Pax Americana in Latin America:
The Hegemony behind Free Trade

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Introduction

For more than a century, Latin America struggled to escape US pressures to institutionalize its commercial relationship with its southern neighbors. The first inter-American conference, held in Washington in 1889-90, was called by the US government for the explicit purpose of promoting US trade with Latin America. Latin Americans complained that the US seemed to want "to make Latin America a market, and sovereign states tributaries" and opposed the formation of a "New World chancellery without the authorization of the rest of the states [of Latin America]". Owing to Latin American opposition, the outcome of the conference was limited to the establishment of an inter-American bureaucracy to promote trade through the dissemination of information about regional trade opportunities, far less than the United States had envisioned.[1]

Throughout most of the 20th century, the US pursuit of deeper and freer trading relations with Latin America was a common theme in US-Latin American relations. From Dollar Diplomacy's emphasis on opening the Latin market to US trade and investment and linking Latin currencies to the US dollar, to pockets of WWII era support for encouraging dollarization in Latin America to reinforce regional trade and hence US influence over Latin America,[2] to Eisenhower and Kennedy Administration use of economic assistance through the World Bank and the Alliance for Progress to encourage freer markets and more open trade, to George H.W. Bush's 1990 proposal for an Enterprise of the Americas

[1] Argentine delegate and future president, Roque Sáenz Peña. Cited in Schoultz, 1998, p. 283)

[2] "Since we are engaged in the most difficult task of creating and perpetuating a complex as well as peaceful area of influence, we must be clear about our long range approaches to the attainment of the material and intangible bonds upon which this empire depends. Since trade is a permanent foundation of such influence, the whole series of inter-American economic institutions should be molded toward the simplification of the currencies and customs regulations now in force in the twenty-one republics; they should be attached inseparably to the dollar." Internal State Department Memo, September 1939, cited in Schoultz, 1998, p. 374. On US support for dollarization in the Americas, see Eric Helleiner, 2002, "Dollarization Diplomacy: US Policy Toward Latin America Coming Full Circle?" TIPEC Working Paper 02/8. www.trent.ca/tipec/working/html

Initiative, the promotion of freer trace has been a constant in US policy toward Latin America. Yet equally consistent were Latin American efforts to keep US economic might at arm's length. It is not that Latin America did not want to trade with the United States or was opposed to economic regionalism more generally. Quite to the contrary, the US market has always presented an important opportunity for the Latin economies. What Latin America opposed was the institutionalization of this relationship because, given the power disparities involved, it seemed inevitable that such a relationship would favor US interests. This was particularly true in the post World War II era when Latin America actively pursued an economic development model based on protection of their domestic markets from international competition (Import Substitution Industrialization). Further, during the 1960s Latin American countries attempted to build a regional trading arrangement, but one that explicitly excluded the United States.[3] Latin American states preferred to keep the terms of their economic relationship with the United States vague, both to increase their economic policy freedom and to prevent the deepening of their economic dependence on the "Colossus of the North".

Given this historic background, Latin American efforts during the 1990s to deepen and institutionalize its trading relationship with the United States are puzzling. It seems that Latin America has done a complete about face. After a 100 years of struggling to keep US economic hegemony at bay, the region suddenly reversed course. Instead of the United States pushing a reticent Latin America to negotiate free regional trade, now Latin

[3] The Latin American Free Trade Association was formed in 1960 and ultimately met with little success. And in the words of Mexican President Gustavo Díaz Ordaz, this process of "Latin American integration is, and we should make every effort so that it continues to be, an exclusively Latin American process". The President of Chile, Eduardo Frei, went even further. He argued implicitly that any attempt by the United States to force its way into the regional trading arrangement based on its role as a provider of economic aid to the region would be unacceptable. "This would constitute an intolerable infringement of national sovereignty" (Mattli, 1999, 150-151).

American countries are leading the charge for freer trade. Why has Latin America suddenly decided to embrace its economic dependence on the United States and to formalize this relationship through the creation of a "Free Trade Area of the Americas"?

The answer lies in the forces that have long driven Latin American foreign policy. First and most obvious, the disparity of political and economic power within the hemisphere imposes sharp constraints on Latin America's freedom of action. And second, the ideology of regional policy-makers and the nature and extent of US pressure which combine to shape Latin America's response to the reality of regional hegemony (Hey, 1997). The question thus becomes how did these three variables change prior to the 1990s and how does this explain Latin America's policy shift. The answer is disturbingly simple and bears little resemblance to the security driven model of regionalization described in the Choi chapter in this volume. The manner in which the United States implemented its international and regional hegemony during the forty years following the Second World War gradually modified conditions in the international economy and in Latin America. This combined with the failure of the import substitution model of development in the early 1980s to shift Latin American attitudes toward a free trade agreement with the United States. These two factors led to a gradual change in the global and regional environment within which Latin America operated, a significant alteration in the economic ideology of Latin American policy makers and a moderation in popular attitudes toward the United States, and a different means of applying US pressure in the region. This combination of factors motivated Latin America's change of heart about institutionalizing the economic core of "Pax Americana" in the Western Hemisphere.

Within this broad argument about Latin America, there is significant intra-regional variance which reflects differing degrees of dependence on the US economy and hence different responses to U.S. hegemony. Where economic dependence is deepest—in the Caribbean, Central America, and Mexico—the acceptance of a formalization of US economic hegemony has been greatest. Where economic dependence is weakest—in the Southern Cone and most particularly Brazil—doubts about formalization are evident, with the obvious exception of Chile. The Andean countries occupy an intermediate position while Cuba has been excluded from the process owing to its history of hostility with the United States.

This paper will elaborate the preceding argument as follows: The first section illuminates how the application of US hegemony in the post World War II period led to the institutionalization of market-based rules of international economic interaction. By separating these rules from direct association with U.S. economic power, post-World War II economic institutions such as the General Agreement on Tariffs and Trade (GATT) legitimated market-based rules of economic interaction and encouraged states to gradually adopt freer trade and freer global interactions. Without the resulting political will to open markets, globalization of the world economy would have been impossible. And without economic globalization, there would have been little incentive for Latin America to open its economies to world markets.

The second section explains the shift in ideas and ideology in Latin America toward market economics. Essential to the change in economic ideas was the failure of the import substitution (statist and protectionist) model of development and the examples of market-based success stories such as South Korea, Chile, Spain, and even the United Kingdom. But this shift in ideas toward acceptance of the market would have been impossible without two additional factors: The globalization of US economic thinking driven by the education of rising Latin American "technocrats" in US universities and the "non-biased advise" offered by US economics professors to regional economies in crisis. The third section of the paper discusses the emergence in Latin America of a less adversarial view of the United States. The evident softening of popular attitudes toward the United States was driven by an explosion of new sources of information about the United States offered by the internet, television, movies, etc. At the elite level, this attitudinal shift is also a direct consequence of democratization in the region and the revised view of external intervention in the domestic affairs of Latin American states this produced. In conjunction with the nature of US policy in the region, these developments help to explain a reduced suspicion of the United States and its objectives in Latin America.

The fourth section explains how US policy toward Latin America at the end of the Cold War further motivated interest in a more formalized economic relationship with the United States and a reduced fear of closer ties to the United States. First and as is well-known, the United States directly pressured Latin America to adopt a market-oriented economic model more reliant on interaction with the international community. Second, owing to a clear reduction in extra-hemispheric economic influences in the region, the United States became the absolutely undisputed economic (and political) hegemon in the western hemisphere, leaving Latin America few options other than dealing with the U.S. Equally important, however, were two changes in US policy toward Latin America. In the wake of the Cold War, the US policy in the region was ambiguous at best raising concern about the US commitment to freer regional trade and a possible US abandonment of Latin America. (Smith, 2000; Lowenthal, 2000) At the same time, a clear shift emerged in US policy preferences away from its historical preference for unilateral intervention (often to the detriment of regional democracy) and toward negotiation and multilateral action designed to preserve democracy and human rights. This not only lessened Latin America's fear of the behemoth to the north, it also created a perception of a growing body of shared interests between Latin American democracies and the United States and the potential for regional cooperation to achieve them.

The fifth section of the paper breaks Latin America down into subregions to understand better how the broader argument explains differing attitudes about the formalization of economic relations with the United States—from enthusiastic support in the Caribbean Basin and Mexico, to less enthusiastic support in the Andean Region, and to hesitant participation in Brazil.

By way of conclusion, the final section addresses the probability that a Free Trade Area of the Americas (FTAA) will come into being. It argues that the new calculus in Latin American foreign policy that has placed free trade on the regional policy agenda could change in the near future. But any such change would most likely be the result of recent shifts in U.S. policy toward the region—toward increased unilateralism, neglect, and hard-handedness—rather than changes in the international structural or domestic variables also driving Latin America's new-found interest in free trade. When combined with the nature of U.S. trade politics, this suggests that the prospects for an FTAA are much less bright than the rhetoric of the US government would suggest, and less bright than much of Latin America would hope.

U.S. Power and Economic Globalization

The globalization of the world economy, whether in the late 19th or in the late 20th century, is the consequence of technological advances and political will. During the last four decades of the 20th century, advances in communications, transport, and business operations have made the exchange of goods and services across large distances less costly and hence more common. Yet the ability of firms to trade and produce across national borders would be impossible without the decision of sovereign states to authorize the movement of goods and services into and out of their territory. Without the political determination to open national economies to international competition, economic globalization would be severely truncated, if not rendered impossible. The question is then why would national governments be willing to take such a decision?

Analysts of the last two globalization episodes have demonstrated that many variables—domestic and international, political, economic, and ideological—are involved in such decisions. In the post World War II era, however, the hegemonic power of the United States and the manner in which it was exercised was the dominant factor.

As the Second World War moved toward its climax, the governments of the United States and the United Kingdom met to consider the character of the post war economic order. Both countries brought to the table three key lessons drawn from the events of the previous 15 years. First, free trade was essential to global prosperity and peace. It was the collapse of free trade in the early 1930s, the delegates believed, the led to the great depression and economic crisis then reinforced the inter-state tensions that culminated in world war. Second, any free trade regime must be as inclusive as possible. The decision of Germany and Japan to remain outside of the free trade system after 1880 ensured that these two countries would have little interest in helping to maintain free trade, and eliminated the possibility that economic interdependence could have mitigated their bellicose intents.[4] Third, the management of free trade and its monetary support system must be

[4] The role of non-free trade powers in undermining the 19th century free trade system is discussed in Lake, 1983. Although the delegates to the meetings leading up to the 1944 Bretton Woods conference believed in power of economic interdependence to mitigate against war, the academic literature has long questioned this simplistic relationship. See for example Albert Hirschman, National Power and the Structure of Foreign Trade, Berkeley and Los Angeles, University of California Press, 1945; and Dale C. Copeland, "Economic Interdependence and War: A Theory of Trace Expectations", International Security, 20:4 (Spring 1996): 5-41.

institutionalized. The economic decline of England made it increasingly difficult for this nation to pay the costs of sustaining the free trade order in the early 20th century rendering free trade vulnerable to economic downturns and political machinations. It was necessary, therefore, to design a system that was not dependent on the hegemonic power of a single nation.

Although the hegemonic power of the United States will ultimately be the means by which a liberal international economic order will be established in the aftermath of World War II, the manner in which the United States employed this power explains how the three core objectives of the system's designers—inclusive and institutionalized free trade—were gradually met and economic globalization thereby advanced. To encourage free trade in the world economy, the United States did not follow the English model of unilaterally opening its economy to the world's exports. Instead, it used its political and economic power to leverage trade openings throughout the west.

Although the Soviet Bloc countries were invited to join the Bretton Woods economic order at the end of World War II, their decision against joining meant that free trade would develop within an anti-communist alliance of nations. In this context, the security of the West became entwined with freer trade. United States was able to encourage its allies to liberalize their economies as a friendly repayment for the security from Soviet aggression the US provided. To the extent that freer trade strengthened allied economies, this met US security needs and thereby reinforced the US preference for free trade (Lake, 1991).

Equally important was (and is) the structural foundation of US economic hegemony, the size of the US domestic economy and its lack of dependence on international trade. The dominant size of the US economy (3 times the size of its nearest rival during the

1950s; 2.5 times in 2001) enabled the United States to leverage concessions from its trading partners in exchange for expanded access to the US market. In this manner, the United States was able to encourage countries to find the political will to open their national economies to international trade (Lake, 1991).

Most important, however, was the US decision to formalize the rules of international trade in multilateral institutions—the General Agreements on Tariffs and Trade (GATT) and the International Monetary Fund (IMF). By distancing itself from management of the liberal international economic order and by empowering allied countries to share in this responsibility, these institutions made liberalization politically more feasible. Countries would be liberalizing not under direct pressure from the United States, it now seemed, but as a consequence of their commitment to cooperate in the construction of global prosperity and peace.

Finally, the success of free trade in creating economic prosperity in the North generated ideological and political support for the process, and a powerful example for the countries of the South. The correlation between the rapid expansion of trade and economic prosperity during the 1960s and again during the late 1980s and 1990s created the impression that free trade was, on balance, a good thing. Further, as trade expanded it generated domestic interests whose economic well-being were directly tied to trade. This was especially true given the close relationship between trade and foreign direct investment in the late 20th century globalization episode. These trade and investment interests translated into political pressures in support of a continued process of international economic opening (Milner, 1987; Gourevitch, 1989).

The consequence was a marked reduction in protectionist measures limiting international trade in goods and services and the flow of investment capital (direct and portfolio) across national borders. This process of economic globalization created new development opportunities for the South. For the first time since the 1920s, active participation in the global economy could become a viable foundation for economic development, a lesson reinforced by the success of the East Asian tigers by the late 1970s. The closure of the global economy in the 1930s had forced Latin America to adopt a development model based on self-reliance and the perpetuation of high international barriers to trade and investment for 30 years reinforced this logic. In a world of mercantilism, a development strategy based on trade would have made little sense. By the late 1960s, and with renewed force by the mid-1980s, however, the rebirth of a globalizing international economy presented Latin America with a series of international opportunities for development not seen for nearly half a century. When the import substitution model entered into crisis, therefore, economic globalization provided a strong incentive to move toward a more liberal, export-based development model.

Changing Economic Ideas

> "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood".[5]

> "The triumph of the West, of the Western idea, is evident."[6]

By the early 1990s, a shift in thinking about development and about the United States was evident in Latin America. A region that had favored a statist model of development for over a half century initiated a dramatic move toward a market-based development strategy. Further, a region that had long mistrusted the United States and

[5] John Maynard Keynes, *The General Theory of Employment, Interest and Money*, London: Macmillian, 1936, p. 383.
[6] Francis Fukuyama, "The End of History?" *The National Interest*, (Summer 1989), p. 3.

feared political, economic and cultural intervention from the north now exhibited a much more positive image of the United States and even embraced broad swaths of its political, economic and popular culture. These changes were driven by seven factors, four of which clearly derived from US power.

There can be no doubt that the most important force reshaping economic ideas in Latin America during the 1980s was the spectacular failure of the import substitution development model.[7] This failure was almost exclusively a Latin American affair with international forces playing a supporting role at best. Even as import substitution pushed the economies of Taiwan and Korea toward rapid development, poor implementation of the same development model produced less auspicious results in the west. Protectionism and state direction of the Latin American economies did lead to growth and development in much of the region into the 1950s, but by the 1960s the shortcomings of the model became increasingly evident. A strong bias against export production, inefficient industries, and recurrent macroeconomic instability restricted Latin America's ability to import essential production inputs, undermined demand, and hindered investment. Latin America was able to evade most of the economic implications of these implementation failures and thereby extend the life of this development model through the 1970s by borrowing heavily on international capital markets. When the markets closed to Latin America in 1982/3, the latent, unresolved problems of import substitution—most particularly, its inability to generate sufficient investment capital—exploded into public view.[8] The recognition that Latin America's statist model of development was the principle cause of economic crisis

[7] The conceptualization of how economic ideas spread presented in this and the following sections is influenced by previous research on the spread of Keynesian economic ideas from the late 1930s until the 1960s. See Hall, 1989.
[8] On the central importance of foreign capital to economic growth in Latin America, see Hausmann, 2003.

came at different points in time in different Latin American countries owing to distinct domestic environments. By the end of the decade, however, accepted wisdom in the region was that import substitution had failed.[9]

Simply admitting that Latin America needed a new strategy to guide its economic development, however, did not automatically lead to the adoption of a market-based model of development. At least theoretically, there were other options. Four factors ensured that Latin America would turn to the market. First, clear examples of market-based success stories—the economic turnaround in the United Kingdom beginning in the late 1970s under the Thatcher government, the spectacular development successes of South Korea and Taiwan beginning in the 1960s, and most importantly, the rapid return to growth following the debt crisis in Latin America's only market-based economy, Chile—suggested that reliance on the market promoted growth and development rather than obstruct it as structuralist economists had argued for decades. Further, the success of economic liberalization in Spain under a social-democratic government during the 1980s demonstrated that the market model could compliment both democratic development and a center-left political agenda, very much unlike Latin America's recent history in which market economics was correlated exclusively with repressive authoritarian governments. Second, the victory of the West in the Cold War further discredited statist economic strategies. There could be little doubt that the failings of the communist economic model—a model even more statist and protectionist than import substitution in Latin America—played a determining role in the Soviet loss and the ensuing collapse of communism

[9] On Latin America's experience with import substitution, see Cardoso and Helwege, 1992; Thorp, 1998; and Iglesias, 1992.

throughout Europe. Global events thereby suggested a marked-based approach to development might make sense in Latin America.

This perception was reinforced by the power of US economic ideas. Ideas are among the most subtle and yet one of the most efficient means by which a state can exert influence internationally. If a state can export its way of thinking, this will increase the likelihood that other states will operate in a manner that does not threaten, and that even advances, the interests of the first state. Further, this benefit can be obtained without paying the costs of exerting coercive force. The United States exported its economic ideas to Latin America in two ways. First, via educational exchanges—American professors teaching at Latin American universities and Latin American students studying at U.S. universities. The Fulbright program was designed to achieve precisely this objective. Latin American students and universities gradually turned away from their traditional academic ties in Europe and toward the United States beginning in the late 1960s and 1970s. This initial current turned into a torrent by the 1990s, especially in the field of economics. When Latin America initiated economic reform, it was led by technocrats educated at universities such as Chicago, MIT, Yale, Stanford, and Harvard where the curriculum was heavily biased toward liberal market economics.[10]

The second means by which the United States has exported its economic thinking to Latin America is the parade of US economists who have visited Latin America during the last 15 years to advise regional governments on the implementation of economic reform.[11] As academic economists, their ideas are presented as independent of the US

[10] For a discussion of the process by which ideas are formed, translated into the Latin American context, and become policy, see Camp, 2002; Valdés, 1995; and Dominguez, ed., 1997.

[11] On the impact of "neutral" economic advisers as a tool of US Latin American policy throughout the 20th century, see Drake, ed., 1994.

government and free of any political bias. Yet the mere fact that these economists were amongst the most decorated in North American academia meant that they were "main stream" economists. In a country with the most competitive market in the world—competition being an essential prerequisite to the efficient operation of a market economy—it is not surprising that nonbiased, mainstream economic analysis should demonstrate the efficiency of the market.

Examples of market successes and statist failures at the end of the 1980s combined with the export of US economic ideas, and the opportunities offered by a globalizing international economy, to convince Latin American leaders that the market was the best development option available. Now came the task of implementation. Latin American countries did not implement economic reform at the same moment or with the same fortitude. These variations were closely tied to the nature of the national political debate about economic policy, the degree of insulation of economic policy makers, and the ability of political leaders to form governing coalitions around the new economic model.[12] Initially, most Latin American countries blamed volatility in the international financial system and/or previous authoritarian regimes for the onset of economic crisis. As long as import substitution was not seen as the culprit, liberal economic ideas made little headway in the hemisphere. The persistence of crisis for the better part of a decade, however, gradually redirected blame toward the statist model of development. This new atmosphere was much more receptive to neoliberal ideas. Convinced of the wisdom of neoliberalism,

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[12] The literature on the domestic politics of economic reform in Latin America is substantial. A few representative works include Joan Nelson, ed. *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World*, Princeton University Press, 1990; Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America,* Cambridge University Press, 1991; Stephan Haggard and Robert Kaufman, eds. *The Politics of Economic Adjustment,* Princeton University Press, 1992; and Joan Nelson, ed. *A Precarious Balance: Democracy and Economic Reforms in Latin America,* San Francisco, CA: Institute for Contemporary Studies, 1994.

however, political leaders needed to find the means to implement the requisite reforms. This process was eased by the insulation of economic policy makers, the so-called technocrats, from political pressures. Where this existed, such as Argentina, Mexico, and Peru, reform proceeded rapidly. Where policy makers were exposed to political pressures, as in Costa Rica and Uruguay, reform proceeded much more slowly and was much less extensive. Finally, reforms would have been impossible if political leaders had not been able to construct a new policy coalition to support them. The process of constructing such a coalition also influenced the timing of the initiation of reform in the region.

Regardless of the precise moment and degree of reform, virtually every Latin American country had adopted market-based economic policies by the mid-1990s. This implied a dramatic reduction in the role of the state in the economy and an equally dramatic reduction in protectionism.[13] The consequence was a shift in the dynamic poll of development from production for the domestic economy to production for export. For such a model to be effective, however, Latin America required two things—access to export markets and foreign sources of investment capital. The most desirable export market in the hemisphere, indeed in the world, and the most important source of investment capital (whether foreign direct investment or portfolio investment) was and is found in the United States. Latin America's decision to adopt a market-based, export-oriented model of development thereby inevitably implied a large increase in its economic dependence on the United States.

Changing Ideas about the United States

[13] Regional average tariff rates fell from 40 percent in the mid-1980s to 10 percent in 2000 while average maximum tariffs fell from 80 percent to 40 percent. IDB, 2002, p. 62.

The large potential economic benefits from a deepened dependency on the United States were thus determined by Latin America's decision to adopt a market-based model of development. But what of the costs of increased dependency? If domestic public opinion were to react poorly or if the United States were poised to exploit Latin America's increased dependence to coerce the region into acting against its interests, the political costs of economic reform could have outweighed the benefits (a particularly relevant consideration since variation in the domestic political calculus among Latin countries is one of the factors explaining the implementation of economic reform at different times in different countries). Three factors combined to produce the perception among Latin American leaders that the costs of increased dependence on the United States would be far less than the potential benefits—a shift in popular attitudes about the United States, democratization at the close of the Cold War in Latin America, and the nature of post-Cold War US policy toward Latin America. The first two will be discussed in this section while US policy is the subject of the following section.

Historically, public attitudes toward the United States were not extremely positive in Latin America. This can be explained in part by the inevitable suspicion the weak have about the actions of the strong. This inclination toward mistrust born of regional power disparities was reinforced by two additional factors. First, the US penchant for intervention in the internal affairs of Latin American states—to exclude extra-hemispheric powers from the region, to promote market economies, to promote democracy (or not), to prevent excessive migration, and/or to police the drug trade. For Latin Americans, it seemed that the United States would find any excuse to justify its preference for interventionism in "its backyard". Latin American popular suspicions about the United States were further reinforced by a nearly monolithic intellectual elite that monopolized the dissemination of information about the United States. In Latin American universities, in the media, and in the arts, the anti-American attitudes of intellectuals monopolized debate well into the 1980s. Latin American citizens also had few sources of information about the United States independent of their local intellectual class. This situation has changed markedly, however, as a result of technological advances associated with globalization and increased competition in local media and entertainment outlets. The advent of satellite and cable television provided easy access to US news and entertainment shows offering a very different view of the "colossus of the north" (the importance of CNN en Español is hard to overestimate). The internet provided access to US newspapers, archives, and shopping. Most importantly, it made direct communication with "average Americans" through email and chat groups easier than ever before. New privately-owned theater chains dramatically increased the number of first run American movies available to Latin audiences. And reduced transportation costs made travel to the United States (both legal and illegal) a much more common phenomenon, particularly from South America. The democratization of access to information about the United States enabled Latin Americans to access less biased sources of information and thereby helped to temper views about this country.

Poll numbers demonstrate the impact of this attitudinal shift in most of Latin America. The 1995 Latin American Barometer survey showed that in seven of the eight countries included in this initial poll, at least 47 percent of the public held a positive opinion about the United States.[14] More importantly, the same survey registered significant popular support for closer economic relations with the United States in the four largest

[14] The exceptions were Uruguay at 35%, Argentina at 47%, and Mexico at 49%. The other countries were Peru at 69%, Paraguay at 68%, Brazil at 55%, and Venezuela at 50%. Cited in Moreno, 2002.

economies included in the survey, Mexico, Argentina, Brazil, and Venezuela.[15] By 2002, the positive image of the United States had grown even further, to 65 percent of South Americans, 85 percent of Central Americans, and 63 percent of Mexicans. Of the 17 countries in the 2002 survey, only Argentina registered a net negative view of the United States (reflecting the country's sense of abandonment by the US in its time of economic need). One should not read into these statistics a disappearance of negative images and suspicions about the United States in Latin America. Quite to the contrary, the flip side of these numbers reflects a very large number of Latin Americans who still hold a negative view of the United States, a fact reinforced by the ballooning of anti-American sentiment in the region during early 2003 fueled by Latin American opposition to the US invasion of Iraq. Further, research in Mexico indicates that positive views of the United States are concentrated in the middle and upper classes, those sectors that enjoy access to the new sources of information about the United States. Poor Latin Americans, the majority of the regional population, hold a much more negative view of the United States than their more affluent countrymen (Moreno, 2002). Nevertheless, the numbers do demonstrate that a large and growing percentage of the Latin American populace saw the United States in a relatively positive light during the 1990s. As a consequence, the domestic political costs of closer economic ties with the United States were more manageable at the end of the 20th century than at any point in recent memory.

Democratization in Latin America during the waning years of the Cold War reinforced the perception among regional leaders that the costs of increased economic dependence on the United States would be manageable. The emergence of democracy in Latin America and its historic timing had two tangible consequences for Latin America's

[15] Mexico, 64%, Argentina 57%, Brazil, 43% and Venezuela 41%. Cited in Moreno, 2002.

thinking about the interventionist impulse of the United States—that it would be both less likely and more tolerable when it occurred. It would be less likely because of a shift in the nature of the US-Latin American relationship at the end of the Cold War. Lacking a global adversary, the United States would be less likely to see Latin America as a potential conduit for threats to US national security (although certainly not immune to this as the war on drugs demonstrates). The emergence of market democracies in Latin America, meanwhile, fulfilled a long-time goal of US hemispheric policy. This not only denied the United States a justification for intervention, it also established a foundation for cooperation based on shared interests. Intra-hemispheric relations could now focus on building economic cooperation and protecting democracy, issue areas where military intervention was a less effective foreign policy tool (Smith, 2000: 249; Hakim and Shifter, 1995). The interventionist impulse of the United States would also be more tolerable in democratic Latin America. The new democratic regimes of Latin America feared they might need to protect democracy from surviving authoritarian interests, most particularly the armed forces. They saw international intervention to preserve democracy, most often with the cooperation of the United States under the auspices of the Organization of American States, as an essential deterrent to opponents and opportunists in Latin America's less than fully democratic political cultures (Dominguez, 1998). In the eyes of many Latin American governments, intervention in the internal affairs of regional states ceased to be a tool solely of unilateral US meddling in Latin America and became a useful multilateral mechanism to support regional democracies.

U.S. Policy toward Latin America

Latin America's decision to adopt a market-based economic model and thereby increase its economic dependence on the United States thus reflected the indirect consequences of US power (globalization, the end of the Cold War, and the spread of US ideas) combined with domestic developments (economic crisis, domestic politics, and democratization). But it also reflected the direct impact of US policy in the region.

Developments during the 1980s deepened US hegemony in Latin America. The onset of the debt crisis dramatically undermined the economic and political clout of Latin America. During the 1970s, flush with capital from high prices for their raw material exports and huge inflows of capital from the international financial system, Latin American countries possessed sufficient economic freedom to question openly and even challenge US actions affecting the region. Latin American countries supported developing country efforts to build a "New International Economic Order", purchased military equipment denied them by the United States from France and the Soviet Union, and actively opposed US policies in Central America. Following the onset of the debt crisis, however, Latin American leaders found their power resources slashed and their capacity to stand up to the United States dramatically diminished.

The end of the Cold War further revised the distribution of regional power in favor of the United States by virtually eliminating the economic presence of extra-hemispheric powers in Latin America. The Soviet Union first retrenched and then dissolved, Europe turned its attention eastward, and Japan hesitated to fill the void for fear of ruffling US feathers by encroaching on its traditional sphere of influence.[16] The Latin American

[16] Japan was reluctant to take a leadership role in Latin America during the 1990s because of Latin America's geographic distance from Japan, a Japanese perception of the region as being unstable and risky, Latin America's economic crisis as Asian economies boomed, and Japan's own economic slump. It also prominently reflected the importance of the United States to Japanese security and international economic

strategy (or dream in many cases) of balancing the regional economic might of the United States by expanding economic ties with Europe and Japan was thereby undercut in the immediate aftermath of the Cold War. The fruitless efforts of Mexican President Carlos Salinas' to open trade negotiations with the European Union and Japan in early 1989 has become a legendary example of this reality. By the end of the 1980s, a weakened Latin America thus faced the hegemonic power of the United States alone.

In these circumstances direct US pressure for market reforms in Latin America, most tangibly expressed through the Brady Plan (an offer of debt relief in exchange for market reforms), was difficult to resist. When added to the international economic opportunities, domestic economic and ideological incentives, and domestic political space for adopting reform, direct US pressure helped turn the economic policy tide in Latin America.

During the 1990s, two changes in US policy toward Latin America also helped to reinforce the initial perception in Latin America (discussed above) that the United States would not exploit the increased capacity for economic coercion inherent in regional economic liberalization. First, US foreign policy during the 1990s, both internationally and regionally, exhibited an increased reliance on multilateral means to resolve problems. This does not mean that the United States eschewed unilateral solutions in Latin America (the invasions of Panama in 1989 and of Haiti in 1994 demonstrate this fact). Rather, US policy exhibited a relative move away from near exclusive reliance on unilateral action toward increased use of multilateral options, most notably in its willingness to work through the

policy. Given the US perception of Latin America as its sphere of influence, the importance of good relations with the US to Japan, and Japan's only limited economic interest in Latin America, the costs of playing a more prominent role in Latin America far outweighed its benefits to Japan during the 1990s. Japanese Latin American policy would thus be "contingent on its own relations with the United States" (Berrios, 2001, 152). In Latin America Japan would follow, not lead (Berríos, 2001; Yopo, 1991).

Organization of American States to promote regional democratic governance (Dominguez, 1998; Millett, 1994). For Latin America, this shift was very important. In a region where Latin opinions about solutions to regional problems were regularly overlooked or ignored by the United States, a move toward multilateralism implied that the United States would listen to the concerns of Latin American nations and potentially incorporate some of them into regional policy. Multilateralism could thereby help both to cushion Latin America from any US effort to exploit the economic vulnerability of regional states and to restrain US unilateralism, something the Latin America nations had strived to achieve for over 100 years.

Second, US policy toward Latin America in the first decade of the post-Cold War era was ambiguous (Lowenthal, 2001). Throughout the1990s, US leaders referred to Latin America as a foreign policy priority (a Clinton aid even declared 1994 to be the "year of Latin America" in US foreign policy[17]), professed their interest in a new relationship with the region, and actively participated in two inter-American summit meetings (the first since 1967) designed to promote increased hemispheric cooperation on a variety of issues, trade being the most important. At the same time, however, the United States unilaterally ousted governments in Panama and Haiti and it dealt with issues from drug-trafficking to immigration in a heavy handed and often unilateral fashion. More troubling still was the inability of the Clinton Administration to win approval for Trade Promotion Authority in the US Congress, effectively blocking all US trade negotiations and raising fears about increased US protectionism, and following this failure the disappearance of Latin America from the Administration's policy agenda. For Latin America these events created confusion, and more importantly they raised the possibility of a renewal of "benign

[17] Cited in Hakim and Shifter, 1995, p. 49.

neglect” on the part of the United States just as Latin America was committing itself to an economic model that demanded increased US economic cooperation in the region. Latin America, therefore, did not fear increased economic coercion on the part of the United States in the early 1990s so much as it feared an abandonment of Latin America by the United States.

Region-Wide Conclusions

Latin America’s decision not only to accept the formation of a Free Trade Area of the Americas but to promote it actively is thus the direct result of US hegemony and the manner in which the United States employed its power in the years and decades following the Second World War. Quite unlike the Asian experience with regionalism (Choi in this volume), Latin America´s interest in regionalism was not driven by security concerns or a perceived need to join forces against liberalizing pressures of the United States and the IMF. To the contrary, FTAA was on the Latin American policy agenda in large part because the region-wide decision to abandon import substitution in favor of market economies. And although the US role in Latin America’s decision to change is model of development was pivotal, it was somewhat more subtle than in the aftermath of the 1997 Asian financial crisis. The US determination to reestablish open international markets in the wake of World War II, to encourage broad participation in world trade and finance, and to institutionalize this system in a series of international organizations designed to define and oversee its rules, laid the political foundation for economic globalization in the late twentieth century. Freer trade in goods and services thereby provided significant economic opportunities for any country willing to open its economy to global markets. The ideological victory of the United States in the Cold War and the dissemination of American economic ideas made the idea of economic opening seem increasingly logical and viable to Latin American leaders struggling to find a means to reestablish economic growth, while increased access to positive information about the United States helped mitigate the negative view of the United States long held by the majority of the Latin American populace. The reemergence of full US economic hegemony in the Western Hemisphere, meanwhile, enabled the United States to apply an effective coup de grace in favor of policy change by pressuring Latin countries to undertake market-based economic reforms.

Any explanation of Latin America's decision to adopt a market model of economic development, however, would be incomplete and misleading if it did not include an analysis of the domestic factors also driving this decision, including a deep and enduring economic crisis and the particulars of domestic politics. Yet even in the presence of these factors, it is hard to imagine the region shifting its development strategy in the absence of the opportunities offered by economic globalization (the reflection of US structural power), an ideology identifying the wisdom and efficiency of markets, and the financial carrot offered by the Brady Plan. US power was determining.

Once Latin America determined to adopt a liberal, market model of development, increased economic dependence on the United States was all but inevitable. With only a few exceptions, the United States has long been the most important trading partner and the dominant source of foreign investment throughout the region. With Europe withdrawing from Latin America and Japan hesitant to increase its economic contacts in the region at the end of the Cold War, the US market dominated Latin America's future opportunities. Opening to increased international flows of goods and finance would thus inevitably deepen Latin America's economic reliance on the United States.

Latin American access to US consumers and foreign direct investment, however, was limited and unpredictable. Access to the US market was limited by trade restrictions directed at precisely the sorts of products Latin America countries tended to export—agricultural goods, textiles, and steel—and the US tendency to suddenly reduce market access in response to the demands of US domestic politics. In recent years the United States had blocked a very long list of Latin American imports including steel, beef, avocado, orange juice, tomatoes, tuna, and even honey, most often to protect US producers from lower cost Latin American producers. Access to US foreign direct investment was also constrained by one of two factors, depending on the type of investment involved. Investment in the fabrication of production inputs and the assembly of final goods for export was constrained by a lack of guarantees for the rules under which these goods would enter the US market. Should these products suddenly face higher import duties, the lower production costs of the foreign investment could be erased. Assured market access, therefore, should increase investment to these sectors. Investment in production for the Latin American domestic market, most particularly in the service sector, depended on the degree of investor confidence in the potential for growth in the Latin economy. If economies structured to export were to gain assured assess to their main foreign market, however, investor confidence should receive a significant boost.

In the second half of the 1990s, the theoretic benefits of a free trade agreement with the United States to improve market access, increase flows of foreign direct investment, and thereby promote growth were transformed into empiric reality by the North American Free Trade Agreement (NAFTA). The post-NAFTA boom in Mexican exports to the United States, the explosion of foreign direct investment in the Mexican economy (not only from US companies, but also from European and Asian firms interested in duty-free access to the US market for their products), and the speed with which the Mexican economy recovered from the 1994 peso crisis (a recovery led by exports to the United States), offered a glimpse at the sort of economic benefits an FTAA could generate for the rest of Latin America.[18] Further, the trade diversion suffered by Caribbean, Central American, and some Andean countries as a consequence of NAFTA made clear the costs of not entering into a preferential trading arrangement with the United States.

A free trade agreement with the United States would not only provide improved access to the US market and encourage foreign investment, it would regularize the rules of trade and investment. An international trade treaty would help to limit the capacity of the United States to exploit regional power differentials to manipulate trade and investment flows at will (although the inability of NAFTA to control fully US protectionist impulses—the exclusion of Mexican tuna and Mexican trucks from the US market offer two outstanding examples—suggests that no trade treaty will ever be able to eliminate completely this US tendency). Such a strategy was also nothing new in Latin American foreign policy. Latin American countries have struggled for more than a century to limit US freedom of action in hemispheric affairs by relying on international law and regional treaties, a traditional tactic of the weak to tie the hands of the strong. Throughout the late 19th and early 20th centuries Latin America worked to convince the United States to sign a resolution renouncing its perceived right to intervene in the internal affairs of Latin American states. Although these efforts failed for over 40 years, they finally met with success in 1933 when the United States formally agreed that "no state has the right to

[18] Mexican exports nearly doubled during the first three years of NAFTA and continued to increase at a double digit rate until the US economy entered into recession in 2001. Foreign direct investment tripled during the first year of the NAFTA agreement, after increasing 35% in 1993 in inticipation of the NAFTA agreement. Although FDI fell back somewhat in subsequent years, it remained three to four times the pre-NAFTA (1992) rate.

intervene in the internal or external affairs of another", and again in 1948 when this non-intervention resolution was included in the treaty of the Organization of American States (Smith, 2000, 104).[19]

A region-wide free trade treaty had four additional advantages from the Latin American perspective. First, it would prevent the inefficiencies and trade diversion inherent in a complex web of autonomous free trade treaties throughout the region. Second, negotiating as a group would enhance the leverage of the Latin American states. Third, a region-wide negotiation promised to be sufficiently interesting to the United States to mitigate the likelihood that the United States would abandon much of the region. Fourth, the FTAA was initially a US proposal (George Bush's Enterprise of the Americas Initiative) suggesting that its probability for success was significant.

As noted previously, the costs associated with the decision to negotiate the FTAA seemed manageable during the 1990s. Shared interests in promoting markets, democracy, and human rights, the reduced effectiveness of military intervention to resolve disputes in these issue areas, and an increased US tendency to operate multilaterally in the hemisphere suggested that the United States was not likely to exploit often Latin America's increased economic dependence. Latin America also hoped that an FTAA would deepen US economic reliance on Latin American markets, creating a mutual dependency that would assure long-term US attention to regional economic matters and hopefully produce a degree of Latin American leverage over the United States (Feinberg, 2002). Despite the potential benefits of an FTAA and the seemingly limited costs associated with the increased

[19] The fact that the OAS treaty has not prevented the United States from intervening in internal affairs of various Latin American states does not negate the Latin America attempt to use international law and regional treaties to constrain the regional behavior of the United States. It merely demonstrates the limitations of this strategy.

dependency on the United States, the decision to negotiate a Free Trade Agreement with the United States was nevertheless a calculated risk, and one that was calculated differently throughout the hemisphere due to variations in geographic proximity to the United States.

Regional Variations

Mexico and the Caribbean Basin:

The region with the greatest zeal for free trade agreements with the United States is without doubt Mexico and the Caribbean Basin. Mexico was the first to negotiate such a pact with the United States in the post Cold War era, but the Caribbean countries and Central America have enjoyed privileged access to the US market since the first Caribbean Basin Initiative of 1983, and a US-Central America free trade agreement was on the fast track toward approval in early 2003. This interest in formalizing their trading relationship with the United States is a direct reflection of the region's geographic location. Sitting on the southern border of the United States, the US market has always been the locus of Caribbean Basin trade. Mexico historically sent 75% of its exports to the United States and as a consequence of the North American Free Trade Agreement and now relies on the US market to absorb nearly 90% of its exports accounting for nearly a quarter of the country's total production (GDP).[20] Caribbean and Central American countries on average send about 40% of their exports to the United States, but there is enormous variation among the countries of these subregions.[21] The United States is the overwhelming source of regional foreign direct investment and capital remittances from nationals living and working in the

[20] All trade data is derived from IMF, Direction Trade Statistics.
[21] The Dominican Republic sends 87% of its exports to the United States accounting for 22% of its GDP; Honduras sends 70 % of its exports to the US accounting for a whopping 51% of GDP; yet El Salvador sends just 19% of its exports to the US accounting for just 1.6% of GDP.

United States is one of the most important sources of foreign capital inflows throughout the region.[22] Meanwhile, the US dollar operates as an unofficial currency throughout much of the region, and does so officially in El Salvador, Panama, and Guatemala. Deep economic dependence on the United States is a fact of life for Mexico and the Caribbean Basin with or without a free trade treaty. Formalizing this relationship would thereby produce significant economic benefits and few economic costs.

Beyond economics, geography has also determined that Mexico and the Caribbean Basin have been the focus of US policy in Latin America. As the southern border of the United States, political stability in the Caribbean Basin and Mexico has long been a preoccupation of the United States leading to repeated interventions in the internal affairs of these states. Although this geographic reality has been costly at times, it also assures this region that whatever US policy toward South America might be in the years to come, the United States can not afford to ignore its closest neighbors. US hegemony in all its forms is an inevitability for this subregion, but geographic proximity also provides these countries with an important measure of leverage over the United States, making US regional hegemony more a story of interdependence rather than pure dependency.

Although Mexico and the Caribbean Basin are highly dependent on their trade relationship with the United States, the United States is increasingly dependent on this same trade relationship. Mexico is the second largest trading partner of the United States and virtually no US car maker could turn out any of their North American models without the participation of their Mexican affiliates. The countries of the Caribbean Basin absorb 30 per cent more US exports than does China and this trade flow has grown exponentially

[22] Remittances in Mexico are greater than tourism receipts and in 2002 totaled ¾ of total inflows from foreign direct investment despite Mexico being the world's third largest developing country recipient of FDI. In El Salvador, remittances total over 10% of the national product.

over the last decade. Central America takes more US exports than Eastern Europe and the Soviet Union combined. Mexico and the Caribbean also possess sources of "soft power" providing increased leverage over US policy. The most important such source of power is migration. Cuba, the Dominican Republic, Haiti, and Jamaica have 10, 12, 14, and 15 percent respectively of their total population living in the United States, and generations of Mexican migration have transformed Latinos into the largest minority in the United States at the opening of the 21st century (Lowenthal, 2000). For the United States, there are two consequences of this reality. First, political or economic instability in this region is a clear threat to the US ability to police its national borders and hence an issue to be dealt with before a crisis develops. Second, its "foreign" policy toward these countries is increasingly a domestic policy matter as well (Mexican-Americans now account for over a third of the population Los Angeles country and the power of Cuban-American voters is Florida is legendary). Under these circumstances, deepening their economic ties with the United States promises to increase the inderdependence between Mexico, Central America, and the Caribbean and the United States instead of merely augmenting dependence on their northern neighbor.

Chile:

Chile is also included in the group of countries highly receptive to negotiating an FTA with the United States. This is surprising because Chile possesses a very different cost/benefit calculus than Mexico and the Caribbean Basin. Its geographic distance from the United States has limited both trade with, and foreign direct investment from, the regional economic power house.[23] It has been historically distant in US thinking about Latin America (with the important exception of mid-1970s) and it possesses few sources of “soft power” that might translate into leverage over the United States. Nevertheless, Chile is one of the most regional enthusiastic proponents of free trade with the United States. Chile seems to believe that a free trade agreement with the United States will once again confer on it the stamp of the Latin American leader in the economic liberalization process (a status Chile lost during the 1990s as other Latin American countries followed Chile’s lead and implemented far reaching economic reforms). Investors will thereby see Chile in a more favorable light than its South American neighbors leading to an increased flow of direct increased investment toward this pacific country. The fact that this strategy is unlikely to produce the expected benefits does not negate the power this perception holds over Chilean trade policy (Edwards, 2003).

Brazil and Mercosur:

At the other extreme of the policy spectrum is Brazil, which along with Venezuela is one of the least receptive Latin American countries to the idea of an FTAA (excluding Cuba which is excluded from the FTAA negotiations). The Brazilian position reflects its diversified profile of international economic relations, the industrial structure of its economy and the physical distance of Brazil’s manufacturing center from the United States, and the Brazilian self-image as a middle power that should naturally play an important role in international affairs and a dominant role in South American affairs (Hetz in this volume). Although the United States and Brazil have enjoyed basically good relations throughout the

[23] In a preliminary but illuminating study, UCLA economist Edward Leamer has estimated that every 1000 miles of distance a good must travel is the equivalent of a tariff of between 7 and 17 percent.

20th century, underlying this friendship are clear differences in economic and political interests that limit Brazil's enthusiasm for any FTAA that deepens US hegemony in South America or increases Brazilian economic dependence on the United States.

Brazil is neither heavily dependent on trade in general nor on its trade with the United States. Brazil trades only a quarter of its GDP (compared with nearly 50% for Mexico) and is considered one of the most insular economies in the Americas. Nor does Brazil have any great interest in becoming a trading nation. Despite significant trade liberalization throughout the 1990s, the Brazilian industrial sector remains well-protected (the 1994 adoption of Mercosur's common external tariff required Argentina to raise many of its trade duties to match Brazil's higher rates rather than requiring Brazil to lower its tariff rates).[24] Of what Brazil does trade, by far the largest portion is directed toward Argentina. The United States absorbs less than a quarter of Brazilian exports accounting for less than 5 per cent of Brazilian production. And although Brazil imports huge quantities of foreign direct investment, its origin is balanced between Europe and the United States.

Brazil has never fully adopted the logic of comparative advantage where it is considered unimportant what products a country produces, as long as it is the product in which national production is least inefficient. For Brazil, there is a huge difference between producing "computer chips or potato chips". Advanced industrial production creates high value-added products and technological advances that are the foundation for the development of a strong, modern economy. Economic strength in turn is an essential

[24] Although Brazil's average tariff rate is just over 15% (compared with 9% for Chile), this reflects low tariff rates within Mercosur and high for countries outside of this preferential trading arrangement. In its trade with the United States, a significant industrial competitor, Brazilian tariffs on light manufactured goods average 18%, 21% on capital goods and food processing, and 33% on consumer durables. (Hinojosa-Ojeda, 2000; IDB 2002, chapter 3).

prerequisite to the effective projection national power, and hence to Brazil's capacity to play its natural role as a middle power in the international system and as a leader in South America (Hirst, 2001). Brazil is thus unwilling to risk the health of its national industries to a blind faith in the efficiency of free trade, and much less so if free trade is with an industrial powerhouse such as the United States.

Brazil's physical size and its distance from the United States have also given it the geographic potential (it borders every other South American country) and the freedom of action (owing to the absence of a direct application of US hegemony, quite unlike the Mexican experience) that have made its self-image as the leader of South America seem natural. Brazil's wariness of free trade with the United States and its interest in solidifying its leadership role in South America have been key forces driving the deepening of Mercosur during the last decade, efforts to expand Mercosur's trade ties throughout South America, and Brazilian pretensions to form a South American free trade area dominated by the Brazilian economy. Not unlike Chinese ambitions in East Asia (Choi in this volume), Brazil would prefer to trade freely within South America, free of US influence, rather than within a hemispheric trading arrangement. Brazil prefers to trade with a region where Brazil's industrial prowess will dominate trade, where trade will stimulate Brazilian industrial development, and where deeper economic integration will enhance Brazilian regional influence.

Brazil nevertheless determined to take an active part in the FTAA negotiations, albeit much later than most of its hemispheric neighbors. This decision was a direct reflection of a political-economic calculus inspired by Brazilian interests outlined above. Brazil would have preferred to avoid the FTAA altogether, but when Mercosur members Argentina and Uruguay along with other South American countries expressed their interest in a free trade agreement with the United States, Brazil was forced to join the negotiations as a defensive maneuver to prevent the collapse of Mercosur and the end of any hope for Brazil's preferred outcome—a South American Free Trade Area (SAFTA). Brazil's negotiating strategy within the FTAA has been characterized by efforts to form a common negotiating position within Mercosur and among as many other South American countries as possible (Hirst, 2001; da Motta Veiga, 2001). This will increase Brazil's negotiating strength, place it in the position of leading South America in the negotiations, and should the FTAA negotiations fail, enable Brazil to exploit its leadership role and South America's shared negotiating position to construct a SAFTA.

In the negotiations, Brazil has insisted on deep concessions by the United States in exchange for US access to the Brazilian market (most notably, sharp restrictions on the US use of anti-dumping duties and compensatory tariffs, huge reductions in US agricultural subsidies, and an only gradual reduction of industrial tariffs to provide Brazilian industries the time they will need to adjust to increased competition), and has made it clear that it is no rush to complete the negotiation process. This bargaining strategy has two aims. First, it is an attempt to ensure that any FTAA will increase US-Brazilian economic interdependence rather than imposing increased economic dependence on Brazil. In the words of Brazilian Vice-President José Alencar, "We needn't be afraid of an FTAA, because we can compete. But if we're starting from the idea that the United States is going to impose conditions, then that to me is no longer an FTAA but something else that we are not going to enter" (New York Times, 13 April 2003). Failing this and given strong opposition in the US Congress to the concessions demanded by Brazil, the Brazilian strategy also seems designed to make sure that any regional trading arrangement that does not meet Brazil's minimum demands will collapse under the weight of US domestic politics (Otteman, 2002).

Andean Community:

In between these two extremes lie the Andean countries. The countries in this region are less dependent on their economic ties with the United States than Mexico and the Caribbean Basin, but more so than Brazil and Mercosur. The Andean countries export 20 percent of their GDP and 40 percent of their exports are destined for the United States (totaling 12 percent of regional production of GDP). Yet, the rate of growth in Andean trade with the United States currently lags behind every other Latin American region. They have also been less susceptible historically to US interventionism than their northern neighbors, but more so than the Southern Cone. As a group, therefore, the Andean countries are somewhat more ambiguous about FTAA than other subregional groupings of states.

Generalizing about the Andean countries, however, is as perilous as generalizing about Latin America with regard to FTAA. The importance of oil exports to the Venezuelan economy contrasts with the economy's relative closure to imported goods (Venezuela trades 40 percent of its GDP yet imports just 14 percent of its GDP; by comparison Brazil imports 12 percent and Mexico 24 percent). And although Venezuela sits tightly within the US sphere of influence in the Caribbean, it has not been a historic target of US intervention. One would thus expect an ambiguous position relative to FTAA, but under the nationalist and populist leadership of Hugo Chavez Venezuela has tightly aligned itself with Brazil in the FTAA negotiations.

Like the Southern Cone countries, Colombia historically has had limited direct interaction with the United States politically or economically (with the glaring exception of the 1904 Panama episode). Over the last decade, however, its interactions with the Untied States deepened dramatically owing to the war on drugs. Colombia receives more US security assistance than any other country outside of the Middle East and as a consequence of the war on drugs, the United States extended to Colombia (along with Ecuador, Bolivia, and Peru) modest preferential access to the US market under the Andean Trade Preferences Act.[25] Colombia now exports 12 percent of its GDP to the United States. This mixed political/economic profile has produced a mixed stance on FTAA. Colombia was an early promoter of free trade with the United States. Yet this support for an FTAA is colored by tangible reservations and efforts to ensure that the negotiation process is not rushed.

Ecuador is a regional laggard in the area of economic reform, yet it trades 55 percent of its economic production and sends nearly half of these goods to the United States. Ecuador has adopted the US dollar as its national currency and receives remittances from the United States totaling 10 percent of the Ecuadorian GDP. These economic figures imply that Ecuador should be following the lead of Mexico and the Caribbean Basin countries in active pursuit of a formalization of its inevitably dependent trading relationship with the United States. Strong nationalist and anti-market forces within Ecuadorian domestic politics, however, have generated significant obstacles to an FTAA. In particular, the determined opposition to FTAA from the country's large and politically mobilized indigenous movement has tangibly constrained government enthusiasm for FTAA.

[25] The Andean Trade Preferences Act was initially approved by the US Congress in December 1991 benefiting exports from Bolivia, Colombia, Ecuador and Peru to support the drug control effort. The act expired in 2001, but it was finally renewed in mid-2002 until the end of 2006.

Future Prospects

But how likely is it that a Free Trade Agreement of the Americas will come to fruition? What is the likelihood that the United States will be able to reach an accommodation with the most important Latin American economy, Brazil, and what is the likelihood that Latin America's attitude toward FTAA could change in the future? To what extent might the factors that have brought Latin American foreign economic policy to the point of accepting (less or more grudgingly) a formalization of their economic reliance on the U.S. market change in the coming years? Since the key factor shaping Latin America's interest in a free trade agreement with the United States is the market-based, export-oriented development model the region has adopted during the last decade, were Latin America to abandon this economic model, interest in an FTAA would fall off markedly. Yet it is hard to imagine that this model, albeit with some significant revisions, will not guide Latin American economic interactions for the foreseeable future.

The opportunities offered by economic globalization are unlikely to disappear. Despite concerns that the Doha round of trade negotiations (under the auspices of the World Trade Organization) might fail due to increased global protectionist pressures, the same fears have plagued every set of global trade negotiations over the past 30 years, yet each time agreement has been reached (Bergesten, 2002). Associated fears that weaknesses in international financial markets will eventually undermine the process are well-considered, but somewhat overstated. And the ability of the anti-globalization forces to undermine the political will needed to sustain globalization will be constrained by the ever-expanding set of economic interests that benefit from the process. Although one should never be sanguine about the future of economic globalization, especially since the previous episode collapsed so spectacularly in a few short years, it seems that the current globalization experience is not destined to disappear any time soon.

The export of US ideas about markets and economics also appears to be a well-established process. More and more Latin American students travel to the United States to study economics, as well as other fields. Although the extreme neoliberal view of the market that characterized a US economics education in past years seems to be yielding somewhat to a more nuanced view of the market (considering its failings as well as its benefits), there is no alternate theory of economic development to challenge market economics for predominance. Despite loud complaints in Latin America about the implementation of this model, moreover, the dominant opinion among leaders and the public is that the market is the best (even if far from perfect) option for organizing economic interaction in the early 21st century (Weyland, 2002; Latinobarómetro, 2002). Meanwhile, the democratization of the access to information about the United States, its people, and its culture should continue and even increase in the future as the costs of technology fall further and as incomes in the hemisphere (hopefully) rise.

A decade after the end of the Cold War, both the European Union and Japan have begun to expand their economic presence in the hemisphere. Through increased foreign direct investment in Latin America and free trade treaties of their own, these powers have ended the United States' "unipolar moment" in the Western Hemisphere. Nevertheless, with the exception of a few South American countries, this extra-hemispheric economic influence remains miniscule when compared with the economic presence of the United States. Further, the differential between the power of the United States and that of its global rivals remains enormous (the US economy is 2.5 times the size of its nearest rival).

US hegemony in the Western Hemisphere will remain a fact of regional life well into the future.

The impact of Latin American domestic politics on the sustainability of the market-model of development is a bit more of a wild card, but it is ultimately unlikely to alter significantly Latin American support of an FTAA. It seems logical to assume that where popular support for the market wanes because of economic crisis or unfulfilled expectations, politicians will offer populist solutions in the hopes of riding the wave of popular discontent into office. What is striking about current Latin American politics, however, is the extent to which this has not occurred despite the disappointing results of the new market model in generating sustained growth and reduced poverty during the late 1990s. Although voices have risen to protest the perceived shortcomings of Latin America's new development model (most strikingly in Bolivia, Ecuador, and southern Mexico), these voices have been sporadic and politicians have been either unable or unwilling to exploit this opposition to promote policy change. To the contrary, leftist presidential candidates in Brazil and Ecuador dropped their anti-market rhetoric after their 2003 inaugurations in favor of a more moderate discourse calling for improvements in the operation of the market and better relations with Washington. In Argentina, the country that arguably suffered the most at the hands of the "neoliberal" economic model, populist and leftist candidates faded in the polls in advance of the 2003 presidential elections. Even in Venezuela, despite President Hugo Chavez's populist and nationalist rhetoric, little was done to reverse the broad economic course set by Chavez's predecessors until serious economic problems in early 2002 produced some significant tinkering at the margins (devaluation and capital controls). And when Mexicans voted to replace the long-ruling PRI in July 2000, they chose a market populist over the anti-market alternative.

It thus seems unlikely that Latin America will soon turn away from the market model of development. This means that for those countries with a deep economic dependence on the United States, the institutionalization of this inevitably close relationship will remain an important policy objective. For those with a more limited economic association with the United States, and most particularly for Brazil, preferences for an FTAA will be driven more by the behavior of the United States. The likelihood of achieving a hemispheric-wide FTAA, therefore, depends on the United States, on the broad foreign policy path it pursues in the Americas during the early twenty-first century and on its domestic politics.

The historic ambivalence in Washington about Latin America threatened to reemerge following the terrorist attacks of September 11, 2001. President George W. Bush's stark statement following the attacks insisting that the nations of the world were either "with us or with the terrorists" sent shudders up the collective Latin American spine. Was the United States was returning to a Cold War-style view of the region as either allies or enemies and to a preference for unilateralism in its foreign policy? These concerns were reinforced by three other events. First, the limited but nevertheless symbolic US support for the April 2001 failed coup against a democratically elected government in Venezuela did little to reassure Latin Americans about US willingness to rely on multilateralism in Latin America. Second, the Bush Administration's decision to abandon Argentina to its fate as the country faced a devastating economic crisis in 2002 reinforced fears throughout the region that Washington would once again turn its back on Latin America (with the obvious exceptions of Colombia and Mexico). Third, US behavior as it prepared to go to war with Iraq in late 2002 and early 2003 further deepened Latin American concerns. In part this reflected the Bush Administration's public expressions of disappointment with

Latin American states that did not support the war. This created the impression that reprisals could ensure, and reinforced concerns that Washington once again saw Latin America as allies or enemies. But it also reflected the ease with which the United States shunted aside the very sort of institutionalized multilateralism that Latin America hoped to use in the guise of an FTAA to constrain US actions. It remains unclear if these tendencies toward renewed unilateralism, neglect, and heavy-handedness are excesses driven by global circumstances or if they reflect a more permanent shift in US-Latin American policy. Should the United States succumb to the temptation of either "bullying or retreat" in the hemisphere, however, the positive attitude evident in much of in Latin America during the 1990s about deepening regional dependence could fade (Shifter, 2002).

Within this context, Congressional approval of Trade Promotion Authority in late 2002 (an essential first step for any serious negotiations on trade liberalization), the push for FTAA coming from the Office of the U.S. Trade Representative, and President Bush's repeated expressions of strong support for FTAA have carried great weight in Latin America. Yet even if the White House were to remain devoted to negotiating the FTAA, the willingness of the US Congress to approve a completed treaty remains unclear. Any hemispheric trade treaty that includes Brazil will require the United States to make significant concessions. In a country where public opinion is hesitant at best about free trade (less than 10 percent of Americans defined themselves as "free traders" in a 2000 poll while nearly 40 percent defined themselves as "protectionist" and another 50 percent saw themselves as "fair traders"[26]) and where important, organized segments of the US polity oppose free trade treaties (most prominently labor unions, environmental groups, and a politically important segment of agricultural and textile producers), however,

[26] Louis Harris & Associates, April 2000, published by The Odum Institute, www2.irss.unc.edu/irss/home.asp

Congressional support for an FTAA is far from assured. This reality was demonstrated by the very close vote approving Trade Promotion Authority in 2002. After eight years of unsuccessful executive efforts to win its renewal and despite heavy lobbying from the Bush Administration, including its decision to entice key congressmen to vote favorably by raising steel tariffs and increasing farm subsidies, the House of Representatives approved the bill by just three votes. The fact that the final treaty must be approved only in the U.S. Senate, where the Trade Promotion Authority legislation fared much better (mustering nearly a two-thirds majority), will help matters greatly. Nevertheless, the U.S. Congress will be reluctant to cede its capacity to protect constituents harmed by trade, most particularly by accepting limitations to the use of anti-dumping duties and safeguard clauses (two of Brazil's key demands), while individual congressmen will be wary of opposing powerful constituents.

Despite its historic misgivings about the political costs of free trade, however, the US Congress has not voted down a single global trade agreement in the past 30 years. But a regional trade agreement is a very different animal from its global counterpart. Global trade negotiations have an historic momentum and take place under the auspices of an international institution (initially the General Agreement on Tariffs and Trade and since 1995 the World Trade Organization). As such, Congress is afraid that casting the vote of the world's largest trading economy against freer trade could permanently damage the negotiation process and potentially undermine the commercial globalization from which the United States economy has benefited enormously. The same calculus does not apply to a new, regional trade agreement, however. Further, the relative unimportance of an FTAA to the US economy (US regional trade is very heavily dominated by the two countries with which it already has an FTA, Canada and Mexico[27]) combined with the perception in the United States that free trade agreements with developing countries tend to eliminate US jobs and damage the environment, will make the FTAA extremely vulnerable to a congressional vote directed toward satisfying constituent demands against free trade. "Responsible" congressmen could easily vote for global free trade where the economic costs of a no vote would be great while voting against regional free trade where the economic costs of a no vote are low and the political gain high.

These final paragraphs are not intended to suggest that the FTAA is a political impossibility. Rather they demonstrate that the greatest obstacles to an FTAA will emanate not from Latin America but from the United States. Latin America has opted for market economies in which exports and foreign direct investment are key drivers of growth. Such economies need to gain market access and investor confidence, and in the Western Hemisphere a useful tool to that end is a free trade accord with the United States. Given that the variables behind this economic policy decision are unlikely to change in the near future, Latin support for an FTAA is unlikely to wane. Some argue that Canada, the other non-Latin participant in the FTAA talks, might help to bridge the gap between Brazil and the United States. Canada is a developed country like the United States, but it is also an economy highly dependent on the United States like Latin America, and one that successfully institutionalized its trading relationship with the United States, first in the US-Canada Free Trade Agreement and later as a member of NAFTA. At the same time, however, as a developed economy Canada favors a tight, rule-based agreement along the lines of NAFTA that protects its exports and investments from policy discrimination—

[27] In 2001 Canada accounted for 20 percent of total US trade, México another 12.3 percent, while the rest of Latin America combined accounted for just 6.8 percent of US trade.

precisely the sort of position that makes Brazil hesitant to join. In short, Canadian economic interests in an FTAA parallel those of the United States making Canada a less than perfect interlocutor between the US and Brazil (Roy, 1999). Although Canada may help on the margin, in the final analysis the success of FTAA depends on the United States. When it comes to free trade in the Western Hemisphere, the power behind the “Pax Americana” continues to be determining.

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