Oxfam Briefing Note

Oxfam International

From Cancun to Miami: The FTAA Threat to Development in the Hemisphere

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Development strategy has gradually given way to a strategy of liberalization with the understanding that trade liberalization by itself will inevitably lead to sustainable development, which is not the case.

Press release of the Economic Commission for Latin America (ECLAC)
Cancun, September 2003

Executive summary

Following the collapse of the World Trade Organization (WTO) negotiations in Cancun in September, the US government threatened to redirect attention from a multilateral approach to trade, in order to promote its own interests through the Free Trade Area of the Americas (FTAA).

In this post-Cancun context, the forthcoming meeting of FTAA Ministers in Miami (20-21 November 2003) takes on a new significance for the future development of the hemisphere and the possibilities for multilateralism.

The United States wants to dictate the guidelines for the FTAA and refuses to negotiate subsidies and domestic supports for agriculture, which are the primary concerns of the poorer countries in the hemisphere. Instead, it is pressuring these countries to accept negotiation of investment and intellectual property: areas which benefit the interests of the United States and its large corporations.

Several governments and broad sectors of civil society are opposed to this unequal negotiating framework, which would limit the capacity of governments to make trade work for sustainable development and poverty eradication.

Oxfam International asserts that the FTAA will not contribute to sustainable development. It is based on the failed model of the North American Free Trade Agreement, which has neither produced growth nor addressed the crisis of poverty in Mexico.

This paper summarizes the reasons why Oxfam International opposes the FTAA. It puts forward our recommendations for developing different rules and an alternative framework for integration. These include:

- fair rules for agriculture that put an end to "dumping" and to trade-distorting domestic support programs, which give special consideration to small producers and food security, and that improve market access for developing countries;
- the right of states to regulate foreign investment so that it contributes to development and does not violate labor rights and environmental rights;
- compliance with the WTO's Doha Declaration on Trade Related Aspects of Intellectual Property Rights and Public Health, in order to improve access to essential medicines at low cost, and the need to preserve flexible intellectual property regimes at the national level;
- an alternative framework for integration based on the primacy of negotiation at the multilateral level, the need to compensate for the large asymmetries among countries in the region, and the goal of fostering South-South trade relations.

Introduction

Following the controversial meeting of the World Trade Organization in Cancun in September 2003, the eyes of the world are now focused on the city of Miami, where Trade Ministers from the Americas will meet in November to discuss the formation of what would be the world's largest trade bloc, the Free Trade Area of the Americas (FTAA).

The FTAA initiative arose from the 1994 Summit of the Americas, also held in Miami. Conceived as part of the "Initiative for the Americas" launched by President Bush (senior) in 1991, it intends to provide a legal framework for the liberalization of trade and foreign investment and deregulation by the state. Such policies have been promoted for over 20 years by the United States, the World Bank, and the Inter-American Development Bank in the name of the so-called "Washington Consensus".

However, today this model is attracting serious criticism, not only because of the unacceptable levels of poverty and inequality that it has generated, particularly among women and rural populations, but also because of its low capacity to generate growth. There are increasing doubts about the implications of the FTAA for the future development of the hemisphere.

Several governments in the region want to revise the terms of negotiation for the FTAA. The arbitrary date of 2005 that has been set for the conclusion of negotiations seems unrealistic, considering the limited progress made in the working groups, and the unresolved controversies over key issues. In addition, in most countries in the hemisphere, an increasing number of civil-society sectors that are excluded from the negotiations are speaking out against the FTAA and putting forward alternatives.[1]

The collapse of the Cancun Summit was a missed opportunity. But the increased assertiveness of developing countries creates hope that a genuine 'Development Round' could be concluded. In this context, the FTAA undermines the possibilities for successful negotiations within the WTO. In this paper, Oxfam International reiterates its opposition to the FTAA and, along with other social actors in the hemisphere, puts forward alternatives to ensure that trade and investment can achieve their potential and contribute to sustainable development and poverty eradication.

Lessons for the FTAA: The North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA), signed by the United States, Canada, and Mexico in 1993, served as the basis and model for later agreements and negotiations. Mexico's experience of NAFTA provides important lessons for the rest of the countries of Latin America and the Caribbean.

According to the World Bank, 45 million Mexicans live on less than US$2 a day; of these, 10 million live in extreme poverty on less than US$1 a day.[2] NAFTA has done nothing to reduce these high levels of poverty, and poverty in rural areas has actually

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[1] "Alternatives for the Americas", Hemispheric Social Alliance, December 2002.

[2] World Bank in Mexico, Mexico Report 2003.

increased over the last decade, according to data provided by the UN Economic Commission for Latin America (ECLAC).[3]

In the first Human Development Report on Mexico published by the United Nations in 2002, Mexico had a human development index ranking of 54 among 173 countries, the same ranking that it had in the early 1990s. The World Bank highlights the huge gaps – which have increased over the last ten years – between the rich and the poor, the North and the South, urban and rural areas, as well as between men and women. The inability of NAFTA to tackle poverty and inequality in countries with such disparate levels of development as the United States, Canada, and Mexico indicates the likely limitations of an FTAA that repeats the NAFTA pattern.

Nevertheless, Mexico's macroeconomic figures are quoted as evidence of success by advocates of the model. Mexico is among the top ten exporting countries in the world; the value of its exports increased from US$51 billion in 1993 to US$160 billion in 2002. During most of the 1990s, Mexico was the world's largest recipient of foreign investment, having received an astonishing accumulated total of US $153 billion under NAFTA.[4] Yet the promised economic growth failed to materialize. Under NAFTA, an annual average growth rate of less than 1 per cent has only compounded the large social inequalities that prevail. According to a 2003 United Nations Report, the Mexican economy is virtually at a standstill for the third consecutive year.[5]

Economic integration among Mexico, the United States, and Canada could have helped to combat poverty and inequality, but NAFTA has undermined this potential. For instance, NAFTA substantially weakened the regulatory role of the Mexican state, such that trade and investment flows have had weak linkages with national production chains and have failed to generate growth and employment.

In addition, by allowing the entry of subsidized agricultural products into Mexico, NAFTA has severely damaged the millions of small producers of staple foods. The increase in corn imports from the United States has been linked to the significant drop in the price of corn on the domestic market. Corn prices in Mexico have fallen by more than 70 per cent since 1994, affecting the income of 15 million Mexicans whose livelihoods depend on its cultivation.[6] At the same time, consumers have not benefited as the price of corn tortillas has increased.

The United States is also promoting the same model in its bilateral agreements. It has signed an agreement with Chile and engaged in negotiating another with Central America in 2003. At the same time, Canada is working to establish a similar agreement with four Central American countries. Just like the FTAA, these agreements include trade liberalization in agriculture, investment deregulation, and strict intellectual property rules which limit access to knowledge and technology. Overall, these rules have a negative impact on the capacity of governments to make trade work for development and poverty eradication.

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[3] "Indicadores Sociales Básicos de la sub-región norte de América Latina y el Caribe", 2002 Edition, CEPAL (ECLAC), United Nations.

[4] Source: Bank of Mexico.

[5] "Mexico: evolución económica durante 2002 y perspectivas para el 2003", United Nations Economic Commission for Latin America and the Caribbean (ECLAC-CEPAL), Mexico, 6 August 2003.

[6] "Dumping without Borders: How US Agricultural Policies are Destroying the Livelihoods of Mexican Corn Farmers", Oxfam International, August 2003, www.maketradefair.com

A balance between multilateralism and regionalism

Since the World Trade Organization (WTO) was created in 1995, multilateral trade negotiations have been characterized, on one hand, by increasing protests from civil society against the free trade model and, on the other hand, by the increasing opposition of some developing countries to an agenda imposed by the rich countries. In November 2001, at the Doha ministerial meeting after the collapse of negotiations in Seattle, the rich countries, recognizing that the trade agreements had had a negative impact on development, agreed on a "Development Round".

Two years on, and prior to the WTO meetings in Cancun, the United States and the European Union had demonstrated systematic non-compliance with nearly all the agreements that had been reached in Doha, including those related to access to low-cost medicines and to agricultural reforms. The passage in 2002 of the US "Farm Bill", for example, increased government supports for domestic agriculture – six months after making a commitment in Doha to reduce them.

On the eve of the Cancun meetings, a bloc of countries known as the G20, led by Brazil, South Africa, India, and China, and including 12 other Latin American countries, presented a counter-proposal to the United States and the European Union, intended to address the issue of market-distorting subsidies and domestic supports for agriculture. At the same time, many countries[7] argued the need for special considerations for certain agricultural products that are important for their populations' food security and the livelihoods of small producers.

Unable to impose his country's wishes in Cancun, the US Trade Representative, Robert Zoellick, criticized the multilateral system and announced the US government's intention to seek agreements in line with its interests bilaterally and regionally. In the run-up to the Miami ministerial meeting, several Latin American countries have been subjected to unprecedented pressure to withdraw from the G20 and to make statements in support of the FTAA, as a group of 13 countries did in the vice-ministerial meeting held recently in Trinidad and Tobago.

In the FTAA, the US-Central America Free Trade Agreement (CAFTA), and bilateral agreements, the USA and Canada are pushing for the adoption of rules that are more ambitious than those established by the WTO, with the aim of including investment, government procurement, and competition policies that were rejected in Cancun. At the same time, the United States is promoting stricter intellectual property rules, which seem to ignore the Doha agreements on access to medicines. Yet, despite the interest expressed by other countries in the hemisphere, the USA refuses to address the issue of subsidies and domestic supports for agriculture.

These pressures reveal a deliberate strategy to undermine the multilateral process, in an attempt to favor regional and bilateral negotiations in which poor countries have less clout. For Oxfam International, a regional trading system shaped by the outsized political pressure the world's principal economic power can exert is not compatible with the effort to Make Trade Fair.

Why say NO to FTAA[8]

Latin America and the Caribbean face serious social problems and high poverty levels. In 2002, 220 million people (43.4 per cent of the region's total population) were living

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[7] According to the positions on agriculture put forward in Cancun by the G20, the countries from the Union of Africa, Asia, Caribbean and Pacific, and of the least developed countries.

in poverty, according to ECLAC.[9] Any proposal for regional integration must be based on the imperative to address these unacceptable levels of poverty and exclusion.

Fair rules for agriculture are required

More than 120 million people in Latin America and the Caribbean depend directly or indirectly on agriculture. The FTAA could worsen the current imbalance in agricultural liberalization, making small producers even more vulnerable to the dumping of highly subsidized products from the United States.

In the early 1980s, Haiti produced almost 100 per cent of the rice that it consumed domestically. Then, under US pressure, Haiti opened its market to imports. As a result, Haiti has been inundated with cheap, subsidized rice from the United States. This, in turn, has caused a fall in local rice prices, which has had terrible consequences for the once in five Haitians who depend on rice production for their livelihoods.

Such trade-distorting subsidies favor large-scale agribusiness and threaten the livelihoods of small producers, in both Latin America and the United States, while aggravating the region's food insecurity.

Oxfam International proposes:

- Put an end to food dumping, which destroys the livelihoods of millions of people by establishing unfair competition in domestic markets. Eliminate all subsidies that allow, directly or indirectly, for exporting at prices below production costs. Oxfam International believes that subsidies and domestic support programs for sectors and products can be justified for social or environmental reasons, but the rules must prevent these from leading to "dumping".
- Grant special treatment for agriculture, so that products that are important for food security and rural development are exempted from liberalization commitments.
- Achieve greater and assured access to US and Canadian markets by suspending tariff and non-tariff barriers to poor-country exports, and by eliminating the arbitrary use of anti-dumping rules by the United States. Mechanisms must be agreed upon to prevent unjustified trade barriers from being disguised as phytosanitary measures and quality standards.

Investment linked to development

Foreign direct investment has, over the past ten years, become the major source of financial transfer from rich countries to poor countries and it could potentially contribute to development and to the fight against poverty. However, as seen in the case of Mexico, the investment boom has done little to improve economic and social conditions. The rules on investment under NAFTA have limited government's ability to regulate investment, which has resulted in very poor linkages with national production chains.

Foreign investment in South America tripled during the 1990s, but was concentrated in extractive sectors – oil, gas, and mining. Without effective regulation, these

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[8] For a detailed analysis of Oxfam International's position on FTAA, see: "Make Fair Trade for the Americas. Agriculture, Investment and Intellectual Property: Three Reasons to Say NO to the FTAA", Oxfam International, January, 2003.

[9] Economic Commission for Latin America (ECLAC - CEPAL), Social Panorama of Latin America, 2002-2003.

extractive industries contribute little to development and, on the contrary, can have devastating environmental and social impacts. In Peru, environmental protection standards have been reduced in order to attract more investment, but this deregulation has placed the livelihoods of indigenous populations at risk. Furthermore, mining companies transfer their profits offshore and pay little in taxes.

The governments of the United States and Canada seek to recreate the NAFTA investment rules (contained in Chapter XI) that favor the interests of large corporations. These rules take away the tools that link investment to development by eliminating performance requirements on national content or technology transfer, impeding the use of investment to foster national industrial policies, and limiting the possibilities for effective social and environmental regulation. Those clauses that authorize transnational companies to sue the state are another example of NAFTA's imbalance in favor of corporate privileges.

Oxfam International proposes:

- Eliminate the proposed FTAA investment rules.
- Ensure that governments maintain the right to introduce performance requirements and measures which contribute to developing linkages between the export sector and the local economy, thereby ensuring the development of local productive capacity.
- Enable governments to establish measures to control investment flows that are short-term and speculative, that pose potential threats to labor and environmental rights, or that do not contribute to development.

Access to the benefits of knowledge and technology

Access to knowledge, research, science, and technology is essential to achieving equitable and sustainable development and poverty reduction. Yet the intellectual property rules that the United States wants to include in the FTAA could substantially increase the costs of this access. Ordinary people would feel the effect of this measure by paying higher prices for essential medicines.

Access to generic medicines effectively helps to reduce the costs of medicines and to broaden coverage of public health systems. The social security system in Costa Rica, for example, is sustainable only because of its use of generic medicines. Under the intellectual property rules in the FTAA, the social security system in Costa Rica would have to increase its budget for medicines from US$70 million to US$390 million in order to guarantee the same level of coverage.[10]

Brazil, similarly, maintains a successful public health program to help people living with HIV/AIDS. Under the program, all registered patients receive free medicine. In 2002, the program cost the Brazilian government US$177 million to treat 119,500 patients. Thanks to the national production of generic medicines, and the threat of compulsory licenses, this budget allowed for the treatment of more patients than in 2000, when the budget was actually larger. Under the intellectual property rules in the FTAA, this program would not be able to continue offering the same level of coverage, and the cost per patient to the Brazilian government would increase to more than double the current level.

Latin American and Caribbean countries are already forced to apply high and harmful levels of intellectual property protection under the WTO's Agreement on

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[10] Powerpoint presentation by Roman Macaya, National Chamber of Generics Products, Costa Rica, 2003.

Trade-Related Aspects of Intellectual Property Rights (TRIPS). The cost of the implementation of this agreement is already high and will lead to an increase in the prices of many goods, imported technologies, and medicines. The nearly two million people living with HIV/AIDS in Latin America and the Caribbean, and the public health programs in these countries, simply cannot afford to pay the high cost of patented medicines.

Oxfam International proposes the following measures:

- The countries in the region should comply with the WTO's Doha Declaration to improve access to essential medicines at low cost.
- The agreement on intellectual property should be eliminated at the regional level. The United States should stop using pressure in bilateral trade agreements to force countries to adopt TRIPS-plus rules which favor the interests of corporations and profits, instead of sharing knowledge for improved health and better access to technology.

An alternative proposal for integration

Oxfam believes an alternative integration plan is necessary to achieve sustainable development and reduce poverty.

Oxfam International proposes:

- Certain issues should be removed from the regional agenda and be addressed at the multilateral level. The multilateral arena is necessary in order to achieve global coherence and to allow poor countries to work and negotiate collectively to defend their interests. The proliferation of regional and bilateral trade agreements – which go beyond the WTO and are drafted under US political and economic pressure – is undermining the possibility for developing countries to defend their interests at the multilateral level.
- Special and differential treatment to compensate for the enormous asymmetries existing among the countries in the region should be the starting point for regional integration. Compensation programs and mechanisms that favor cooperation for development must be developed; they must include measures which support less developed regions, based on the example of the experience of European integration.
- Intra-regional integration arrangements, such as MERCOSUR, the Andean Community of Nations (CAN), or CARICOM, should be fostered in order to promote trade relations and complementarity among southern countries, as well as greater access to markets within the region. Intra-regional interdependence which seeks to stimulate domestic and regional markets, while allowing free labor flow and transit, would offer greater potential to generate sustainable growth and reduce poverty.