frequent absence of precedent in the relevant negotiating areas in Latin American and Caribbean countries (Phillips 2003, 272–23). This leverage is also reflected in the ways the U.S. negotiating positions have been designed explicitly so as to bring the rest of the region into line with existing U.S. trade laws and strategies. This has been notably the case, for example, in U.S. proposals on intellectual property rights, which effectively have
sought to extend commitments already agreed to under WTO provisions. The public summary of U.S. positions states, “the United States is already in compliance with the requirements of the U.S. proposal. FTAA countries will need to make adjustments to their intellectual property rights regime in order to comply” (USTR 2001a).

In most of the negotiating areas, moreover, the template for U.S. proposals in the FTAA has been derived from the commitments assumed under NAFTA. The notion of an FTAA as an extended NAFTA—or, as it eventually was dubbed, “NAFTA on steroids”—was vetoed early in the negotiations by the non–North American participants, in favor of an agreement that built on existing subregional arrangements. Nevertheless, the assertion of U.S. preferences in the negotiations and the shape of emerging provisions have been based unequivocally on the NAFTA model. Thus, proposals in the areas of environmental protection, government procurement, rules of origin, safeguard mechanisms, and services, among others, are directly modeled on prevailing provisions in NAFTA, and indeed often seek substantially to expand these provisions.

The most obvious case is that of investment, in which the positions of successive U.S. trade representatives have consistently favored an extension to a future FTAA agreement of the so-called investor-state provision contained in NAFTA’s Chapter 11. This grants to corporations a legal status similar to that of states and expands their ability to use trade agreements to challenge local regulatory legislation. Other hallmarks of U.S. positions on investment have included opposition to imposing performance requirements on corporations and a trenchant opposition to any sort of controls on capital flows, the aim being to eliminate governments’ discretion in these matters through binding provisions in an FTAA. The commitment in the Office of the U.S. Trade Representative (USTR) to “investor-state” arrangements thus augurs a permanent place for investors’ rights at the heart of the hemispheric project, building on their prior incorporation into the existing bilateral investment treaties (BITs) between the United States and various countries of the region.

In a nutshell, trade is not only about trade. Indeed, for the United States in the FTAA, it has not been even primarily about trade. Rather, U.S. interests in a hemispheric free trade area have been dictated by the prospects of binding regional agreements across a range of other policy areas. These are “trade-related” inasmuch as trading arrangements necessitate, politically as well as economically, attention to a plethora of other policy areas. But these connections are secondary in importance to the point that trade is the mechanism by which the U.S. government has chosen to pursue its priorities in these other areas. This is clear in the debates surrounding attempts to link trade with environmental and labor standards; it is equally clear in the ways the FTAA has been articulated from the start as, so to speak, a “package deal”: market access
and trade benefits come only with agreements on investment, intellec-
tual property rights, government procurement, competition policy, and
so on. Whether the negotiation of an FTAA had proceeded in accor-
dance with the initial U.S. preference for allowing an “early har-
vest”—that is, to allow earlier agreements in those areas in which nego-
tiations had advanced most rapidly—or, as agreed, as a comprehensive
“single undertaking,” trade itself was only a small (and, for the United
States, minor) part of the much wider array of policy areas to be cov-
ered in a hemispheric “trade” agreement.

The consequent commitment to a “comprehensive” FTAA on this
basis notwithstanding, U.S. negotiating positions have sought to limit
the scope of this comprehensiveness. U.S. positions have been marked
by a refusal to permit inclusion on the negotiating agenda of its domes-
tic trade remedy laws (particularly those relating to antidumping) and
the system of agricultural subsidies—two areas of key interest to Latin
American and Caribbean countries but also to Canada. Both trade reme-
dies and agriculture have corresponding working groups in the FTAA
structure, having been initially excluded but incorporated at the insis-
tence of the majority of Latin American and Caribbean negotiators (Fein-
berg 1997; Svarzman 1998). Yet these two areas have consistently been
excluded from substantive negotiations, and U.S. trade officials have
insisted that these areas can be negotiated only at a multilateral level,
given the possibility that FTAA provisions might easily be undercut if
European and other countries are not constrained to observe the same
obligations (Schott 2002, 31; see also USTR 2001b). The U.S. Congress
has also established categorically that it will not countenance authoriz-
ing any agreement that calls for a modification of domestic laws on
trade remedies.

This collection of priorities in the U.S. trade agenda has given rise
to an overarching negotiating framework based on a notion of “WTO-
plus,” in which the FTAA negotiations would aim to exceed existing
multilateral provisions in a range of key areas. The rationale has been
twofold. On the one hand, the negotiation of a range of trade disciplines
in the hemispheric arena has been seen to offer greater potential for
success than in the multilateral arena. For instance, enactment of the
post-Doha WTO agenda has widely been judged unlikely to deliver
comprehensive results on market access. The FTAA, conversely, does
indeed aim for the complete elimination of tariff barriers to trade in
goods, although the list of goods it would cover is somewhat smaller
than that under negotiation in the WTO arena. An FTAA has similarly
been considered likely to make deeper inroads into such areas as the
liberalization of trade in services, investment rules, and competition
policy, which have not yet been incorporated fully into the WTO
agenda (Salazar-Xirinachs 2000, 2002).
On the other hand, this vision has not only been articulated as a means of advancing U.S. commercial and investment interests within the region itself, but has also been tied to an attempt by negotiators to establish “a spiral of precedents” (VanGrasstek 1998, 169–70; 2000), which would then be deployed as the baseline for subsequent multilateral and extraregional negotiations. This sequential strategy lies at the core of the “credo” of U.S. trade policy articulated by Robert Zoellick, the USTR in the Bush administration (Zoellick 2003a; also see Zoellick 2001). His strategy of achieving a “competition in liberalization” relies on ratcheting up, with each successive trade agreement, both the baseline requirements for agreement and the incentives for trading partners to negotiate with the United States on U.S. terms. The prioritization of regional negotiations is thus conceived as a direct means to advancing the process of multilateral liberalization.

Virtually without exception, Latin American and Caribbean negotiators initially adhered to the principle that an FTAA process should be merely “WTO-compatible,” except in the area of market access, where, given that Uruguay Round commitments had been implemented only modestly, they advocated a substantially WTO-plus agenda (Bouzas 2000, 212). WTO-plus subsequently came to be accepted by Latin American and Caribbean negotiators, and was consecrated in the Ministerial Declaration of the Seventh FTAA ministerials held in Quito in November 2002. Even so, the negotiators’ central concern to ensure fuller implementation of the Uruguay Round market access provisions have continued to inform the core of their negotiating strategies. In other words, the broad stance has remained one based on WTO compatibility, seen as yet to be achieved, but at the same time it emphasizes that a WTO-plus format must be genuinely WTO-plus and must reach across the full range of negotiating areas, including those areas excluded unilaterally from the negotiating agenda by the United States. The Brazilians, in particular, have been adamant from the start of the negotiations that an FTAA would need to be “comprehensive” if it were to be either meaningful or acceptable (Barbosa 2001). Market access issues, furthermore, have been seen as going hand in hand with issues of trade remedies, in that any concessions forthcoming from the United States on market access might easily be eroded by the discretionary use of these instruments (de Paiva Abreu 2002, 20).

In this context, it was predictable, but nonetheless notable, that the assumption of the joint presidency of the final stages of the negotiations by Brazil and the United States in 2002 would usher in a period marked by a hardening of negotiating positions, an increase in the skepticism or opposition of many governments to the conclusion of an agreement as originally projected, and an entrenchment of the divergences between the visions of the hemispheric project among the participating countries.
The Southern Common Market (Mercosur) countries' interest in an FTAA has always been rather less pronounced than that of many others because, of the countries of the region, they are the ones with the most at stake in the multilateral system, given their much more diversified trade structures and export destinations. The marked Brazilian reticence in the hemispheric process has stemmed in important part from the trade-off an FTAA would represent with its more significant multilateral interests (de Paiva Abreu 2003, 23–24; Phillips 2004b, 116–19). The U.S.-Brazilian relationship in the FTAA context has been consistently tense, crystallizing largely around resistance to a U.S.-dominated initiative and the consolidation of U.S. hegemony in the region. The government of Luiz Inácio “Lula” da Silva has hardened the already hard line taken by the previous Cardoso administration.

Mexican interest in a putative hemispheric agreement has always been among the most resolutely lukewarm, largely in view of the potential consequences of an FTAA for its existing (effectively) bilateral agreement with the United States (see Blanco and Zabludovsky 2003, 18–19). Conversely, the Canadian government, while enjoying the same preferential relationship with the United States, both through NAFTA and bilaterally, has consistently advocated as comprehensive as possible an FTAA. To an extent, this can be attributed to a historical predisposition toward multilateralism that has long permeated Canadian foreign and regional policies. Canada also has an extensive investment relationship with many economies in Latin America and the Caribbean. Yet the primary reason for the Canadian commitment to a genuinely hemispheric undertaking is related—as in Mexico, but with different effects—to the implications for this preferential North American relationship of expanded access to the U.S. market for other countries under the terms of an FTAA. Interest in a comprehensive agreement has stemmed from perceptions of the need to retain influence over the terms on which other countries of the region gain this access and the restructuring of hemispheric relationships that this process would presage. The only means of retaining this influence is considered to be a comprehensive and reciprocal FTAA agreement; conversely, the best way to lose it would be a descent into a patchwork of individual agreements into which interested Canadian parties would have no input. It is interesting that this same concern came to prevail in Mexico as progress in the FTAA negotiations began visibly to falter over 2002 and 2003 and the United States became much more proactive at a bilateral level with various countries in the region.

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period. Over 2002 and 2003, it took the much more fundamental form of a fracturing of commitment to the single undertaking. A coalition emerged in favor of what came to be called an FTAA lite, composed of the Mercosur countries, the Caribbean Community (CARICOM), and Venezuela. This was set out in the Brazilian government’s announcement, some months before the pivotal ministerial meetings in Miami in November 2003, of its intentions to restructure Brazilian negotiating strategies in the FTAA context. It proposed to negotiate the key issues of market access, services, and investment in a bilateral 4+1 (Mercosur-U.S.) format, leaving only “basic elements,” such as dispute settlement, trade facilitation, and S&D treatment on the hemispheric negotiating table (Amorim 2003). At the time, these proposals gained some (very guarded) support from some Mercosur partners and CARICOM, were rejected emphatically by the United States, and in any event were largely overshadowed by the broadly positive reception, at the September-October 2003 meetings of the FTAA Trade Negotiations Committee (TNC) in Port of Spain, of a Costa Rican paper on the importance of an encompassing agreement. Discussions at these meetings of the appropriate “level of ambition” for an FTAA clearly reflected this split between visions of the desirable shape and coverage of a hemispheric agreement.

The outcome of this fragmentation was an unlikely alliance between Brazil and the United States. It was formed on the basis of their agreement, brokered behind closed doors before the Miami meetings, to abandon the single undertaking in favor of a buffet-style arrangement in which countries could select the commitments they wished to make in an FTAA. The “Miami declaration,” issued amid considerable rancor at the meetings, set out the new format of an FTAA that operated effectively at two levels, or speeds, the first comprising a “common and balanced set of rights and obligations applicable to all countries,” the second “additional liberalization and disciplines” that countries may “choose to develop.” Significantly also, the declaration reflected the abandonment of the WTO-plus format, referring merely to a commitment to make FTAA provisions “consistent” with multilateral provisions (FTAA 2003).

This new FTAA-lite format was opposed trenchantly by a grouping of 13 countries, led by Canada, Chile, and Mexico, each of which, for different reasons, saw its interests as being served only by a comprehensive and reciprocal agreement among all the countries of the region. Canadian reactions, in particular, revealed clearly the aforementioned concerns: Trade Minister Pierre Pettigrew stated, for example, that the consequences of an FTAA lite would be a loss of “some of our place in the world” (quoted in Globe and Mail 2003). Canadian and Chilean officials sought together to respond by assembling a draft of an alternative plan. The principle of tailoring the pace of liberalization according to
levels of development remained intact, but the text introduced the idea that benefits from an FTAA should be made conditional on the extent of obligations assumed under the agreement. While Zoellick accepted this in principle, he also indicated a likely “pragmatic” approach to dealing with the problem in future negotiations rather than a blanket sliding scale of access to U.S. markets depending on how much of the FTAA menu countries chose to adopt (De Jonquières 2003).

Governments opposed to scaling back the level of ambition in the FTAA in this way subsequently acquiesced as it became clear that this step was not, according to the USTR and Brazilian trade negotiators, open for discussion. As a result, the Miami meetings ended a day early, as negotiators declared that they had run out of topics. At the special Summit of the Americas held in Puebla in January 2004, however, recriminations persisted, and disputes over the foundation of an FTAA were still clearly in evidence. The Mercosur countries continued to press for a “gradual” FTAA and raised trenchant objections to U.S. aspirations to greater hemispheric-level liberalization in the areas of services and investment. They also rejected the creation of extranational tribunal systems, such as those established under the investor-state provisions of NAFTA, and demanded a system of compensation for the adverse competitive impact of government supports to U.S. farmers. No agreement was reached on the agriculture issue, and the talks were deemed largely to have failed, stymied by significant differences between the Mercosur countries and the group of other countries led by the United States. Virtually no activity or progress has occurred since that time, and a general perception has emerged across the region, including in the United States, that the FTAA project has become effectively moribund, at least in the short term.

THE NEW BILATERALIST IMPETUS

The counterpart of the move to an “FTAA lite” was the announcement of an acceleration of an existing predisposition in the Office of the USTR toward bilateral trade negotiations. In some cases, this involved the conclusion of negotiations that were already under way, such as those initiated with Chile by the Clinton administration and concluded in December 2002. In others, it involved the opening of new negotiations with a plethora of countries. Negotiations were concluded with four Central American countries in December 2003 to constitute the Central American Free Trade Agreement (CAFTA); Costa Rica absented itself from the process shortly before the conclusion of the negotiations but returned to the fold, with a corresponding agreement, in early 2004. The Dominican Republic acceded to this agreement a short time later. The foundations have been laid for a similar agreement with Uruguay and, in late 2003
around the time of the Miami declaration, announcements signaled the initiation of talks with the four Andean countries and Panama.

This shift to bilateralism in trade negotiations in the region has been mirrored in a rash of bilateral discussions, negotiations, and agreements elsewhere: with Singapore, Jordan, Bahrain, Thailand, Morocco, Australia, Israel, and Egypt, among others, and regional groupings, such as the Southern African Customs Union (SACU) and the Association of Southeast Asian Nations (ASEAN). A spate of bilateral trade and investment framework agreements has also been initiated with such countries as Saudi Arabia, Kuwait, Bahrain, and the United Arab Emirates. Turkey has been subject to sustained attention, and the prospect of a Middle East Free Trade Area (MEFTA) was advanced in mid-2003.

What explains this prioritization of bilateral negotiations? In the regional context, bilateralism represents, in essence, a political response by the U.S. government to the political difficulties encountered in realizing its particular vision of the FTAA and the regional economic governance agenda. As it became clear that U.S. preferences regarding the shape of an FTAA were unlikely to prosper in hemispheric negotiations, bilateralism became the strategy of choice for the pursuit of U.S. trade and economic policy priorities. In other words, the logic propelling a more robust pursuit of bilateral than of hemispheric arrangements rests on the apparently greater utility of bilateralism in serving key U.S. negotiating priorities; that is, of obtaining access to services markets in the region in exchange for concessions on market access for a range of goods, but equally the exclusion of significant concessions on agricultural liberalization or modification of domestic legislation on trade remedies. Crucially also, bilateralism offered a way of reviving the principle of WTO-plus in new trade agreements following the collapse of this aspiration as the foundation for an FTAA. Without exception, the bilateral agreements that trade officials in Washington refer to as “state of the art” trade deals conform with a WTO-plus template. Notably, however, the terms of WTO-plus are the same as those that prevailed in the FTAA negotiations; that is, WTO-plus does not universally apply to the various areas of negotiation and, as in the hemispheric negotiations, does not encompass agreements on trade remedies, agricultural subsidies, or various strategic and politically sensitive sectors.

Yet the pursuit of bilateral agreements is also useful as a mechanism for increasing the incentives for other partners (notably Brazil) to engage in similar negotiations, or else for increasing their interest in the success of the FTAA negotiations and thus encouraging a softening of negotiating positions. The “incentive” has been invoked consistently by U.S. trade officials in the FTAA process. In an article published in 2002, Zoellick stated, “we want to negotiate with all the democracies of the Americas through the FTAA, but we are also prepared to move step by
step toward free trade if others turn back or simply are not ready" (Zoellick 2002). Similar pressures in the multilateral arena were brought to bear following the collapse of the WTO talks in Cancún in late 2003, when Zoellick declared his determination not to entertain or wait for the “won’t do” countries in the multilateral system and to undermine the emerging Brazil-led G-20+ coalition of developing countries (Zoellick 2003b). The echoes of U.S. tactics in dealing with opposition among members of the U.N. Security Council to the invasion of Iraq around the same time are hard to miss, leading one observer pithily to cast Zoellick as a “Donald Rumsfeld of trade policy” (Bhagwati 2004, 52). The early defection from this grouping of such countries as Colombia, El Salvador, Costa Rica, and Peru was directly a consequence of U.S. trade officials’ rebukes and warnings that trade agreements with the United States could be threatened by participation in the G20+.

This form of “divide and rule” strategy in multilateral trade politics was also apparent earlier in the FTAA negotiations. In the process of presenting opening offers in the various negotiating groups in early 2003, the USTR chose to differentiate between the various subregional groupings in the Americas in a manner that explicitly disadvantaged Mercosur. It put forward four different sets of offers, in contrast with the single sets of offers put forward by all the other participants, ostensibly in recognition of the particular needs of smaller and poorer economies in the FTAA process. Even if this were the case, the opportunity thereby presented to put further pressure on the less-accommodating countries in the south of the region—particularly Brazil—would have gone neither unappreciated nor, indeed, lamented by U.S. trade officials.

It is thus through the progressive prioritization of bilateral negotiations, mirrored in and reinforced by U.S. strategies outside the Americas, that U.S. influence over the architecture of the region has been most easily asserted. Indeed, the bilateralist emphasis facilitates the construction of precisely the hub-and-spoke regional arrangements and the extension of NAFTA that the United States initially envisaged and desired in the FTAA context. Yet bilateralism has also come to be favored by a number of other governments in the region as the best means of pursuing their strategic priorities in trade negotiations, given the height of the hurdles facing the successful agreement of a comprehensive FTAA.

The important point about bilateralism is that it has found most robust expression in the particular area of market access, the defining pillar of Latin American and Caribbean interests in hemispheric trade negotiations. In this sense, the primarily U.S.-led drive to inject the most dynamism into bilateral negotiations has been facilitated by an apparently greater resonance of bilateralism with the key negotiating priorities of Latin American and Caribbean governments than with an FTAA itself.
Despite residual preferences for a more encompassing agreement in many parts of the region, the United States has therefore encountered receptive responses to its overtures to “bilateral” agreements with subregional blocs as well as individual countries. At the same time, reactions to the U.S. bilateralist agenda have spurred other governments either to seek to pursue the same sorts of negotiations with trading partners, or else to expand their existing bilateral strategies in the region and outside it. Such a response has been clearly evident in Canada, Mexico, and Brazil, and indeed in a range of the smaller participating countries.

Of most relevance for our purposes here, however, are the implications of this form of U.S.-led bilateralism for the key governance issues associated with the economic regime in the Americas.

**BILATERALISM AND U.S.-LED APPROACHES TO REGIONAL ECONOMIC GOVERNANCE**

It is worth noting that many of these dimensions of U.S. bilateral approaches to key governance issues are embedded in the substance of the Trade Promotion Authority (TPA) legislation, which provides the framework for the negotiating strategy. The TPA legislation, passed under the Trade Act of 2002, grants Congress a much more significant input into the process than it enjoyed in the previous incarnation of fast-track authority in the early 1990s. The USTR is obliged to report more regularly and fully to Congress, and Congress retains the option of passing a “resolution of disapproval” on any given trade agreement—a provision described by House Ways and Means Committee Chairman Bill Thomas (R-Calif.) as “the old shotgun behind the door” (quoted in Eilperin and Dewar 2002).

Apart from diluting the principle of fast-track, the implication of this is that any concessions that U.S. negotiators might feel inclined to make on market access face complicated prospects once they are transferred to the arena of domestic legislation, and that an FTAA and any other regional trade agreements will need to incorporate labor and environmental standards, given the political climate in Congress. The TPA bill also makes significant concessions to certain protectionist groups—most notably producers of citrus fruits in Florida, sugar farmers, and the textile industry—to the manifest disadvantage of regional partners. In this way, concessions to domestic protectionist pressures are embedded firmly in the very framework of trade negotiations, as well as the substance of any agreements that might emerge therefrom. Thus the TPA places a very particular set of political demands on U.S. negotiators; consequently, the playing field in hemispheric and bilateral negotiations is distinctly uneven, and the framework for the negotiations is infused with distinctively U.S. policy interests and political priorities.
This skewing of the negotiating terrain is manifested clearly in the pursuit of bilateral trade agreements. The Chile-U.S. agreement is a good case in point. It clearly represents a mechanism for circumventing the stalemate, dispute, or technical difficulty surrounding the various issue areas of key interest to the United States at the regional and multilateral levels. Certain concessions were made on market access for most agricultural goods, the commitment being to phase out duties and quotas on such goods over a 12-year period (a longer time frame than for other goods). Yet this fairly minimal concession from the United States on agriculture was noteworthy for the absence of any related commitments on the reduction or elimination of subsidies, in many ways the much more pressing issue for Chile and the rest of the region’s countries, including Canada. None of the U.S. bilateral agreements or NAFTA includes any disciplining measures on U.S. subsidies; indeed, the Chile-U.S. negotiations were complicated by the announcement, during the negotiating period itself, of substantial increases in the extent of subsidies and government support to U.S. farmers under the 2002 Farm Bill. Furthermore, the provisions on agricultural market access in the Chile-U.S. agreement, like those in NAFTA, were accompanied by a trade remedies chapter, which provided for the imposition of temporary safeguards by the U.S. government when increased imports were deemed, by the U.S. government, to represent a threat or injury to domestic producers. “Special” safeguards were put in place for a range of textiles and agricultural products, and no part of the agreement entailed any sort of alterations to U.S. laws on trade remedies.

In the meantime, the agreement called forth a number of fundamental changes to Chilean laws and policies and a significant circumscription of Chilean governments’ policymaking and legal discretion, while further protecting and insulating U.S. domestic legislation and ensuring the U.S. government’s room for maneuver in its trade and economic policies. The Chilean government committed itself to such measures as the elimination of a range of drawback and duty referral programs and its 85 percent “auto luxury tax,” and to implementing the regulatory systems necessary for the enforcement of the U.S. meat inspection system. The agreement also went beyond direct trade issues to include provisions limiting Chilean governments’ future ability to impose controls on capital flows, an important facet of the Chilean development strategy and, indeed, a central explanation for the Chilean economy’s relative stability throughout the 1990s. The agreement stipulated that any such controls could be in place for a maximum of one year, and only in circumstances of demonstrable crisis. These provisions thus represented a crucial dimension of the strategy to mold the investment environment in the region in a manner consistent with the interests of U.S. investors.
The particularly distinctive dimensions of the Chile-U.S. agreement, however, were twofold. The first was that it and the Singapore-U.S. agreement were “the first FTAs anywhere in the world to have specific, concrete obligations to enhance transparency and efficiency of customs procedures” (Vargo 2003). These obligations permeated the provisions on such key areas as services, government procurement, and dispute settlement, and went along with extensive provisions relating to regulation in such areas of key interest in the U.S. “new trade agenda” as intellectual property, telecommunications, electronic commerce, and temporary entry for workers. The second dimension was that the agreement established what was claimed to be an “innovative approach” to labor and environmental issues. In this approach, the signatories to the agreement were obliged to enforce their own domestic laws on labor and environmental standards and to retain levels of protection that would divert the emergence of “races to the bottom.” The “innovative” content comes in the preference for the use of monetary penalties over trade sanctions for noncompliance with these constraints, with trade sanctions being available to the petitioning party should these monetary penalties not be paid.

The crucial point in this respect is that the United States has operated explicitly with the intention of using the Chilean agreement as the template for a hemispheric agreement and a mechanism for establishing the baseline precedents for its trade negotiations in other areas. The system for dealing with labor and environmental standards in the Chile-U.S. agreement is, in this sense, envisioned explicitly as the benchmark for the treatment of these issues in the FTAA (Feinberg 2003, 1037). It represents in this sense a strategy for circumventing the entrenched opposition among Latin American and Caribbean governments to the linkage of trade with labor and environmental standards—an opposition articulated most vociferously by Brazilian officials—and to some extent also for assuaging Canadian insistence that labor and environmental standards should be negotiated only as side agreements rather than integrated into the text of trade agreements. It is probably inconceivable that the U.S. Congress would ratify trade agreements that carried no provisions on these twin issues; nevertheless, the system of remedies (monetary fines rather than trade sanctions) represents a partial attempt to dilute the perceived trade–environment/labor linkage while, in effect, positioning the enforcement of labor and environmental standards at the heart of the regional economic regime.

The substance of the U.S.-Chile agreement thus augured the construction of a range of regulatory mechanisms designed to further a trade relationship peculiarly in line with the U.S. government’s preferences regarding the mode of governance to be adopted in the Americas. The CAFTA agreement is similar in both substance and significance.
It provides for the elimination of U.S. tariffs on most of its agricultural products within 15 years (slightly longer than in the Chilean agreement), and it excludes any concessions on subsidies and other nontariff barriers. It eliminates tariffs and quotas on textile products that comply with rules of origin provisions—that is, that they be made using cloth that has been dyed and finished in the United States—and in this sense predicts an expansion of trade in textiles. It also amends the rule of origin to include some fabrics from Canada and Mexico, intended to foster the integration of North American textiles and apparel industries as “a step to prepare for an increasingly competitive global market” (USTR 2003a). Yet these provisions intersect with existing multilateral arrangements for the global liberalization of textiles and apparel quotas at the start of 2005. Taken together, this multilateral elimination of quotas and the terms of the CAFTA agreement have been calculated to signify a 50 percent cut in the expansion of Central American textiles and clothing exports to the United States (Hilaire and Yang 2003, 15–16).

The CAFTA agreement further resembles the Chilean agreement in its explicit incorporation of a range of provisions that go beyond trade and impinge directly on domestic legal structures. In the agreement, the United States achieves its stated goal of “requiring important reforms of the domestic legal and business environment that are key to encouraging business development and investment,” which include fostering greater transparency, strengthening the rule of law, and enacting much more extensive protection and enforcement of intellectual property rights (USTR 2003a). What is most salient about the CAFTA agreement, however, is that in a number of areas it goes beyond the equivalent provisions of the Chile-U.S. agreement, revealing clearly Zoellick’s “competition in liberalization” strategy in action. Labor and environmental standards are the most striking examples. The again “innovative” environmental chapter provides for the benchmarking of environmental cooperation activities and input from international organizations. The provisions on labor standards have three tiers, relating to the enforcement of domestic laws (as in the Chilean case), the establishment of cooperative schemes to improve these laws and their enforcement, and the elaboration of financial and technical assistance packages as part of a broader commitment to provide what has been called “trade capacity–building assistance” to developing countries. In the CAFTA context, a US$6.75 million, four-year grant was extended in 2003 to support “good labor conditions” in Central American trade partners, funded by the U.S. Department of Labor and channeled through the nongovernmental Foundation for Peace and Democracy (FUNDAPEM). It is oriented toward implantation of inspection systems, education of employers and workers on matters of labor laws, and construction of industrial dispute settlement systems (USTR 2003b).
Approaches to the broader governance challenges associated with special and differential treatment have likewise borne the clear imprint of U.S. preferences. The place of S&D treatment in the hemispheric negotiations has reflected the U.S. vision of the regional economic regime (and specifically the FTAA) as one based fundamentally on the principle of reciprocity. In this view, and also that of the Canadian government, S&D treatment is not, in the words of Deputy USTR Peter Allgeier, “an end in and of itself.” Rather, it is seen to represent a set of intrinsically transitional mechanisms to “foster economic development, adjustment and integration into the multilateral trading system” (Allgeier 2002). Accordingly, S&D treatment does not have a corresponding technical working group in the FTAA negotiations; instead, issues of pertinence to smaller and poorer economies are addressed in the Consultative Group on Small Economies and then filtered into the deliberations of the nine technical working groups. Certain hemispheric-level initiatives have thereby emerged that purport to constitute viable means for addressing S&D treatment issues. One of the key innovations in the Quito ministerials was the announcement of, and U.S. support for, a hemispheric cooperation program designed to grant adjustment assistance, so as to enable all countries to participate “beneficially and equitably” in the negotiations. This remains a long way from constituting a comprehensive package on S&D treatment—certainly not one acceptable to the majority of smaller and poorer economies pushing for a rather different mode of governance in this area. Representatives of the smaller and poorer countries themselves—spearheaded by Caribbean participants—have come to insist ever more strongly that the principle of reciprocity should give way to “special and differential treatment involving elements of extended or permanent non-reciprocity in obligations” (Girvan 2003).

The aforementioned “trade capacity–building assistance” program also reaches beyond the elements of labor and environmental standards to include a range of institutional issues and policy concerns, but still does not constitute a comprehensive approach to S&D treatment issues in the region. Rather, it represents a move to supplement the existing technical assistance activities of the three formal regional institutions involved in supporting the hemispheric process—the Inter-American Development Bank (IDB), the UN Economic Commission for Latin America and the Caribbean (ECLAC), and the Organization of American States (OAS)—with a set of bilateral assistance packages coordinated and funded by the United States. Clearly, this new program fits with an overall strategy of molding a bilateral approach to key governance challenges in the hemisphere, in the interests of increasing control and leverage over both the governance agenda and the sorts of policy and institutional structures—in this case related to capacity building—that are likely to emerge.
The U.S.-driven approach to economic governance thus carries a range of structural and political consequences for both regional trade negotiations and the shape of the regional economic regime. It has been facilitated by the absence from the hemispheric project of any aspirations to build regional institutions for the purposes of economic governance or regulation, which raises the question of where primary responsibility for the enforcement of the rules agreed in hemispheric and bilateral negotiations will reside. The substance of the bilateral agreements and negotiations in which the United States has been engaged, as well as the assertion of its influence over the shape of the hemispheric agenda, suggest a U.S. strategy to fashion a regional economic regime in which the U.S. government assumes a good part of this responsibility. This is clearest in the context of its “innovative” approach to labor and environmental standards, in which the enforcement of the system of monetary penalties resides directly with the U.S. government, on its assumption, of course, that it will invariably be the party petitioning against nonobservance of agreed standards in other countries. It is also clear in that its packages of financial and technical assistance for trade capacity building will be monitored by the U.S. Department of Labor and other state agencies.

The project to construct a formal dispute-settlement mechanism (DSM), furthermore, is integral to the FTAA project. If the FTAA negotiations are not successful—and throughout 2004 and 2005 this appeared a strong possibility—it is likely that the U.S. dominance in the structures of governance and regulation will be considerably enhanced. If a DSM does come into being, it is only likely to coexist with this U.S. dominance, given that the latter’s persistence will be facilitated by all the bilateral arrangements currently being put into place.

**CONCLUSIONS**

The central contention in this paper has been that the emerging mode of and approach to governance in the Americas has come to be dominated by a distinctly U.S.-driven agenda, reflective fundamentally of U.S. priorities and a strengthening of U.S. hegemony as the foundation of the new regional political economy. There is a second, parallel, approach to governance emerging at a subregional level in existing subregionalist projects, but these subregional approaches are considerably weaker, patchier, and brittler than the dominant U.S.-led approach. They are limited by a raft of political and institutional obstacles to the deepening of integration in many of the subregional blocs themselves and the frequent absence, except perhaps in NAFTA, of significant progress on the internal coordination and implementation of rules in many of the key policy areas covered in the FTAA negotiations.
Those subregional initiatives, moreover, have been both undermined and molded by the active deployment of bilateral strategies by U.S. government agencies. Part of the rationale for the U.S. pursuit of bilateral agreements has been precisely to increase the incentives for other countries to negotiate similar deals, which has acted frequently to undermine the cohesion of subregional groupings. This has been particularly evident in Mercosur, in the impact of the bilateral agreement with Chile, the preliminary discussions with Uruguay, and the exacerbation of divisions between Mercosur countries as a result of U.S. pressure on Brazil after the Cancún WTO meetings.

On the other hand, the U.S.-led approach has also been oriented toward molding subregional approaches in a manner that brings them more closely into line with U.S. preferences, in that its bilateral negotiations with subregional blocs afford greater leverage for the USTR and other government agencies over the shape of the rules agreed on in internal bargaining processes. The prospect of agreements between the United States and subregional units, in this sense, is designed to increase the incentives for subregional blocs to accept a range of rules consistent with those that have come to define the hemispheric agenda, as a result of U.S. leverage over its shape, and to fashion internal governance mechanisms in a manner conducive to the successful agreement of bilateral trade deals with the United States.

What this paper has sought most strenuously to do, however, is to direct attention back to the importance of politics and power in understanding the emerging economic regime and approaches to its governance. Issues of regional economic governance must be conceived as intrinsically political processes, which cannot be separated from discussions about the region’s prevailing power structures and the ways power is exercised. By understanding how the hegemonic power of the United States manifests itself in the substance of the hemispheric project and the shape of the economic regime associated with it, we can also see the roots of resistance to the U.S. vision of the hemispheric project.

Inasmuch as the FTAA process has been marked by the inability of the United States unilaterally to determine the terms or the outcomes of the negotiations—hence the USTR’s turn to the apparently more conducive bilateral avenue with weaker partners—our attention is necessarily drawn to the contestation of the regional agenda that has been articulated both by governments and by the wide range of nonstate actors engaged in the process. In one sense, this indicates clearly that neoliberalism is not the unified and monolithic entity it is frequently assumed to be; rather, a variety of visions of the neoliberal project have generated divergent and discordant positions in the range of trade negotiations, both in and outside the Americas.
In another sense, it indicates the intrinsically contested, fragile, and complex nature of U.S. power. Unquestionably, the structurally hegemonic power of the United States molds the parameters of the regional political economy and defines, to a very significant extent, the contours of the regional agenda. Yet the myriad challenges to the particular U.S. vision of the regional project, and more broadly to the articulation of U.S. power in the region, are pivotal to an understanding of the evolution of U.S. strategies, both in the trade and economic arenas and in other areas of regional engagement.

NOTES

This article draws on and has benefited from extensive interviews and conversations, in various countries across the region, with government and trade officials, private sector and union representatives, and other interested parties. I have respected fully requests for confidentiality and anonymity. The article is based on an earlier paper delivered at the conference “Building the Americas,” held at the Centre d’Etudes Internationales et Mondialisation, Université du Québec à Montréal, in November 2003. With all the usual disclaimers, I am grateful for thoughtful comments from several of the participants at this conference, Tony Payne, Wyn Grant, the editor of this journal, and three anonymous referees.

1. The EU leads the pack, accounting for 40 percent of the global total, but in the regional context it should be noted that Canadian subsidies are also significant.

2. The nine areas are market access; agriculture; services; investment; government procurement; intellectual property rights; subsidies, antidumping, and CVDs; competition policy; and dispute settlement. Labor and environmental issues do not have separate forums in this structure, but instead are indirectly filtered into the activities of each of these working groups.

3. Sugar was notably excluded from the agreement. The U.S. government insisted that a surplus in sugar production needed to obtain in both countries for sugar to qualify for the tariff reduction scheme; it obtained in neither country. As it does obtain in countries like Brazil and Guatemala, however, the U.S. government will not be able to use similar conditions in the FTAA negotiations (Tratado de Libre Comercio 2003, 3).

4. This provision was criticized by the AFL-CIO, the largest labor union in the United States, because it does not “commit the signatories to have labor laws in place, or to ensure that their labor laws meet any international standard or floor.” The union also voiced opposition to the implications of provisions in both the Chile and Singapore agreements concerning the temporary entry of professional workers to the United States. See Lee 2003. Members of Congress have also voiced concern about both sets of provisions’ potentially setting precedents for agreements with other countries, particularly those in Central America. See Levin 2003.

5. The Chile-U.S. and Singapore-U.S. agreements also carry these cooperation packages, but they were negotiated only after the original trade agreements.
REFERENCES


