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THE ADVANCING POLITICAL ECONOMY OF EUROPEAN UNION-MERCOSUR RELATIONS: UNITED STATES PERSPECTIVES

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Contents

Introduction

1. NAFTA, fast-track and the future of the FTAA
2. Brazil, the European Union and Mercosur
3. The European Union-Mercosur partnership and United States interests

Conclusion

Introduction

The January 1999 devaluation of Brazil's currency, the real, and the resulting impact that its has had on current political and economic relations among countries in the Southern Cone, manifests the troubling fact that the Mercosur customs union is far from consolidated. Moreover, the ongoing economic downturns experienced by virtually all member countries means that any predictions as to the future course of Mercosur, and in turn European Union (EU)-Mercosur trade relations, must be put on hold for the time being. With this cautionary position in mind, however, we can still analyse the position of the United States (US) regarding the growing EU-Mercosur relationship, and the parallel US-Mercosur linkage.

In many ways the next several years will be a year of introspection in the US with regard to regional hemispheric economic integration. We have already seen how the failure of the Clinton administration to gain fast-track negotiating authority from the US Congress in late 1997 diminished the US bargaining position at the Summit of the Americas in Santiago, Chile (April 1998). The fact that trade policy has in some respects been "kidnapped" by domestic politics in the United States and that an earlier, path-breaking effort at integration – the North American Free Trade Agreement (NAFTA) – is perceived by many in Washington to have failed, means that new initiatives will probably await the outcome of the presidential election in the fall of 2000.

At another level of analysis, US perspectives on the EU-Mercosur relationship will be driven primarily by the American view of Brazil and its role in Mercosur. As the major actor in the region, Brazil is seen in Washington as the only true potential adversary of the vision of the 1994 Miami Summit of the Americas, when the Free Trade Area of the Americas (FTAA) was formally launched. Of the six Mercosur countries (Brazil, Argentina, Uruguay and Paraguay are full members; Chile and Bolivia are associate members), Brazil is viewed as the most independent in its foreign policy and international ambition. Moreover, there is still a growing concern that Brazil will use its relative economic and political might to steer Mercosur toward the EU and away from any US-brokered FTAA agreement. To the degree that perception becomes an assumption of US policymakers, the possibility of increased tension, if not rivalry, between the US and Brazil – or even between the US and the EU – over trade in the Americas remains a realistic scenario.

1
NAFTA, fast-track and the future of the FTAA

In order to place the American view on European Union-Mercosur relations in perspective, it is critical to understand the heated debate and ultimate failure in 1997 of President Clinton's effort to gain congressional approval for fast-track negotiating authority. That defeat will colour the US view of trade expansion in general and, specifically, in the Americas. This section of the paper reviews the debate surrounding fast-track and why the White House defeat will have such a negative impact on America's interests in free trade and expansion of regional integration schemes.

The tremendous political battle waged in the early 1990s to gain congressional approval of the NAFTA treaty was driven by government and private sector interests in all three countries (US, Canada and Mexico) as they believed the agreement would dramatically generate jobs, new trade and investment flows, serving as well as an attraction for foreign direct investment (FDI) from outside North America. Yet, since the passage of NAFTA, both big business and the respective governments have been unable to sway public opinion in favour of greater free trade, and the dramatic devaluation of the Mexican peso in 1994 did little to help their efforts. This failure to win the public relations battle has in turn weakened Clinton's 1994 FTAA vision.

The bitterness generated from the ultimately successful battle to approve NAFTA convinced Clinton's White House to postpone a request to re-authorise the lapsed fast-track negotiating authority. In 1994 and 1995, due in part to the Mexican devaluation, the time was not thought to be right. And 1996 was an election year in which the White House judged that the free trade issue was too controversial to risk a defeat in Congress. Finally, in early 1997, in the Annual State of the Union Message, the President declared his intention to seek new approval for fast-track. But because of differences within the Administration, draft legislation was delayed for months and the real campaign did not begin until September 1997. By that time, the issue of trade had become highly politicised and deeply involved in domestic politics in the United States.

On the eve of the vote, the New York Times captured the nature of the debate in Washington: "there is little doubt that the vote in the House on Friday will determine a lot about President Clinton's freedom to carry out the centrepiece of his foreign policy: his drive to open foreign markets, on American terms, in the three years remaining in his term. And at home, it will determine whether Democrats and labour unions and environmentalists will be able to sustain a debate over what America's priorities should be when reaching trade deals abroad".[1] The vote never took place. A few hours before the balloting, the President called the Speaker of the House, Newt Gingrich, and asked him to withdraw the draft bill. The Speaker did so to avoid a defeat on the floor of the House later that day.

The fast-track debate in 1997 reflected a return to the political arena by those groups who had been defeated by the free traders during the NAFTA debate in 1993: the US labour unions and environmental protection groups. Throughout the debate, the opposition – housed largely in the President's Democratic Party – argued that they favoured new trade agreements, provided the terms were changed. Rejecting the protectionist label, they said they wanted trade deals to include tough new requirements for US trading partners to raise their labour and environmental standards, because the alternative was the inevitable lowering of America's standards. Representative David E. Bonior (Democrat for Michigan) – deputy to Minority Leader Richard A. Gephardt (Democrat for Missouri) – spoke for a majority of the Democratic caucus when he stated that "I strongly support international trade. The question is, what are the rules going to be and who is going to benefit?"[2] If Washington does not demand better labour and environmental policies from its trading partners, he said, "foreign countries will continue to lure corporations abroad through abysmal wages, poor safety standards and tacit permission to pollute the environment".[3]

While the argument about international trade policy continues to rage, it is clear that the outcome of the fast-track controversy in the Congress was driven by domestic political concerns. There were two principal participants involved in planning the defeat of the legislation. The first was Congressman Gephardt, the leader of the President's Democratic minority in the House. Gephardt has positioned himself as the hero of the working class in America, and has carried a large majority of the Democrats in the House with him on this issue. The second significant participant was the US labour movement. Once thought to be a marginalised player in national politics, the AFL-CIO, the principal labour confederation in the US, has regained a strong foothold in national politics through its financing of Democratic candidates. Union financing has grown increasingly important for House Democrats whose financial support from the business community began to disappear after the Republicans won control of Congress in 1994. By 1996, contributions from labour's political action committees (PAC) jumped to 48% of total PAC donations to House Democrats, up from 33% in 1992.

The almost absent player in 1997 was the American business community. As the campaign to win approval of fast-track begin in September, it was reported that the business groups "acknowledged they were playing catch-up to the union forces that vehemently oppose the measure. Some members of Congress who support 'fast-track' authority for the president expressed concern that the business lobby had fallen dangerously behind the curve on an issue that could be decided by a handful of votes".[4] And as one frustrated congressman commented, a Democratic fast-track supporter, "how much does the business community want fast-track? How important is it to them?"[5]

The business community had waited too long. In part, they wanted to see the administration's version of the fast-track legislation, which was released very late. They also feared a direct confrontation with organised labour; business did not want to be put in the position of being perceived to be against American workers and negative on protecting the environment. And while business perceived NAFTA to have been a reasonable success, it was clear that there was a widespread perception in blue-collar, working class America that it was an unmitigated failure.

The result of the raucous debate and ultimate defeat for the Clinton Administration is that deeper trade integration is on hold for at least a few years. Even if the President had received fast-track authority it is not clear that the Congress would have voted in favour of new members in NAFTA (Chile is first in line). In short, the mood of the Congress has shifted against free trade.

Even a half-hearted effort by Clinton's White House to assuage the anti-fast-track group failed. At one point, the Administration had proposed a bill that would direct US negotiators to pursue labour and environmental issues at multilateral institutions such as the International Labour Organisation (ILO), a relatively toothless body, and the World Trade Organisation (WTO), which has shown little appetite for taking up labour and environmental questions. Gephardt and the labour unions rejected this compromise and demanded that trade pacts include broad labour and environmental provisions, enforceable by trade sanctions. The White House quickly said no to these terms, as it was clear that Latin American governments would never agree to negotiate under such a framework.

The failure to approve fast-track leaves little room for manoeuvre for the President in trade negotiations. There are many agreements that come with membership in the WTO – over financial services, trade in telecommunications and computer services, and the endlessly hard fought problems of opening agricultural markets – that will require US congressional approval. Without fast-track, each agreement is susceptible to multiple amendments and riders to satisfy domestic producers or unions. And since Latin nations are unwilling to negotiate trade pacts on these terms, it is more likely that they will instead decide to move forward with their own regional trade accords, leaving the United States behind. What is more, due to the fact that it is the Latin nations, and not the US, who are taking the lead on trade issues, Mercosur (specifically Brazil) could easily take the upper hand in FTAA discussions.

2
Brazil, the European Union and Mercosur

There has been a pattern of Brazil-United States stand-offs on hemispheric integration since the Miami Summit in 1994. This is due in part to the strong process of consolidation in Mercosur, although these achievements have been seriously dampened by the current economic crisis. The stand-off in many ways also reflects traditional Brazilian diplomacy, which seeks the greatest possible autonomy for Brazil in all negotiations. This negotiating strategy in turn rankled the feathers of many trade officials in Washington who thought that the Brazilians needed to be more humble in the negotiations. In preparations for the Miami Summit in 1994, for example, Brazil was characterised by the US as a difficult interlocutor; a number of proposals were drafted and circulated prior to the Summit and one in particular written by the Rio Group, in which Brazil allegedly played a major role, was characterised by one US policymaker as "short on specific action items, firm commitments, and accountable mechanisms for implementation [...] the Rio Group draft presented precisely the outcome the United States had been working to circumvent and that cascading modular multilateralism intended to surpass".[6]

The US delegation was also apparently put-off by Vice-Minister Roberto Abdenur of Itamarati, the Foreign Ministry. His presentation was characterised as "preachy, paternalistic"[7]; the next morning, in a meeting of the Rio Group and a ranking American official, "the Brazilians sought to stir up latent resentments against the United States, to foster fears that Washington would use the summit agreements to monitor their activities and intervene in their domestic affairs".[8] And in a midnight drafting session, "the Brazilians dwelled on the nuances of each word, working hard to twist the Plan of Action in the direction of the Itamarati world 'view'. The following morning Abdenur told the other Rio Group countries that the United States was showing respect for the Rio Group text, taking a constructive attitude, and the Latin Americans could 'respond in kind'. As the instigator of conflict, and having attained the respect and leadership role they had sought with such tenacity, the Brazilian diplomats could now play peacemaker".[9]

The critical view of Brazil's role in trade integration in the Americas before the Miami Summit was again reflected in the congressional hearing of Ambassador Charlene Barshefsky to be US Trade Representative in January 1997. Testifying before the US Senate Finance Committee, Barshefsky was asked whether the absence of fast-track was "causing us to lose out in South America". The Ambassador replied: "I think the absence of fast-track leaves a vacuum in our own hemisphere with respect to leadership and with respect to the rules of trade in our hemisphere. What the absence has done has been to lead to an agglomeration by other countries of other trading partners in our own hemisphere as a means of building their own little unit or system of rules and obligations. Mercosur is one such example".[10]

The comment about Mercosur represents a position held by many in Washington: if Clinton had been given fast-track following the Miami Summit, the FTAA framework would automatically have spread through the hemisphere. Without fast-track meddlesome nations, they believe, have come up with temporary trade pacts of their own such as Mercosur. The tone and intent of Barshefsky's comment was that Mercosur-led trade initiatives would not be nearly so important (or threatening) if the President had fast-track and, therefore, the leadership initiative necessary to implement his vision of hemispheric-wide trade issues.

That bias was reflected also at the Summit of the Americas in the comments of a US policymaker about Brazil's intentions: "the heart of the drama of Miami was Brazil's struggle to establish itself as the interlocutor for South America and the Rio Group [...] Itamarati has already accomplished its main strategic objective of consolidating Mercosur and pulling other South American countries into the Mercosur orbit through a series of bilateral and subregional trade agreements, thereby establishing Brazil as the logical lead South American representative in any negotiations with the United States and its NAFTA partners on the terms of hemispheric integration".[11]

This preoccupation on the part of American policymakers was undoubtedly reinforced when it was reported that the Brazilian government said "it was unrealistic to start talks on reducing tariffs for the whole of the Americas until the US government had won so-called 'fast-track' authority from Congress to negotiate a deal".[12]

The differences between Brazil and the US were very clear at the 1997 Belo Horizonte ministerial meeting. This disagreement is mainly over the structure of future negotiations for the FTAA. The US, backed by Canada, wanted to begin talks on reducing tariffs after the Santiago Summit. The strategy was laid-out by the American Commerce Secretary, William Daley, when he commented in Belo Horizonte that "we want to craft measures, to make business easier to do, early in the game. We want to launch talks on all areas at Santiago".[13] Brazil quickly responded by stating that "Brazil, speaking on behalf of the Mercosur trading group, wants to take a more gradual approach, starting with talks on non-tariff barriers, leaving talks on market access and tariffs to the year 2003".[14] The Brazilian argument is that they have made significant tariff reductions in the early 1990s and the economy was not ready for another shock. Brazil also indicated that it wanted a clearer signal about the willingness of the US to reduce tariffs on a number of agricultural products, including orange juice, before starting talks.

3
The European Union-Mercosur partnership and United States interests

Seemingly only a few trade specialists and businessmen in the US understand that the EU has for years been Mercosur's main market, taking 27% of its exports in 1996, while Asia took 20% and the United States 18%. Overall, in 1996 Latin America took 17% of its imports from the EU, and in dollar terms the figure has risen by some 10% a year since 1990.[15]

But regardless of growing trade between the EU and Mercosur, it is still the US that remains the coveted market for Brazilian and Argentine exporters. Fortunately, trade relations between South America and the US are strong. The US exports more to Brazil than to China and US exports to Argentina and Chile surpass those to India and Russia. More importantly, the US sees itself as the main beneficiary of the economic stabilisation and recovery underway in the region, which it believes it spearheaded in the early 1990s. The "Washington Consensus", which spelled out the neoliberal economic reform agenda, is viewed as proprietary by the US. It is critical to understand this perspective in "official" Washington: other partners are latecomers to the Americas and it is the US that should benefit from the new, open economies of the hemisphere. This perception of entitlement was one of the driving forces behind fast-track and why the Santiago Summit and the FTAA have been of importance to some in the White House (although obviously not important enough to convince a majority in congress as to the merits of this policy option).

It is within this framework that a potential European Union-United States conflict over Mercosur is possible. The March 1997 visit of French President Jacques Chirac to the Southern Cone portends this potential brushing of elbows. On the eve of his departure, Chirac stated in Paris that the Southern Cone's economic future lay not in ties with the US but with Europe: "Latin America understands perfectly that it is not in its interest to lock itself into exclusively regional integration".[16] And to make the point perfectly clear, the President emphasized that "its [Mercosur] vocation is not to be a piece of NAFTA. Its vocation is to be [...] open to the world, and its essential economic interest – trade, investment and aid – is not with the United States but towards Europe [...] the future of Latin America is not with the North-South axis, it is with Europe for reasons linked to history and culture".[17]

While little understood in the US, Chirac correctly pointed out that the EU was the main trading partner, biggest investor and most generous development aid donor for Brazil, Uruguay, Paraguay and Argentina. Chirac also suggested a summit of EU-Mercosur countries, an idea which President Fernando Henrique Cardoso endorsed, offering Brazil as the site for the conference (the summit took place in Rio, in June 1999). In his meeting with Cardoso, Chirac commented that the summit would "respond to a real need: to create a structure that will stimulate our political, cultural and economic relations with strength, cohesion, and joint projects".[18]

While the hyperbolic statements of the French President need to be understood in the context of French diplomacy and *grandeur*, this sort of rhetoric could conceivably be the basis for sharp differences in the future. Sparks could indeed fly if the US Congress perceives that Europe is gaining access and influence in the Southern Cone. Moreover, any United States-European Union rift would be greatly exacerbated if the principal protagonist in Mercosur, Brazil, is viewed in Washington as acting on behalf of, or in collaboration with, Brussels. A hypothetical scenario could be, for instance, a joint EU-Mercosur action at the WTO that challenges US trade practices.

Conclusion

As the century comes to an end, United States-Mercosur relations are in flux. The failure to win approval in the Congress of renewed fast-track authority upset US plans for NAFTA expansion into South America and for the ultimate creation of an FTAA, as outlined by President Clinton in Miami in 1994. In turn, Charlene Barshefsky and other trade officials aside, the growing role of the EU with Mercosur has gone largely unnoticed by many in the United States. Rather than recognising the present and future importance of the Southern Cone, politicians and businessmen remain captivated by the North American and Japanese possibilities. Yet, this could change if the US private sector begins to realise that there have been many lost (or perceived lost) opportunities in Mercosur to European competitors. Trade disputes could soon follow.

With this in mind, if the recent Rio Summit between the EU and Mercosur results in a growing trade ties between the two blocs, voices in Congress and the US media might begin to voice concerns about the US "loss" of the Southern Cone. There is no reason why this should occur – and the recent economic turmoil in Brazil has put just about everything on hold for the time being – but to prevent this discouraging outcome of actually taking place, a fair amount of caution and prudent diplomacy will be required by all the players. On the other hand, it can be argued that perhaps the growing ties between the EU and Mercosur, as well as Brazil's challenge to US trade leadership in the hemisphere, might eventually scare the US Congress into expediting new fast-track legislation. But if Congress' recent attitudes – and votes! – toward free trade are any indication, one should not count on it.

Notes

[1] Sanger D. E. (1997), "Trade Pact Free-For-All: Behind the Hyperbole", in *The New York Times*, November 6, 1997; p. A6.

[2] Blustein P. (1997), "Free Trade vs. Social Policy", in *The Washington Post*, November 19, 1997; p. G1.

[3] Ibid.

[4] Neal T. M. (1997), "Business Leaders Gear Up Lobbying and Ad Campaign for 'Fast-Track' Bill", in *The Washington Post*, September 19, 1997; p. A4.

[5] Ibid.

[6] Feinberg R. E., *Summitry of the Americas: A Progress Report*, Institute of International Economics (Washington DC); p. 41.

[7] Ibid.

[8] Ibid.

[9] Ibid.

[10] Hearings of the Senate Finance Committee, United States Senate. Nomination of Charlene Barshefsky to the United States Trade Representative, January 29, 1997.

[11] Feinberg, op. cit.

[12] Dyer G. (1997), "Brazil Urges 'Realism' in All-America Trade Talks", in *The Financial Times*, May 16, 1997; p. 4.

[13] Ibid.

[14] Ibid.

[15] "Latin America and Europe: Slowly, Slowly", in *The Economist*, December 12, 1997.

[16] "Chirac Call to Latin America", in *The Financial Times*, op. cit.; p. 5.

[17] Ibid.

[18] *Agence France Press*, March 12, 1997, dateline Brasilia, mimeo.