

BRAZIL AND THE US IN THE FTAA NEGOTIATIONS – WHO WINS AND WHO LOSES?

BRASIL E EUA NAS NEGOCIAÇÕES DA ALCA – QUEM GANHA E QUEM PERDE

BRASIL Y ESTADOS UNIDOS EN LAS NEGOCIACIONES DEL ALCA: ¿QUIÉN GANA Y QUIÉN PIERDE?



<https://doi.org/10.56238/sevened2026.019-047>

Ralph Santiago Leal de Camargo Rodrigues¹, Carlos Enrique Guanzioli², Vanessa Cristina dos Santos³

ABSTRACT

This study analyzes the negotiation process of the Free Trade Area of the Americas (FTAA), highlighting the leading role and divergent strategies between Brazil and the United States. Initiated in 1994, the proposal aimed at the economic integration of the continent, but faced significant obstacles arising from economic asymmetries and the lack of common objectives among the main actors. The article uses a bibliographic and documentary approach to evaluate the tactics adopted: while Brazil sought to strengthen Mercosur as an independent bloc and adopted a defensive posture to delay the agreement, the US aimed to consolidate its regional hegemony. With the definitive end of negotiations in 2005, the US resorted to bilateralism with countries on the Pacific coast and in Central America, while Brazil focused on South American institutionalization. The work concludes by presenting a synthesis of the distribution of costs and benefits of this regional integration for these two countries.

Keywords: FTAA. Brazil. United States.

RESUMO

Este estudo analisa o processo de negociação da Área de Livre-Comércio das Américas (ALCA), destacando o papel protagonista e as estratégias divergentes entre o Brasil e os Estados Unidos. Iniciada em 1994, a proposta visava a integração econômica do continente, mas enfrentou obstáculos significativos decorrentes das assimetrias econômicas e da falta de objetivos comuns entre os principais atores. O artigo utiliza uma abordagem bibliográfica e documental para avaliar as táticas adotadas: enquanto o Brasil buscou fortalecer o Mercosul como bloco independente e adotou uma postura defensiva e protelar o acordo, os EUA visavam consolidar sua hegemonia regional. Com o encerramento definitivo das negociações em 2005, os EUA recorreram ao bilateralismo com países da margem pacífica

¹ Dr. in Economics. Universidade Federal Fluminense. E-mail: ralphcamargo@hotmail.com
Lattes: <https://lattes.cnpq.br/6341655086453132>

² Postdoctoral degree in Economics. University California. E-mail: carlos.guanzi@gmail.com
Lattes: <http://lattes.cnpq.br/2490980051081360>

³ Dr. in Economics. Universidade Federal Fluminense. E-mail: vanessa.santos@ucp.br
Lattes: <http://lattes.cnpq.br/2826092566302609>

e da América Central, enquanto o Brasil focou na institucionalização sul-americana. O trabalho conclui apresentando uma síntese da distribuição de custos e benefícios dessa integração regional para esses dois países.

Palavras-chave: ALCA. Brasil. Estados Unidos.

RESUMEN

Este estudio analiza el proceso de negociación del Área de Libre Comercio de las Américas (ALCA), destacando el protagonismo y las estrategias divergentes entre Brasil y Estados Unidos. Iniciada en 1994, la propuesta buscaba la integración económica del continente, pero enfrentó importantes obstáculos derivados de las asimetrías económicas y la falta de objetivos comunes entre los principales actores. El artículo utiliza un enfoque bibliográfico y documental para evaluar las tácticas adoptadas: mientras Brasil buscaba fortalecer al Mercosur como bloque independiente y adoptó una postura defensiva para retrasar el acuerdo, Estados Unidos aspiraba a consolidar su hegemonía regional. Tras la finalización definitiva de las negociaciones en 2005, Estados Unidos recurrió al bilateralismo con países de la costa del Pacífico y Centroamérica, mientras que Brasil se centró en la institucionalización en Sudamérica. El trabajo concluye presentando una síntesis de la distribución de costos y beneficios de esta integración regional para ambos países.

Palabras clave: ALCA. Brasil. Estados Unidos.

1 INTRODUCTION

The intention to create the Free Trade Area of the Americas (FTAA) emerged in 1994 at the first Presidential Summit of the Americas. The main objective was to promote economic integration and free trade among all the countries of the American continent. From the launch of such a proposal to the end of its negotiations, some obstacles related to the economic disparities of the countries involved become evident. Thus, the lack of common objectives between Brazil and the United States (USA), the main protagonists of this negotiation table, stands out.

The main objective of Brazilian foreign policy was to delay the negotiation process. The strategy, therefore, was to negotiate from Mercosur acting as an independent sub-regional bloc. This initiative reflected the fact that Brazil intended to assert itself as a large regional and even world economy, and feared integration into the same space to which it included the American economy. Such elements relied on defensive positions based mainly on the diagnosis of the fragility of some Brazilian industrial sectors.

The main interests of the U.S. in the creation of the FTAA were to strengthen its bargaining power vis-à-vis Europe and the countries of East Asia, and to create a single regional integration that would promote Latin America in global spheres, keeping the U.S. as the main agent (*hub*). This process can be seen as a deliberate attempt by the U.S. to consolidate its hegemony in the Western Hemisphere by integrating Latin American economies with those of North America and legitimizing an integration agenda.

The fourth Summit of the Americas in 2005 definitively marked the end of the FTAA negotiations. With the end of the possibility of a comprehensive hemispheric agreement, the U.S. government sought to establish free trade agreements with individual countries, including Chile, Peru, Colombia, and Ecuador, while Brazil sought to establish South America as an enlarged market. The difference between such strategies is that while the US sought more specific and detailed agreements with the different countries, Brazil aimed at greater multilateral institutionalization in an attempt to build a regional identity.

Therefore, this article has the following objectives: First, to carry out a bibliographic and documentary research on the main aspects of the FTAA negotiations. Then, analyze the negotiation strategies adopted by Brazil and the USA. And finally, to evaluate the possible losses and gains of this regional integration for these two countries.

2 FTAA NEGOTIATIONS

The intention to create a Free Trade Area of the Americas called FTAA (FTAA) emerged at the first Presidential Summit of the Americas, held in Miami in December 1994, at the call of the then President of the United States (USA) Bill Clinton. Thirty-four heads of state were summoned⁴ and approved at the end of the meeting a declaration of principles and a plan of action. The first referred to preserving and strengthening democracy in the Americas; promoting prosperity through economic integration and free trade; eradicate poverty and discrimination on the continent; ensure sustainable development and preserve the environment. The action plan, on the other hand, had as a central element the commitment to promote economic integration and free trade in the hemisphere. In this sense, the Special Trade Commission of the OAS (Organization of American States), with the support of the Inter-American Development Bank (IDB) and ECLAC (tripartite committee), was delegated the systematization of data and studies of the integration arrangements with the description of rights and obligations. The main objective was to determine the points of coincidence and divergence, aiming to improve the link between the different disciplines and make them more homogeneous. At first, it was decided that the negotiations should be concluded in 2005 (FTAA, 2004).

In 1995, 1996 and 1997, three meetings of foreign trade ministers were held. It was determined that the FTAA should build on the existing sub-regional and bilateral agreements, make them more similar, with a view to expanding and deepening continental integration. The significant differences in the size of the economies and in the levels of development of the countries involved were recognized, thus seeking ways to facilitate the integration of less developed countries. Therefore, working groups were created in several areas, such as: i) access to markets; (ii) customs procedures and rules of origin; iii) services and investments; iv) standards of technical, sanitary and phytosanitary barriers to trade; v) subsidy, anti-dumping measures and countervailing duties for economies of menres; vi) government purchases; vii) intellectual property rights; viii) competence policies and dispute resolution; among others (DE GINZBURG, 2004).

Between 1998 and 2003 there were two other Summits of Heads of State and five other ministerial meetings. In general, it was reaffirmed that the FTAA agreement would be balanced,

⁴ The heads of state and government of Antigua and Barbudas, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Granidas, Suriname, Trinidad and Tobago, participated in the meeting. Uruguay and Venezuela, all members of the OAS (Organization of American States). Cuba, although a member of the OAS, was suspended from participating in the activities of this organization (FTAA, 2004).

broad, and consistent with WTO guidelines,⁵ and that it would constitute a single commitment. Considering, also, the need to implement a transparent negotiation process, and, even more importantly, taking into account the differences in the level of development and size of the economies, to facilitate the full participation of all participating countries. In this sense, the declaration issued in the final phase of the negotiations recognizes the need for flexibility so that countries could assume different levels of commitments, allowing for an adequate balance of rights and obligations. Such measures included technical assistance and transition mechanisms, such as the application of longer deadlines for the fulfillment of some obligations (FTAA, 2004).

From the launch of the proposal to create the FTAA until the deadline for negotiations, it became evident that this period was not sufficient to solve some obstacles related to disparities in the economies of the participating countries. This asymmetry is highlighted by the participation of the world economic power and Latin American and Caribbean countries. In the specific case of the latter, participation in a continental arrangement implies evaluating and reconciling national and regional interests with hemispheric ones. In reality, it is a question of cost-benefit analysis that is not trivial for such an integration. Not all effects are quantifiable by the volume of imports and exports and by the trade balance, because this relationship involves much more than the trade results (DE GINZBURG, 2004).

At the heart of this frustration is the lack of common goals between Brazil and the United States (USA), the main protagonists of this regional negotiation table. The first was determined to facilitate the market for agricultural goods and trade countervailing measures (*anti-dumping*). The second pursued new trade issues, such as: services, rules for foreign investments, government procurement and intellectual property rights. In addition, Brazil and Argentina proposed a model in which different topics were discussed on separate "tracks". This alternative proposal was designed to face the liberalization of trade in goods on the one hand, and on the other, it would involve these new trade issues, giving the option to these countries to adhere or not to the deeper integration agreements (OLIVEIRA, 2009, p. 193).

⁵ It should be noted that the criterion adopted was aimed at a conciliatory formula to accommodate the existence of a multiplicity of bilateral agreements and various integration schemes. The main ones are: the North American Free Trade Agreement (Canada, Mexico and the USA, 1994); the Group of Three (Colombia, Mexico and Venezuela, 1994); the Central American Common Market (Consisting of the five countries of Central America, 1960); the Caribbean Community (made up of the Caribbean countries plus Belize, Guyana and Suriname, 1973); the Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela, 1996); and Mercosur (Argentina, Brazil, Paraguay and Uruguay, 1991).

2.1 BRAZIL STRATEGIES

Confrontations between the U.S. and Brazil in multilateral trade negotiations go back much longer than the Doha Round in 2001 or the election of a leftist government in Brazil in 2002. The main arguments against Brazil's adherence to a process of continental integration had in common a belief in the superiority of protectionism, and an anti-Americanism fostered by US unilateralism, in its policies towards Latin America⁶ (ALBUQUERQUE, 2006). Such arguments can be grouped into five categories: i) *Global trader argument*: Brazil has a characteristic of internationally balanced trade and has an interest in all regions of the world; ii) *Argument of Mercosur's superiority*: in commercial terms, in political and cultural issues, in addition to not embedding inequalities of dimensions such as that of the FTAA; iii) the *argument of American disinterest/unilateralism*: the U.S. priorities would be in Europe and the Asia-Pacific, and the FTAA would be a reflection of American unilateralism and its constant search to mark its hegemony in the region; iv) *Argument of the superiority of the European Union*: an agreement with the EU would be more advantageous for Brazil for various reasons; and v) *scrapping argument*: the service sector and industry would be scrapped with an increase in competition with the US. In other words, easier access to the domestic market would lead to a displacement of American subsidiaries back to their headquarters, since they could export to Brazil. In addition, the increase in competition would lead to the bankruptcy of the companies with non-US capital installed here.

Based on this context, the main objective of Brazilian foreign policy was to delay the negotiation process⁷. "The Brazilian government responded to the Initiative for the Americas, from a rhetorical point of view, by not saying yes or no" (ALBUQUERQUE, 2006). According to Rompay (2004, *apud* TEXEIRA, 2011), Brazil was clearly the least enthusiastic country in advancing hemispheric integration, among all the other participants, in 1991, on the occasion of the first Summit of the Americas. The strategy, therefore, was to negotiate from Mercosur acting as an independent sub-regional bloc. Such a choice was intended to avoid the notion of US hegemony and to serve as a counterweight to the NAFTA bloc. "It was a clear answer: the first priority for both countries [Brazil and Argentina] was their integration into the subregion, and continental integration would be a step to be considered later." (ALBUQUERQUE, 2006, p. 565). In 1994, Brazil, Argentina, Paraguay and Uruguay signed the Ouro Preto Protocol that

⁶ These opinions were defended by a broad front formed by the high civil and military bureaucracy, the majority of the business community, the union leaderships, the academic and communication media. It should be noted that for the author, the arguments are summarized in generic terms and cannot be attributed to a specific sector of the government or civil society.

⁷ The "rationality" of this strategy was the conviction of some domestic actors with some capacity to influence Brazilian foreign policy, that Brazil would only lose with the FTAA. "Those who only have to lose, have everything to gain by gaining time" (ALBUQUERQUE, 2006).

complemented the 1991 Treaty of Asunción and formalized Mercosur. This gave it legal personality within the scope of international law, endowing it with effective capabilities in international negotiations. The following year, the four countries implemented a common external tariff (CET) covering about 85% of goods traded within the bloc. It is, therefore, an important advance in the process of regional integration, becoming a customs union⁸ (TEIXEIRA, 2011, p. 191).

In 1995 the European Union and Mercosur signed the "Interregional Framework Agreement on Cooperation". The objective was to establish a broad political and economic partnership, based on three fundamental pillars: political dialogue, cooperation, and trade and investment. The latter aimed at creating a free trade area. "The strong historical and cultural ties between the countries on both sides of the Atlantic, which led to the existence of large colonies of European emigrants [...] are largely responsible for the existence of significant trade and investment flows from the EU to Mercosur." (PINTO AND GUIMARÃES, 2005, p. 4). In this sense, in the EU's understanding, such flows must be preserved and even expanded, and the strengthening of Mercosur would provide this objective. Part of this interest of the EU in establishing the agreement must be analyzed in the light of the process of formation of the FTAA, precisely to oppose the interests of the US in Latin America. In addition, by establishing economic relations outside Mercosur, such as with the EU, the countries of the bloc aimed to increase their negotiating capacity with the United States and in the discussions of the process of creating the FTAA itself.

This initiative reflected the fact that Brazil intended to assert itself as a large regional and even world economy, and feared integration into the same space to which it included the American economy. "Brazil is in good interest to strengthen Mercosur, as this allows it to have greater power in the FTAA negotiations. This negotiating power could also be strengthened if Mercosur establishes the association agreement with the EU." (PINTO AND GUIMARÃES, 2005, p. 9). According to Valladão (1998), only a strict cooperation between Europe and Latin America could guarantee the diversity and specificity of these two blocs in the face of the 'North American steamroller'.

In addition, many argued that Mercosur had a continental vocation from the beginning. The aim was to create a broad free trade area in Latin America beyond the limits of the southern cone. In 1996, for example, it signed association agreements with Chile and Bolivia, which was

⁸ Two points should be highlighted: first, Mercosur is an imperfect customs union, considering the fact that some of the goods were outside the scope of the TEC. Secondly, and from an economic point of view, Mercosur has been the second largest bloc in terms of trade flow in the hemisphere, after NAFTA, and the fourth largest in the world (TEIXEIRA, 2011).

renamed "political Mercosur". In this context, Brazil's strategy was to lead the formation of a South American bloc with the objective of institutionalizing South America and increasing the costs for the establishment of the FTAA. This would secure and reinforce its position within the South American subsystem, in order to prevent its absorption into a broader hemispheric system. Then-President Fernando Henrique Cardoso referred to Mercosur as "[...] a pole from which the South American space [would be organized]" (CARDOSO, 1998, p. 127 *apud* TEIXEIRA, 2011, p. 192). The objective was to create obstacles for greater US penetration in South America, and according to Teixeira (2011), it was facilitated by the lack of leadership on the part of the US in relation to the countries of the region.

The FTAA negotiations were in fact launched at the second Summit of the Americas, in April 1998, in Santiago, Chile. Top leaders agreed that the final product should be a single commitment⁹, and that countries could negotiate as members of a sub-regional economic bloc. These were important diplomatic victories for Brazil and Mercosur. "The idea that countries could negotiate as blocs legitimized Mercosur's position in the negotiations, and allowed smaller countries to increase their influence. [In addition], through sub-regional blocs it was possible to reduce the enormous asymmetries of bargaining power, and smaller countries could even reject some agreements." (CARRANZA, 2004, p. 321). Specifically, Brazil sought to balance the FTAA negotiations with the U.S. in two ways: by forging a single South American negotiating bloc capable of standing up to the U.S.; and courting other trading partners to reduce its dependence on the U.S. "Brazil wants to consolidate itself as a regional hegemon in South America, and feels that the presence of the U.S. competes with this objective." (FAURIOL AND PERRY, 1999, p. 32-33). It should be noted that the Brazilian elites were preferable to a sub-regional integration (Mercosur) to a hemispheric integration¹⁰.

In addition, the Mercosur countries did not consider the FTAA as a priority in their trade policy, due to the bloc's own economic structure and trade pattern¹¹. On the one hand, these countries had a diversified economic structure, being both producers of primary goods and manufactured goods. In 1999, three-quarters of Mercosur's exports were manufactured goods, 24% of which were characterized by high economies of scale and intensive in natural resources. The rest, primary goods, agricultural commodities accounted for 15% of total exports. On the other hand, countries such as Brazil and Argentina had, in this period, very diversified trade

⁹ The Single Commitment Requirement preserved flexibility for *trade-offs* and prevented the U.S. from achieving incremental liberalization of sectors considered sensitive through interim agreements (CARRANZA, 2004, p. 321).

¹⁰ In a survey carried out, 66.2% of the sample agreed with the statement: "Brazil must prioritize integration into Mercosur". On the other hand, the statement: "Brazil should prioritize a free trade agreement with the United States" was chosen by only 16.4% of the interviewees (DE LIMA, 1996, p. 155, *apud* CARRANZA, (2004).

¹¹ The then President Fernando Henrique Cardoso declared: "Mercosur for us is a destination, while the FTAA is only an option, which we will join only under favorable conditions" (FOLHA, 1998).

patterns. Thus, 20% of Mercosur's total exports were to the bloc itself, 29% were to the rest of the Americas, 26% to the EU and 25% to the countries of the "rest of the world" (OSIMANI, 2005, p. 52). According to Ruiz (2007, p. 300), this economic structure and trade pattern are crucial to understand the rejection of the FTAA by the Mercosur countries, led by Brazil.

Mercosur has been the space in which Brazil has continued its industrialization process. For example, the automobile sector was regulated by a special regime that limited extra-regional imports. However, many Brazilian and Mercosur industrial sectors are certainly less competitive than those of the USA, and would certainly be displaced in a possible FTAA scenario (RUIZ, 2007, p. 300).

However, the official Brazilian strategy for free trade on the continent has not always been unanimous in South America. Argentina and Chile, two of the largest countries in the region, were very enthusiastic about the possibility of reaching an agreement with the United States, preferably even before the 2005 deadline. The Argentine government became one of the most ardent supporters of this alliance during most of the 1990s. This was characterized as a complete historical reversal of his contentious stance towards the US.¹² In this context, a logical outcome would be a trade agreement with the U.S. and even NAFTA membership was considered. However, Argentina could not freely sign a bilateral agreement with the U.S. due to the existence of the Mercosur TEC. In addition, the country did not want to create problems with Brazil, which was the most important market for its products. In 1994, the year before the Ouro Preto protocol, Argentina exported twice as much to Brazil as to the USA. Thus, Brazil was able to contain Argentine enthusiasm with reasonable success during the FTAA negotiation stages¹³ (TEIXEIRA, 2011).

In terms of the economic situation, Mercosur survived the regional financial crisis triggered by the devaluation of the Mexican currency in December 1994. At the end of that decade, Mercosur's problems were exacerbated by unfavorable external conditions, such as: the Asian crisis of 1998-99; falling commodity prices and slowing world trade. In addition, divergences in macroeconomic policies between Brazil and Argentina have become a serious political problem for the bloc. After the devaluation of the Brazilian currency in January 1999, Mercosur was the scene of several trade disputes. "Mercosur survived, but the integration

¹² An indication of this renewed relationship is the fact that Argentina dispatched warships to the Gulf War in 1991, the only Latin American country to do so. In 1998, the United States, as a form of retribution, designated Argentina as a "great non-NATO ally", also the only country in the region to have this distinction (FAURIOL and PERRY, 1999, p.33, *Apud*, TEIXEIRA 2011).

¹³ On the other hand, the restrictions that applied to Argentina were not valid for Chile. The country was not part of Mercosur and the US was a much more important country for Chilean exports than Brazil. In addition, its development strategy had as a key component a greater openness to international trade (TEIXEIRA, 2011).

process lost strength, despite the attempt to 'relaunch' the bloc in 2000¹⁴" (CARRANZA, 2007, p. 325). That same year, then-President Fernando Henrique Cardoso described the meeting as a "moment of reaffirmation of South America's identity as a region. [adding that] a free trade agreement between Mercosur and the Andean Community¹⁵ will be the backbone of South America and an extended economic space. [Therefore], it must be seen as a political objective of immediate interest" (CARDOSO, 2000, *apud* CARRANZA, 2007, p. 203).

The economic recession between 1998 and 2002 in Argentina generated several negative consequences for Mercosur. First, it was a severe blow to the flow of intra-bloc trade and investment, aggravated by Brazil's recession after the currency devaluation in 1999. Exports among member countries fell from 25% in 1998 to just 11% in 2002. Brazilian exports to Argentina fell by more than 60% in 2002; and Brazilian imports from Argentina fell by about 26% (IADB, 2002, *apud* CARRANZA, 2004, p. 326). Second, the difference between Argentina's fixed exchange rate and the periodic devaluations of the Brazilian currency threatened Mercosur's survival. The coalition against the devaluation in Argentina favored the country closing an agreement with the US, and reverting Mercosur from a common market to a free trade area. This has raised the tenor of trade disputes between the countries, and the insistence on maintaining exchange rate parity in Argentina has made it impossible to harmonize macroeconomic policies¹⁶.

The implosion of the Argentine economy in December 2001 reopened the debate on the viability of Mercosur in the broader context of the FTAA negotiations. Most analysts feared that the Argentine crisis would have a negative impact on Mercosur, and that a populist regime in Argentina could hurt Brazilian companies investing in that country. A weak Argentina means a weaker Mercosur, undermining Brazil's negotiation strategy for the creation of a Free Trade Area of the Americas (CARRANZA, 2004, p. 326).

However, the Argentine crisis of 2001-02 had a positive aspect for Mercosur. The absence of U.S. leadership with the crisis has strengthened political solidarity among Mercosur partners. At the beginning of 2002, at an extraordinary meeting of Mercosur, the presidents of Brazil, Uruguay and Chile promised full support to Argentina and asked the institutions linked to the international financial sector to understand the complex situation in which the country is going through. The objective was to obtain financial aid to implement an economic recovery

¹⁴ In 2000 it was the first exclusive meeting of South American presidents. The Brazilian government has officially signaled its attempt to rally the South American market around the Brazilian political project of organizing a South American space, as a way of inserting the region into the international system in the post-Cold War era.

¹⁵ Includes: Bolivia, Peru, Ecuador, Colombia and Venezuela.

¹⁶ In January 2002, the currency devaluation in Argentina eliminated the main source of conflict between this country and Brazil. In this way, both countries were able to achieve a higher level of macroeconomic convergence.

program, demanded by the then Duhalde government. In fact, at the same meeting, there was talk of strengthening Mercosur as a trade bloc and even advancing in the implementation of a single currency. Thus, the U.S. policy of letting Argentina solve its own problems eroded the prospects for the FTAA, because, according to Carranza (2007), it even contradicted the "Washington Consensus", on which the original proposal of continental integration was based.

Other Latin American countries might draw conclusions that there was no reward for being a "friend" of the U.S. [...] The absence of U.S. support for Argentina at a time of crisis bodes very poorly for the building of a long-term economic community in the hemisphere. If that's what community means, it doesn't mean much. [...] Prescriptions for economic policies based on free markets were discredited, and the US would have to accommodate at least some demands from Latin American countries, during the market access negotiations that began in November 2002 (CARRANZA, 2004, p. 327).

In this context, the results of the ministerial meeting in Miami in 2003, in the final phase of the FTAA negotiations, were considered a victory for Brazilian diplomacy¹⁷. The so-called "FTAA à la carte" or "light FTAA" was a not so comprehensive FTAA with different levels of commitment. The Miami ministerial declaration stated that the "Ministers recognize that countries can make different levels of commitments, and that negotiations should allow countries, if they so wish, to agree or not to obligations and obtain additional benefits." (MINISTERIAL DECLARATION, 2003, *apud*, TEIXEIRA, 2011, p. 205). It should be noted that this "FTAA à la carte" was received with skepticism by the US and Canadian negotiators, and even some analysts in Brazil "complained that the plan would be counterproductive and would not be able to gain traction" (DEBLOCK and TURCOTE, 2005, p. 7).

The main controversies of these negotiations included liberalization of agricultural products, trade reservations (*anti-dumping measures*), intellectual property rights, and environmental and labor standards. The first of these, in the FTAA negotiations, was considered the most sensitive and controversial. A critical point was whether the agreement would eliminate or regulate agricultural subsidies and other disruptive trade practices¹⁸. That is, minimum entry price schemes; escalation and tariff peaks; mandatory labeling and certifications; non-scientific criteria applied to agricultural products; and technical and phytosanitary barriers. One of the main points of discussion was whether such measures would have a magnitude in the FTAA

¹⁷ In 2003, the new government of Brazil under Lula da Silva saw the integration of South America as a foreign policy priority. In 2004, during the third meeting of South American presidents in Peru, Mercosur and the Andean Community formalized a cooperation agreement, thus creating the "Community of South American Nations" which later became the "Union of South American Nations" or UNASUR (TEIXEIRA, 2011).

¹⁸ Part of the complexity of the negotiations was the result of significant protectionism on the part of the countries importing agricultural products. Among these, the following stand out: sugar, orange juice and citrus products, tobacco, cotton, soybeans and meat (RIVAS-CAMPO, 2003).

negotiations or in the WTO. The U.S. position was that such barriers should be discussed at the multilateral level. The argument was that a regional agreement would not cover countries outside the region, such as Japan and members of the European Union, which granted heavy subsidies to the agricultural sector. Given this U.S. position of encouraging global rather than regional liberalization in agriculture, Latin American countries began to wonder about the gains of an FTAA without agricultural liberalization. In fact, this was a major concern given that developing countries are heavily dependent on this sector. In addition, because the U.S. was reluctant to eliminate its agricultural subsidies, Latin American countries "argued that dropping or eliminating tariffs on agricultural products while maintaining the option for subsidies would be insufficient and unfair, because it would deprive developing countries of protecting their own sector, given the high cost of such measures to least developed countries." (RIVAS-CAMPOS, 2003, p. 670).

At the domestic level, Brazil and Argentina evaluated the reduction of tariffs in areas considered sensitive, more common in economies of non-central countries. These analyses were linked to the demands of the two most interested sectors: the agro-exporter and the industrial. The first of these was in favour of access to new markets, although he opposed the subsidy policy of the central countries, which made access to them difficult. The second group, in general terms, opposed greater external competition caused by a general tariff reduction on goods and services. They thus argued that such a measure should be staggered and include the possibility of using protection mechanisms. Nevertheless, some large companies and economic groups supported trade liberalization, due to the possibility of enjoying access to new markets, being convinced of the ability to resist a higher level of competition (KAN, 2018, p. 5).

From the associative and corporate point of view in Brazil, the creation of the Brazilian Business Coalition (CEB) stands out¹⁹, which was configured as a multisectoral organization of business leadership entities. It included various trade union representation organizations, private companies with domestic capital, foreign capital and state-owned companies. The explicit objective was to intervene in the FTAA negotiations. "The idea was to organize itself to ensure a coordinated participation of Brazilian businessmen in the negotiation process, without the hegemony of the Ministry of Foreign Affairs" (SANTANA, 2000, p. 69 *apud* KAN, 2018).

The CEB was open to various proposals from companies, but in the end the opinion of the group prevailed, which opposed the acceleration of hemispheric integration proposed by the US government. However, according to Castelan (2016), such a position was not as obvious

¹⁹ In addition to bringing together several specific sectors, CEB was commanded by the main entities of Agro, such as CNA (Confederation of Agriculture and Livestock of Brazil), and industry, such as CNI (National Confederation of Industry), and to a lesser extent by FIESP (Federation of Industries of the State of São Paulo) (KAN, 2018).

as it may seem. On the one hand, and in macroeconomic terms, in fact the US seemed to be a threat to Brazil. The Latin American and Caribbean region, by and large, was among the few regions in the world with which the U.S. maintained a trade surplus²⁰.

the damage associated with the FTAA in the minds of the Brazilian state bureaucracy [can] be summarized in the following equation: the external vulnerability of the Brazilian economy is a function of the deficit in the balance of payments, which is a function of the deficit in the balance of trade, which is a function of the low competitiveness of our exports, whose most appropriate symbol is the reversal of the bilateral balance with the United States [...]. The political class generally shares the perceptions of the bureaucracy regarding the fatality of the damage caused by competition with the US and, in turn, tends to extend this fear to foreign competition in general (ALBUQUERQUE, 2006, p. 572).

On the other hand, the U.S. has always been a major market for Brazilian industrial products. At the end of the 1990s, 70% of Brazilian exports to the USA were made up of manufactured products, while those destined for the EU were only 38% (PEREIRA, 2001, p. 36 *apud* CASTELAN, 2016). It is common for governments to consider aggregate data and give greater importance to balance of payments results, but not to represent specific sectors. In this sense, the protectionist position of the CEB in favor of gradualism and selective agreements did not seem as obvious as one might suppose²¹.

As for the businessmen [...]. The understanding that protectionism has costs as well as benefits, and that the two must be compared, is a process that is developing sector by sector, branch by branch, as the growing inseparability between import and export costs becomes evident to sectors subjected to competition. Generally speaking, no one refuses additional protection unless the costs—disproportionate increases in inputs or threats of retaliation—become all too evident. Thus, [...] the vast majority of the business community [...] saw in the FTAA more harm than good (ALBUQUERQUE, 2006, p. 572, 573).

In short, the FTAA negotiations were complex and relied on defensive positions based on the diagnosis of the fragility of some Brazilian industrial sectors. According to Oliveira (2009, p. 184), there was an inability of Brazilian policymakers to renounce an administered policy, and to commit themselves to the challenges imposed by the new regionalism and globalization. Thus, the Brazilian negotiators lacked a more objective stance in relation to the costs and benefits of adhering to a project such as the FTAA.

²⁰ The United States had a trade surplus with the region of about US\$ 12.3 billion in 1998 (SANTANA, 2000, p. 40).

²¹ In 2005, the year in which the FTAA negotiations stalled, seven of the ten industrial activities that exported the most had the US as their main destination. The textile-clothing industry, although not dependent much on exports, saw in hemispheric liberalization an opportunity for access to the American market. Finally, the agricultural and food products sector was the one that showed the greatest support in favor of the FTAA (CASTELAN, 2016).

2.2 US STRATEGIES

There are different interpretations of the U.S. initiative to launch the FTAA at the Summit of the Americas in 1994. The first was based on the "Washington Consensus", that is, a set of prescriptions such as greater trade liberalization, deregulation and privatization that could even lead Latin American countries out of the recession of more than a decade. The opening of the markets of neighboring countries would allow the creation of the continental regional bloc and would also help to face the increase in trade protectionism in Europe and Asia (MASI and WISE, 2005, p. 308). Therefore, part of the U.S. interest in the FTAA can be interpreted as going beyond that of economic benefits, given the "possibilities it offers for the reinforcement of the structural and ideological foundations of U.S. hegemony, consistent with its parallel global strategies" (PHILLIPS 2003, p. 331).

According to Pinto and Guimarães (2005), such interests have been particularly relevant for much longer than the beginning of the FTAA negotiations. Latin America is a region that the U.S. has become accustomed to considering as its natural influence and where it has exercised its economic, political, and military supremacy for several decades²². In 1990, a period in which the US focused on the development of NAFTA, the then US President George Bush launched the proposal "Initiative for the Americas", which established Latin America as an area of influence of the US. This proposal aimed to prevent another economic power, such as the European Union, from acquiring a prominent role in the region. In this sense, the U.S. intended NAFTA to become an integration model to be expanded to all of continental America, especially Brazil²³. It should be noted that members of the later Clinton administration expressed several times that Mercosur was seen as harmful to the FTAA and a threat to hemispheric regionalism (CARRANZA, 2000).

A second interpretation points to the U.S. concern with creating the necessary institutions to increase the flow of exports and foreign direct investment (FDI) from the U.S. to Latin America. In that case, the FTAA would be a means for the U.S. to expand in the region in the same way that NAFTA was used to gain a larger market share in Mexico²⁴. Breaking down trade and investment barriers, especially in South American countries, would also prevent U.S.

²² Examples are the interventions in Panama (1914), Haiti (1915), the Dominican Republic (1916), Nicaragua (1925-1933) and the support given to many of the political dictatorships that favored the economic interests of the United States (PINTO and GUIMARÃES, 2005).

²³ In 1994, President Bill Clinton's request for a fast track concession to negotiate the NAFTA agreement had already implied its extension to all of Latin America. "Fast track is a request made to Congress by the U.S. president to be able to negotiate trade agreements without having to wait for the usually lengthy decision of Congress." (PINTO and GUIMARÃES, 2005, p. 5).

²⁴ President Clinton had hoped that the conclusion of NAFTA would allow the U.S. to "use the Mexican precedent to enter the rest of Latin America" (FEINBERG, 1997, 58).

companies from suffering discrimination in the context of a free trade agreement between them and the European Union or East Asian countries²⁵ (MASI and WISE, 2005, p. 308).

The last interpretation is that U.S. objectives in the hemisphere should be considered in light of the difficulties of trade negotiations within the WTO, such as in the Doha round. In this sense, the gradualist and fragmented nature of integration through the FTAA was seen as a more promising option for the US.

One of the main reasons for U.S. interest in an FTAA stems from the opportunity it presents to push a new trade agenda, at a time when progress in multilateral trade negotiations appears precarious, and when the diminishing ability of the U.S. to control the multilateral agenda has been a cause for political concern. The result was that promoting the trade agenda in the Americas seemed increasingly inviting than continuing to fight against numerous obstacles in the multilateral arena (PHILLIPS, 2003, p. 332).

From these different interpretations of the U.S. interest in hemispheric integration, two main elements stand out. First, the FTAA is seen by the US as a way to strengthen its bargaining power vis-à-vis Europe and East Asian countries. Secondly, the FTAA would be a single regional integration that would promote Latin America in global spheres, keeping the US as the main agent (*hub*). This would also allow for the deepening of reforms and market liberalization in Latin America, diluting the complex "patchwork" of sub-regional agreements that has evolved on the continent since the early 1990s.

This process can be seen as a deliberate attempt by the U.S. to consolidate its hegemony in the Western Hemisphere by integrating Latin American economies with those of North America and legitimizing an integration agenda. The latter incorporates: i) the effort to expand international rules on trade, investment and services in a future FTAA; ii) effort to eliminate differences in national regulatory regimes and their discriminatory effects on trade and investment. These included rules on property rights, differences in national standards, financial, industrial, technological, competition, and environmental policy issues; iii) the objective of reducing or even eliminating the differences in corporate policies, and the structures of industrial policies that imposed restrictions on trade and investment (HAGGARD, 1995, *apud* CARRANZA, 2004, p. 320).

Since the beginning of the FTAA negotiations, two different views on the character of the integration process have collided. These two points of view were represented by the two largest

²⁵ Because the U.S. has comparative advantages primarily in trade in services and high-tech goods, a reduction in Latin American trade barriers would pave the way for U.S. companies in the region. This explains the position of the United States, since the beginning of the negotiations, to include new issues such as: liberalization of the service sector, investments, government procurement and issues such as intellectual property rights (MASI and WISE, 2005, p. 309).

economies in the American continent, the USA and Brazil, and their respective regional subsystems. While the US aimed at an expansion of NAFTA to the entire continent, as part of a broader vision of a new world order, Brazil wished to consolidate its position in the South American subsystem, and saw the FTAA as an obstacle to this (TEIXEIRA, 2011, p. 195). In 2003, the two countries adopted apparently intransigent positions and showed a lack of political commitment to make concessions. In addition, the U.S. became more protectionist during the Bush administration and less willing to compromise on issues of interest to Latin America, such as agricultural subsidies and anti-dumping measures applied to Latin American exports, especially to Brazil (CARRANZA, 2007, p. 321).

While maintaining its commitment to reaching a multilateral regional agreement, the U.S. has also resorted to bilateralism with the aim of working on the disarmament of Mercosur as an integration project, trying to isolate Brazil from the rest of its partners. "[The U.S.] would send signals to Central America and Caribbean countries for proposals for free trade agreements; [this] would give the prospect of permanent preferential access to the U.S. market before the Andean countries; [in addition] it would restart negotiations for a free trade agreement with Chile; and would tempt Argentina and Uruguay to negotiate outside the Mercosur framework" (MASI and WISE, 2005, p. 314).

The fourth Summit of the Americas in Mar Del Plata (Argentina), in 2005, definitively marked the end of the FTAA negotiations. Among the thirty-four participants, twenty-nine expressed themselves in favor of moving forward in the negotiations, the five dissident nations were composed precisely of the four members of Mercosur plus Venezuela, which a month later was invited to join the Bloc as a permanent member. This event, according to Teixeira (2011), was a perfect illustration of how Brazil used Mercosur as the core of its strategy of establishing a free trade zone in the region, to counter the American strategy. With the end of the possibility of a comprehensive hemispheric agreement, the Bush administration sought to establish free trade agreements with individual countries, including Chile, Peru, Colombia, and Ecuador, while Brazil sought to establish South America as an "enlarged economic space²⁶." The difference between such strategies is that while the US sought more specific and detailed agreements with the different countries, Brazil aimed at greater multilateral institutionalization in an attempt to build a regional identity.

The countries on the peaceful shore of the continent, with the exception of Ecuador, agreed to sign bilateral free trade agreements with the United States along the lines of the FTAA, thus making it impossible to incorporate them into Mercosur. As already mentioned, this

²⁶ As President Fernando Henrique Cardoso had declared in the early 1990s.

is the case of Chile, Peru and Colombia. With the implementation of these agreements, import tariffs were immediately zeroed for no less than 80% of U.S. exports of consumer and industrial goods to Peru and Colombia. On these types of products, all remaining Peruvian and Colombian tariffs have been eliminated within ten years. In the case of agricultural goods, more than two-thirds of U.S. exports to Peru and Colombia were immediately free of import tariffs; and most of the remaining tariffs were eliminated in 15 years²⁷ (BATISTA JR., 2008; USTR, 2022). By definition, members of a customs union such as Mercosur, aligned with a TEC, are not free to sign bilateral trade agreements with other countries, in this sense, Colombia, Peru and Chile can only remain as associated members of Mercosur. Such elements reflect a clear tacit competition between the USA and Brazil (TEIXEIRA, 2011).

In August 2004, the U.S. signed the Free Trade Agreement with Central American countries, namely: Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, called CAFTA-DR. The implementation of the agreement proved to be challenging and occurred continuously after each country made legal, regulatory and general rule changes to comply with the obligations assumed. CAFTA-DR entered into force in July 2006 in El Salvador, Honduras, Nicaragua, and Guatemala. Dominican Republic in March 2007 and Costa Rica in January 2009. The economic logic lies in preferential access to agricultural and manufactured products produced in the region. By removing regional barriers to trade, co-production on shared manufacturing assembly lines between the U.S. and the other CAFTA-DR members was encouraged, based on comparative advantages and economies of scale. The objectives of this agreement included:

- a) To encourage the expansion and diversification of trade between countries;
- b) To eliminate barriers to trade, and to facilitate the cross-border movement of goods and services between the territories of countries;
- c) to promote conditions of fair competition in the free trade area;
- d) substantially increase investment opportunities in the territory of the countries;
- (e) To provide adequate and effective protection and enforcement of intellectual property rights throughout the territory of each country;
- f) to create procedures for the implementation and application of the agreement, aiming at its joint administration and for the resolution of disputes, and;
- g) establish a framework for greater bilateral, regional and multilateral cooperation to enhance the benefits of this agreement (USTR, 2004).

²⁷ Colombia is a major importer of U.S. grains while exporting a number of tropical fruits to the U.S. In addition, U.S. cotton, yarn, and fabric exports to Colombia are used in many clothing items that Colombia exports to the U.S. The main products exported from the U.S. to Colombia that are now exempt from tariffs are: agricultural and construction equipment, aircraft and parts, auto parts, fertilizers and agrochemicals, information technology equipment, medical and scientific equipment, among others. Many agricultural commodities also benefited from the agreement (USTR, 2022).

According to Hornbeck (2012), this strategy increased the productivity of companies in all countries involved. The competitiveness of companies depends on the value added in the supply chain, especially in the apparel sector and, later, extended to the auto parts, medical equipment, integrated circuits, among others. Tariff preferences under CAFTA-DR have contributed to companies remaining competitive given increased competition from Asian countries and other low-cost global producers (IZQUIERDO and TALVI, 2011, p. 42-44 *apud* HORNBECK, 2012). From the point of view of the Central American countries, the permanent reduction of barriers to the U.S. market was the central objective, ensuring that their exports would have access to the large U.S. market and, at the same time, guaranteeing imports at low costs, including intermediate goods and capital goods. In other words, the increase in trade flow could raise the long-term growth rate through various channels, such as: market size, production specialization, economies of scale, technology transfers and managerial experience, use of resources more efficiently, and higher level of investments.

whereas market access is the main element of free trade agreements, and refers to the provisions governing barriers to trade, such as tariffs and import quotas; CAFTA-DR has called for the phasing out of almost all tariffs. For non-textile manufactured goods, the 80% tariffs on imports coming from the US were eliminated immediately, with the remainder being eliminated for a period of up to 10 years. For agricultural products, the 50% tariffs on imports from the US were eliminated immediately, with the rest being eliminated for a period of up to 20 years. For CAFTA-DR member countries, 100% of non-textile and non-agricultural products began to enter the U.S. tariff-free shortly after the agreement was implemented (USTR, 2004). Some "safeguards" were maintained for certain textile and agricultural products during the period of duty elimination, but anti-dumping and countervailing measures were not addressed in the agreement, leaving such trade defense laws to the World Trade Organization.

In order to assess the effects of CAFTA-DR on the countries involved, Hornebeck (2012) proposed a comparative analysis of the period before and after the agreement, demonstrating the main trends in trade in the region in the period between 2000 and 2011. Three main changes stand out: i) the USA remains the largest trading partner among the members, but its relative participation has been reduced to other countries; ii) trade with China and Mexico has increased; and iii) trade between Central American countries increased and deepened.

In 2000, the U.S. was the destination of 73% of the exports and 55% of the origin of imports of CAFTA-DR members, while in 2010 these numbers dropped to 43% and 46%, respectively, the decline occurred in all countries. Between 2000 and 2010, exports to China increased from about 0% to close to 6% and imports from 2% to 7%. Trade among CAFTA-DR members increased from 2 percent to around 11 percent, making the region

the largest in terms of intraregional trade intensity in the U.S. hemisphere. (HORNEBECK, 2012, p. 5).

CAFTA-DR thus plays a supporting rather than a leading role in these new evolving trade patterns, especially in the trend towards greater productive fragmentation and the formation of global value chains. For example, the increase in exports to China is fully represented by Costa Rica's semiconductor exports. The increase in trade between Central American countries is the result of a long-sought effort by countries to deepen subregional integration. In addition, these efforts were strengthened with the signing of the Mexico-Central America free trade agreement in November 2011, which deepened the integration process and increased the volume of trade between the country and the region by four times. This is largely explained by the supply chain relationships that the U.S. and many of its companies have developed in the Mexican economy and in Central America and the Caribbean, particularly in the automotive, apparel, electronics, and computer sectors (HORNBECK, 2012, p. 5-6).

The CAFTA-DR rules of origin reinforce regional integration because they induce greater sharing of production among member countries. This makes the region more competitive globally by increasing co-production relationships, reducing customs delays, and enabling greater economies of scale in production. They also allow tax exemption on imports from the US of products assembled from inputs produced in Central America or Mexico. This relationship is evident in the production of integrated circuits, auto parts and clothing, sectors in which the US sent part of the production chain to this region. This follows the logic of global value chains, in which there is a greater fragmentation of the production chain among several countries in the region, mainly enhancing the trade of intermediate products, parts, components, inputs, and raw materials.

For example, Mexico imports integrated circuits from Costa Rica, apparel from Guatemala, and sets of harness sets for automobiles from Nicaragua, all made from U.S. inputs. These goods are used to assemble computers, clothing and automobiles for export to the U.S. and other Latin American countries. Similarly, fabrics produced in the U.S. are used in apparel production in the Dominican Republic, Honduras, and Guatemala, and final goods are tax-free when they enter the U.S. Thus, unlike commodity-driven export growth, much of the region's trade reflects the global production of the supply chain related to U.S. global production and consumption²⁸ (HORNBECK, 2012, p. 6).

²⁸ It should be noted that the analysis of the technological content of the exports of the CAFTA-DR countries supports the trend of the USA being the largest market for exports of different technological levels. From low-tech apparel to integrated circuits and high-tech medical equipment. Costa Rica's exports from the Dominican Republic have the highest concentration of technological intensity, while Guatemala and Nicaragua have the lowest (HORNBECK, 2012).

Calderón and Poggio (2010) aim to assess the economic growth effects of trade openness among CAFTA-DR countries, and whether these effects are stimulated or hindered by advances in structural policies and institutions. The authors conclude that: although the baseline model predicts the benefits of trade growth for CAFTA-DR countries, not taking into account the complementarities between trade openness and structural factors may overestimate these results. Indeed, the authors point out that human capital, infrastructure development, and institutional quality can play an important role in increasing the benefits of trade growth. In this regard, there is ample room for CAFTA-DR countries to reap the benefits of increased trade, but an important role must be played by new reforms in areas such as education, infrastructure, and international financial integration.

3 DISTRIBUTION OF THE COSTS AND BENEFITS OF THE FTAA – WHO WINS AND WHO LOSES

The American continent is full of large differences in terms of population, level of wealth, volume of production, and per capita income. In this sense, some relevant questions arise, such as: what interests do the US and the Mercosur countries, especially Brazil, have in opening their economies? What are the perceived costs and benefits of hemispheric integration from the point of view of the U.S. and Brazil? Overall, domestic politics in the U.S. and Brazil were what hampered the ability of political leaders and trade policymakers to implement the FTAA. In the U.S., it was the declining traditional sectors (agriculture, textiles, and steel) that most firmly resisted competition from Latin American imports. In Brazil, it was an "entrenched elite" that fears competition in the new commercial sectors (services, investments, high technology) in which the country remains most vulnerable.

3.1 USA – COSTS AND BENEFITS OF THE FTAA

With regard to U.S. interests in the FTAA, the high Mercosur import tariffs (CET) in sectors such as capital goods and high-tech industry products stand out. Considering that the U.S. is competitive in these items, the implementation of the FTAA would generate gains for U.S. investors, through greater access to these markets in the southern cone. In addition, liberalization of government services and procurement as part of FTAA implementation would give U.S. firms the leverage needed to compete with Mercosur-based firms. Finally, another gain involves the issues of intellectual property rights, which are the subject of discussions about the capacity for inspection and, therefore, susceptible to trade sanctions by the USA (MASI and WISE, 2005, p. 320).

The FTAA was also supported by large U.S. companies with investments in Latin America. For these large multinationals, which have been establishing subsidiaries in different countries in the region for a century, by reducing barriers to trade and regulations, there would be greater guarantees for their investments. In addition, it would open up new possibilities for capital to be installed where labor cost conditions were more favorable, as happened with the Mexican maquiladoras after the signing of NAFTA. It would also allow these U.S.-based companies to participate in bids for public works in the areas of health and education²⁹. In this sense, it would put local and foreign investors on an "equal footing" with the only criterion of efficiency, favoring American and Canadian companies (MORGENFELD, 2005, p. 9).

Other sectors favorable to integration were the pharmaceutical industry and biotechnology companies. For these powerful institutions, patent issues are of fundamental importance, as they guarantee intellectual property rights and returns on their investments. This problem is also associated with the privatization process that impacted Latin America in the 1990s and that advanced in all branches of the economy, including sectors and activities that were previously under the state's orbit.

On the other hand, the main arguments in the U.S. against the FTAA resided in labor unions, environmental organizations, and private-sector interest groups, which were considered obsolete or uncompetitive. The agricultural sector and some manufacturers stand out, such as: sugar, tobacco, fruits, vegetables, textiles, footwear and steel, among other products considered more sensitive to integration³⁰. However, although these interest groups are a minority in the US, a new round of protectionism for these products was the one that hit the Mercosur countries the hardest. The bill unilaterally offered access to the U.S. market to the Andean, Central American and Caribbean countries, but not to the Mercosur countries (US DEPARTMENT OF COMMERCE, 2002 p. 4). In other words, the bilateral negotiations between the U.S. and other regional groupings, due to the deadlocks in the FTAA negotiations, granted permanent access to the U.S. market in these sectors considered sensitive, to the detriment of the Mercosur countries, in which there was no pre-existing privileged access. Thus, those in the US viewed the FTAA negotiations with caution were the industrial sectors that produced mainly for the domestic market. They had the perception that they should start to compete more intensely with countries where labor costs were lower.

²⁹ Until then, they were partially forbidden to foreign companies, due to contract clauses or criteria of "buying at the national level".

³⁰ However, some econometric studies reveal that the losses for these sectors under a possible implementation of the FTAA would not be significant, and in some way, there would be net gains with the opening of Mercosur and the other South American countries (ESTEVADEORDAL and ROBERTSON, 2004).

In general, despite intense *lobbying* by several of these interest groups, the perception of most U.S. business associations, including most farmers, is that their gains from the FTAA would outweigh their losses. For example, businessmen from the National Association of Manufacturers (NAM) lobbied then-President Bush for further trade liberalization in the hemisphere, and to do so at a rapid pace. Other associations, which represent American commercial interests, advocated greater market opening for their products in Argentina, Brazil and Chile, and considered these markets to be very promising for exports from the American industrial sector³¹ (MASI and WISE, 2005, p. 320).

One of the main criticisms of the Mercosur countries to the US is related to the high protection of traditional manufactured goods, which fall into the category of "sensitive products", and the high subsidies to agricultural commodities, which contributed to depressing the international prices of these items. If, on the one hand, the U.S. showed great interest in the liberalization of services, investments and government purchases (the new trade issues), on the other hand, the Mercosur countries insisted on the importance of market access to the aforementioned goods as a key condition for the establishment of reciprocal and fair trade. "Mercosur's main exports to the U.S. are agricultural commodities and traditional manufacturing products, mainly agro-industrial goods." (MASI and WISE, 2005, p. 323). Such characteristics reflect the sectors in which the U.S. would gain and those that would lose from continental integration.

3.2 BRAZIL – COSTS AND BENEFITS OF THE FTAA

In Brazil, the country that led the FTAA negotiations from the Southern Cone, different opinions prevailed among businessmen, economic analysts, and policymakers about the implementation of the FTAA. Exporters of agricultural products, companies in the agro-industrial sector and steel and oil producers were in favor of the FTAA and greater trade openness with the US. This support was conditioned by projections of an increase in sales caused by reductions in tariff barriers in the US. On the other hand, companies and entrepreneurs representing other industrial sectors, such as chemicals, automobiles and machinery, did not share this opinion. Members of this second group argued that they would suffer great disadvantages if the Brazilian economy was open to American competition. A key factor that determines the low level of competitiveness for these sectors is the high cost of doing business in Brazil. These include high tax burdens, high interest rates, limited access to venture capital,

³¹ Business sectors such as the American Chemistry Council, the Electronics Industry Alliance, and the High-Tech Goods Coalition acted as a counterweight to the specific sectors that sought to thwart the FTAA.

and a lack of basic and technological infrastructure³². These representatives feared that the FTAA could lead to the dismantling of several sectors and transform the country into an exporter of agricultural commodities (MASI and WISE, 2005, p. 324).

An emblematic case is that of steel. By mid-2001, the U.S. steel industry was operating at 40 percent of its total capacity and was selling steel at the lowest prices in 20 years³³. The government decided to defend its steel industry by raising the tariff on imports to 30%. In order to reverse this U.S. protectionism, Brazilian export sectors have suggested that the trade liberalization project in the Americas could be a good opportunity to negotiate better access to the U.S. market. For these sectors, the FTAA would only make sense if the reduction of such tariffs was negotiated. In this way, they coincide with agricultural exporters, who would be willing to risk a process of greater competition in the domestic market, as long as access to the US market under better conditions was guaranteed (MORGENFELD, 2005, p. 9).

For the large agro-exporting groups in Brazil, the FTAA should not be rejected, but should take advantage of the situation to establish agreements that guarantee a minimum of reciprocity. The argument was that the U.S. should reduce not only tariff barriers, but also non-tariff barriers, since, at the time, 60% of Brazilian exports to that country had some type of non-tariff restriction. For example: "Brazilian orange juice must pay a 56% tariff to access the North American market. Brazil is the largest producer of orange juice in the world [...]. The reduction of tariff and non-tariff barriers would open an important market for Brazilian products." (MORGENFELD, 2005, p. 14). In this way, they supported a free trade area in the Americas, as long as defensive trade practices such as antidumping policies, phytosanitary barriers, or export subsidies were also eliminated continuously and gradually.

On the other hand, industrialists who produced primarily for the domestic market were generally opposed to an FTAA-type agreement. The argument of the Brazilian producers was that certain segments of the local industry were technologically outdated in relation to those of the USA, so that a total and immediate opening could harm national production. One of the biggest opponents of the FTAA's advance was FIESP, which claimed that Brazil would lose one billion dollars a year in its foreign trade if the FTAA came into force in 2006. "For some sectors that were not prepared, the FTAA will be absolutely deadly" said Horácio Lafer Piva, president of FIESP (ADITAL, 2002 *apud* MORGENFELD, 2005, p. 10).

³² Rubens Barbosa, Brazil's Ambassador to Washington until 2004, agreed that Brazil's competitiveness would not be determined solely by preferential tariffs under the FTAA. It would also be necessary to have better coordination between the national public and private sector to reduce the "Brazil cost". The tariff reductions of the FTAA negotiations should be accompanied by a process of strengthening Brazilian competitiveness, also attracting foreign investment in export-oriented and capital-intensive sectors (MASI and WISE, 2005).

³³ As this sector is characterized by high economies of internal scale, such information points to the low American competitiveness of this sector, especially when compared to the Brazilian industry.

Regarding the effects of trade deregulation on Brazilian industry, some studies such as MDIC (2002) and FIESP (2002) divided the analysis into four main groups. The first consists of production chains that would not be negatively affected by the FTAA, and that would also open up commercial opportunities, such as: coffee, pulp and paper, citrus fruits, leather and footwear, steel and part of the textile-clothing chain. In general, these chains are considered more competitive and had trade surpluses from 1996 to 2001. The second group includes chains characterized by significant trade deficits and deficits. These are undifferentiated capital-intensive goods, such as: petrochemicals, processed plastic products and shipbuilding. For this group, studies suggest extreme caution in tariff policy, and it needs to be accompanied by policies to increase competitiveness, in order to accommodate the process of trade liberalization. The third consists of chains in which threats and opportunities counterbalance each other, as is the case of the wood-furniture, ceramics and cosmetics sectors. The former categories had trade surpluses, while the latter had a moderate deficit³⁴. The fourth and final group is made up of chains in which multinational companies have a significant presence, and where intrafirm trade predominates: automakers, pharmaceuticals, communication equipment and electronics. These trade flows strongly depend on the international strategy implemented by the foreign companies that control these chains³⁵ (MACHADO and FERRAZ, 2005, p. 373-375).

Another point of view of this debate was the possibility of increasing Brazil's competitive advantage by enhancing the existing intra-firm trade between the US and the Brazilian economy. As economic theory points out, the regionalization of this type of trade could promote a restructuring based on specialization, economies of scale and technological updating. Certainly U.S. subsidiaries operating in Brazil would benefit greatly from the FTAA, especially in terms of a freer flow of imports from their U.S. headquarters. Such elements could contribute to a higher level of competitiveness of subsidiaries located in Brazil.

[...] the companies that export foreign capital maintain a strong interaction with their headquarters. The companies that registered an increase in their sales and exports between 1995 and 2000 channeled their activities, preferably, to the countries of origin

³⁴ These chains are not sensitive to trade deregulation, but they require precise and selective competitiveness policies. As incentives for product differentiation, for example: development of design and brands in the case of furniture, cosmetics and ceramics, or property and environmental policies as in the case of wood-furniture (MACHADO and FERRAZ, 2005, p. 374).

³⁵ It should be noted that the study points to the importance of national content policies or managed trade, along with policies to support technological development. However, they are insufficient when foreign companies are not willing to negotiate.

of their capital³⁶. [it is thus reaffirmed] the importance of the potential impact of the FTAA: subsidiaries of American and Canadian companies that operate in Brazil have a reasonably diversified geographic structure for their exports, but depend on the US for almost 40% of their imports [...]. [therefore], American transnational corporations tend to export in a greater proportion to countries in which they have a greater participation than to those countries that do not have subsidiaries (BAUMANN and CARNEIRO, 2002, p. 165).

In short, the position of the representatives of the industries in Brazil was not homogeneous. Many São Paulo industrialists supported the deepening of the link with the USA. The position of one or the other depended on their chances of survival if the FTAA project went ahead. Such attitudes varied not only according to each sector of the economy, but also according to the size of the companies, and according to the degree of concentration and centralization of capital that each of them presented. In any case, most studies on the possible impacts of the liberalization of the economy, which provided the basis for these positions, showed that Brazil would end up importing much more than it could export. Even considering that tariffs would be zeroed in all American countries, many of these representatives viewed the progress of the FTAA negotiations with suspicion or fear, which partly explains the Brazilian government's position of being more reluctant to agree with the United States (MORGENFELD, 2005, p. 10). By way of conclusion of this article, Table 01 presents a synthesis of the distribution of the costs and benefits of the FTAA for the USA and Brazil.

Table 1

Distribution of the Costs and Benefits of the FTAA

	Who would win	Undefined	Who would lose
USA	Capital goods sector: machinery	Intra-industry trade: oil.	Agro-industrial sector: sugar, tobacco, vegetables, fruits, orange juice, etc.
	High-tech industry: biotechnology, electronics etc.	Sector: wood-furniture, ceramics and cosmetics.	Manufacturers: textile-clothing, footwear, pulp and paper, and steel.
	Chemical and pharmaceutical industry		
	Service sector		
Brazil	Who would win	Undefined	Who would lose
	Agro-industrial sector: coffee, sugar, tobacco, vegetables,	Trade led by multinationals: automakers,	Capital goods sector: machinery

³⁶ According to the authors, there are intra-firm transactions that could influence the estimates of the effects associated with preferential trade agreements. This could generate a sectoral distribution different from that obtained in the estimates of trade creation and trade diversion derived from a tariff reduction.

	fruits, orange juice, etc.	communication equipment and electronics.	
	Manufacturers: textiles and clothing, pulp and paper, footwear, steel, petroleum.	Sector: wood-furniture, ceramics and cosmetics.	Chemical and petrochemical industry, processed plastics, shipbuilding and pharmaceuticals.

Source: Prepared by the authors.

REFERENCES

- Albuquerque, J. (2006). A ALCA na política externa brasileira. In J. G. de Albuquerque, R. Seitenfus, & S. H. N. de Castro (Eds.), *Sessenta anos de política externa brasileira (1930–1990)*. Lumen Juris Editora.
- Batista Jr., P. N. (2008). A América do Sul em movimento. *Brazilian Journal of Political Economy*, 28, 226–238.
- Baumann, R. (2001). *Mercosul: Avanços e desafios da integração*. IPEA.
- Baumann, R., & Carneiro, F. G. (2002). El comportamiento de las empresas exportadoras brasileñas: Implicaciones para el ALCA. *Revista de la CEPAL*.
- Briceño Ruiz, J. (2007). Strategic regionalism and regional social policy in the FTAA process. *Global Social Policy*, 7(3), 294–315.
- Canuto, O., Lima, G. T., & Alexandre, M. (2003). *Investimentos externos em serviços e efeitos potenciais da negociação da ALCA (Texto para Discussão 942)*. Institute for Applied Economic Research.
- Carneiro, F. L. (2015). Medidas não tarifárias como instrumento de política comercial: Conceito, importância e evidências recentes de seu uso no Brasil. *Boletim de Economia e Política Internacional (BEPI)*, 22, 21–35.
- Carranza, M. E. (2004). Mercosur and the end game of the FTAA negotiations: Challenges and prospects after the Argentine crisis. *Third World Quarterly*, 25(2), 319–337.
- Calderón, C., & Poggio, V. (2011). Trade and economic growth: Evidence on the role of complementarities for the DR-CAFTA countries. In *Getting the most out of free trade agreements in Central America* (p. 83).
- Castelan, D. (2016). Domestic coalitions in the FTAA negotiations: The Brazilian case. *Contexto Internacional*, 38, 313–348.
- CEPAL & United Nations. (1954). *A cooperação internacional na política de desenvolvimento latino-americana*.
- Deblock, C., Turcotte, S. F., & Murillo S., L. (2005). Estados Unidos, Brasil y las negociaciones hemisféricas: El ALCA en modalidad bilateral. *Foro Internacional*, 5–34.

- De Ginzburg, C. A. (2004). ALCA: Negociaciones y estructuras. *Revista Aportes para la Integración Latinoamericana*, 10.
- Estevadeordal, A., et al. (2004). From distant neighbors to close partners: FTAA and the pattern of trade. In *Integrating the Americas: FTAA and beyond*.
- Fauriol, G. A., & Perry, W. (1999). Thinking strategically about 2005: The United States and South America. Center for Strategic & International Studies.
- Hornbeck, J. F. (2012). The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR): Developments in trade and investment.
- Kan, J. (2018). Las corporaciones agrarias de Argentina y Brasil ante la crisis de las negociaciones por el ALCA. *Mundo Agrario*, 19(40), 080.e1–080.e2.
- Machado, J. B. M., & Ferraz, G. (2003). FTAA: Assessments and perceptions of the Brazilian government and production sectors. In *MERCOSUR and the creation of the Free Trade Area of the Americas*.
- Masi, F., & Wise, C. (2004). Negotiating the FTAA between the main players: The U.S. and MERCOSUR. In M. Vaillant & F. Lorenzo (Eds.), *MERCOSUR and the creation of the Free Trade Area of the Americas*. Woodrow Wilson Center for International Scholars.
- Morgenfeld, L. (2005). Sectores socioeconómicos y políticos que impulsan y obstaculizan la constitución del ALCA en Estados Unidos, México, Brasil y Argentina. *Clarín*, 15, 10.
- Navia, P., & Velasco, A. (2003). The politics of second-generation reforms. In P. P. Kuczynski & J. Williamson (Eds.), *After the Washington consensus: Restarting growth and reform in Latin America*. Peterson Institute of International Economics.
- Olarreaga, M., & Soloaga, I. (1998). Endogenous tariff formation: The case of Mercosur. *The World Bank Economic Review*, 12(1), 297–320.
- Oliveira, G. A. S. (2009). The political economy of Brazilian trade policy: Domestic determinants, world and regional strategies (Doctoral dissertation, University of Southern California).
- Osimani, R., & Estol, R. (2006). Posibles impactos de un acuerdo comercial con los Estados Unidos: Un análisis mediante indicadores de comercio y a partir de los determinantes estructurales. Documento, 6, 2006.
- Pastor, M., & Wise, C. (1994). The origins and sustainability of Mexico's free trade policy. *International Organization*, 48(3), 459–489.
- Pastor, M., & Wise, C. (1999). The politics of second-generation reform: Latin America's imperiled progress. *Journal of Democracy*, 10(3), 34–48.
- Phillips, N. (2005). US power and the politics of economic governance in the Americas. *Latin American Politics and Society*, 47(4), 1–25.

- Pinto, M. de S., & Guimarães, M. H. (2005). O Mercosul e a ALCA: Os interesses (irre)conciliáveis da União Europeia e dos EUA. *Revista Brasileira de Política Internacional*, 48, 129–150.
- Rivas-Campo, J. A., & Benke, R. T. J. (2003). FTAA negotiations: Short overview. *Journal of International Economic Law*, 6(3), 661–694.
- Ruiz, J. B. (2007). O MERCOSUL: Reflexões sobre a crise de seu modelo de integração e seu relançamento. *Brazilian Journal of Latin American Studies*, 6(10), 187–209.
- Santana, H. R. P. (2000). Área de Livre Comércio das Américas (ALCA): Determinantes domésticos e política externa brasileira. Instituto de Relações Internacionais da Pontifícia Universidade Católica do Rio de Janeiro.
- Teixeira, C. G. P. (2011). Brazil and the institutionalization of South America: From hemispheric estrangement to cooperative hegemony. *Revista Brasileira de Política Internacional*, 54, 189–211.
- Vaillant, M., et al. (2003). Winners and losers in a free trade area between the United States and MERCOSUR. Universidad de la República, Facultad de Ciencias Sociales.
- Viola, E., & Pio, C. (2003). Doutrinarismo e realismo na percepção do interesse nacional: Política macroeconômica, segurança e ALCA na relação Brasil-EUA. *Revista Cena Internacional*, 5(3), 1–33.
- Viola, E. (2005). Transformações na posição do Brasil no sistema internacional (1990–2005). *Plenarium*, 2, 24–68.
- Weintraub, S. (2001). Hemispheric free trade: The possibilities. *Foreign Affairs en Español*, 1(3), 1–11.