



## Obama, Romney, and Trade: Part II

*Jeffrey J. Schott discusses the prospects of broad new agreements to open up trade between the United States and Latin America, as proposed by Governor Romney.*

*Transcript of interview recorded October 26, 2012. © Peterson Institute for International Economics.*

Steve Weisman: In the Presidential debate in the closing weeks of the campaign debate on foreign policy, Governor Romney suggested that if elected he would move more aggressively to reach a broad trade agreement with Latin America in the Western hemisphere. Jeffrey Schott of the Peterson Institute for International Economics, what was the significance of Governor Romney's statement? Is that likely to happen if he's elected?

Jeffrey Schott: I think there will be a focus on Latin America, but it will be a secondary or tertiary focus once they look at what is involved and what is to be gained. The U.S. already has an extensive network of free trade agreements with countries in Central and South America. The remaining countries that we don't have agreements with, there's good reason for that and there are significant trade problems and significant political problems.

Steve Weisman: Are there differences that negotiators have not been able to reconcile?

Jeffrey Schott: Absolutely. Indeed, there are very strong political and economic and commercial obstacles to concluding a trade agreement. We tried to do that two decades ago through the negotiation of the Free Trade Area of the Americas and that faded away into the sunset about six or seven years ago, in part because we could not reach an accommodation with the main economy of South America, Brazil. And we have that same problem today.

Steve Weisman: What you're saying is that without Brazil there's no great gains to be made?

Jeffrey Schott: What we have already is quite significant with our partners in Central America and on the west coast of South America. And there is something to be gained by harmonizing those agreements so that we have common rules and a common schedule. I think that's one of the initiatives that Governor Romney was referring to.

Steve Weisman: I see.

Jeffrey Schott: That echoes an initiative that Robert Zoellick [former president of the World Bank and former chief trade negotiator under President George W. Bush] undertook in the waning moment of the Free Trade Area of the Americas negotiations in trying to find a way to get around the obstacle that Brazil was posing to the conclusion of the talks.

Steve Weisman: This was when he was the top U.S. Trade Envoy in the first term of the most recent President Bush?

Jeffrey Schott: That's correct.

Steve Weisman: Right.

Jeffrey Schott: And that agreement, that initiative, never got anywhere for one simple reason. That is that harmonizing the free trade agreements that the United States had with other countries in the region would have required additional action by Congress, and the additional gains for U.S. trade and investment interests in that type of harmonized accord was just not big enough.

Steve Weisman: And Congress is too skeptical and it would have been too hard.

Jeffrey Schott: You always have to show the benefits and why Congress should act. And in that context, there was a risk that members of Congress might try to unravel some of the concessions the United States made in those previous trade agreements and the potential gain from the additionality of a harmonized agreement was not worth the risk of that unraveling.

Steve Weisman: Right.

Jeffrey Schott: The same holds for the initiative that Governor Romney is thinking about in Latin America, harmonizing our existing agreements. While beneficial in economic terms, it probably is not worth the effort in political terms. That said, we are to some extent doing that in the context of the Trans-Pacific Partnership [TPP] negotiation. Some of our FTA [Free Trade Agreement] partners in the Western hemisphere are also participating in the TPP talks, particularly Chile, Peru, and Mexico. To that extent, we're going to get a harmonization of our agreements through this new elaborate and advanced trade agreement that we're negotiating among 11 countries in the Asia Pacific region.

Steve Weisman: What's the main sticking point about why Brazil is seen as an obstacle to reaching a trade agreement?

Jeffrey Schott: We have substantial trade with Brazil. Last year our bilateral merchandise trade was about \$75 billion. That compares to Mexico, where it was almost \$500 billion, so you can see that there's a big drop off in comparison with our trading relationships with Mexico and Brazil.

But we have particular problems and longstanding problems with regard to trade and agriculture. We have longstanding disputes over the implementation of intellectual property rights and their enforcement. We have a new concern voiced by Brazil that U.S. monetary policy is conveying benefits for U.S. trading interests by affecting the value of the currency.

Steve Weisman: Allegedly depreciating the value of the dollar?

Jeffrey Schott: That's correct. So there are a number of areas where we have friction.

Steve Weisman: And Brazil was also an obstacle in the impasse over the Doha round, wasn't it?

Jeffrey Schott: Yes. One of the major countries that blocked progress. In part agriculture was a main concern of theirs because Brazil has sought to gain better market access in both the United States and European markets and they've been trying to do that for decades.

Steve Weisman: Do they have subsidies or are they just trying to reduce subsidies in their trading partners?

Jeffrey Schott: Their main objective was to reduce the subsidization of major products produced by the United States and Europe.

Steve Weisman: Did you want to mention one more thing?

Jeffrey Schott: There is an additional initiative that the United States could take. It is important I think for the next administration to rethink the bilateral trade relationship with Brazil. Brazil is a member of the Mercosur Customs Union and so is linked to other countries in the southern cone of South America. Indeed that group now includes Venezuela. So it is really an oddball grouping.

But if one looks at our overall economic relationship with Latin America, it's hard to conceive a policy that doesn't have a focus on Brazil and a free trade agreement may not be the preferred avenue for advancing U.S. commercial interests. Rather we may be looking at better cooperation on energy and environmental issues, where we have common ground. And indeed the U.S. and Brazil should be working hand and glove in promoting international initiatives in these areas. I think that would be a useful thing for the next administration to do.

Steve Weisman: Thank you, Jeff.

Jeffrey Schott: Thank you.

