

USA 2008: the Democrats, free trade and Latin America

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The Democratic and Republican presidential aspirants have radically different views on NAFTA and free trade. Senator John McCain has demonstrated a consistent and virtually unqualified belief in the mutual benefits of free trade agreements to all concerned. The Democrats have been more critical, and increasingly so, since many of them signed on during the Clinton administration's push for NAFTA in 1994. Although the Democratic contenders for the US presidency currently have strikingly similar positions on the issue of free trade in Latin America, this article will try to parse some of the differences between the two with the aim of offering some idea of how each might act on the issue as president. The degree of candor and consistency each candidate evinces in discussing these issues also distinguishes the two and offers clues as to how much confidence we should place in their pre-election attitudes and rhetoric as a guide for future action.

The centerpiece of US economic policy toward Latin America for the past two decades has been the promotion of free trade. After the passage of NAFTA in 1994 under President Bill Clinton, the heart of the policy has been the effort to extend NAFTA to include the rest of Latin America in a Free Trade Area of the Americas (FTAA). The Bush administration has promoted free trade agreements (FTAs) as the magic bullet for Latin America's underdevelopment in the way conservatives tout tax cuts for the rich as the panacea for economic recession. But Joseph Stiglitz, Nobel prize-winning economist and former World Bank official, rates neoliberal prescriptions a complete failure with regard to improving people's lives in any practical sense. Countries that followed the advice of the US and their allies in the IMF and the World Bank "have actually done worse than they did in the past". He points out that "growth in Latin America [in the last 20 years] is just half of what it was in the 1950s, 1960s and 1970s, before we taught them what to do". Currently, the Bush administration's plan for a hemisphere-wide free trade pact, initially planned for 2005, is in a shambles. In fact, Washington seems more interested now in pursuing a parallel agenda of bilateral agreements in Latin America.

There is a manifest desire among many Latin American governments today to diversify, at the least, their dependency on the US. Hence, they are courting non-US trade and investment, particularly from Asia and Europe. China, for example, is seen as both an economic and political balance to US hegemony. The Chinese, while expanding their economic presence in the region - especially seeking out Latin America's raw materials for their industries - is stressing cooperative development and low-profile, non-interference in internal affairs. Despite doubts about China's human rights record, their approach basically resonates with Latin America's new populist leaders at the same time the Bush administration struggles to stay relevant with its two-decade old neoliberal, free trade arguments.

To be sure, the United States still plays a preeminent political and economic role in the hemisphere. Brazil imports six times more from the United States than China and remittances sent to other hemispheric countries from immigrants in the US total nearly 50 billion. Yet, while Latin American commerce with China still represents only 10 percent of its total trade (as opposed to 50 percent for the US), the value of China's Latin American imports is increasing by 60 percent a year. Bilateral trade between China and Latin America grew an astonishing 350 times from \$200 million in 1975 to \$70 billion in 2006 and is projected to be \$100 billion by 2010. According to the UN Economic Commission for Latin America and the Caribbean, between 2000 and 2006 Brazil increased its imports from China six-fold, to \$8 billion. Caracas has signed several trade and cooperation agreements with Beijing as well as New Delhi. President Hugo Chávez, seeking to diversify Venezuela's still heavy dependency on the US market, has declared he would like to become a major source of China's petroleum needs. While low as an overall percentage of Venezuela's production (three percent), Chinese imports of Venezuelan crude have jumped by six times between 2004 and 2007. China is Chile's second-biggest market. Some US lawmakers view China as "the most serious challenge to US interests in the region since the collapse of the Soviet Union".¹ For its part China has kept its head down, tacitly recognising a US sphere of influence and not directly challenging US interests. But neither has it shied away from friendly ties with Cuba and Venezuela or strengthening its military-to-military ties with various governments in the region.

Iran has also established a presence in the region, with Petropars, the Iranian state oil and gas company, for instance, planning to invest \$4 billion in oil exploration and development in Venezuela. Since 2005, Chávez and Iran's President Ahmadinejad have visited each other seven times, signing deals on issues as varied as tractor manufacturing and oil exploration, and establishing direct flights between Caracas and Tehran.

Europeans and Canadians have augmented their diplomatic and commercial presence in the region, while emphasising their convergence with Latin American political and social values and the cooperative, multilateralist and soft-power nature of their foreign policies. The European Union, today, is Latin America's second most important trading partner - and the first trading partner for the South American trading bloc Mercosur and Chile. Its trade figures grew nearly two and a half times between 1990 and 2006; total EU trade with Latin America reached 141.1 billion euros (approximately \$177.2 billion) in the latter year, an 18 percent increase over 2005.

Owing to FTA negotiations trade will continue to grow at strong rates. The European Union, for example, has already signed trade and investment agreements with Mexico and Chile and signed an "Economic Partnership Agreement" with the 15 Caribbean Community nations. It is currently negotiating commercial pacts with Central America and the Andean Community. Prime Minister Stephen Harper of Canada, already the region's second-largest investor, has identified Latin America as a particular focus for his administration. He is selling his country as projecting a less rough-edged and free-wheeling version of capitalism than that of the US. Ottawa is near to signing a free-trade agreement with Colombia and is in free-trade talks with Caribbean nations. Canadians have for some time invested Cuba, especially in the hotel and tourism sector, and currently have trade relations with the island worth more than \$1 billion a year.

¹ Hakim, Peter, "Is Washington Losing America?" *Foreign Affairs*, January-February 2006.

NAFTA

Against this geopolitical backdrop, the election year debate among Democrats on hemispheric trade has played out with much more attention being paid to US working class voters skeptical of free trade. Republicans, on the other hand, have tended to be unabashed free traders for decades now. The presumptive Republican nominee, Senator McCain, supports FTAs with any country except security risks and receives a 100 percent rating from the CATO Institute on his pro-free trade voting record. McCain has consistently pledged whole-hearted support for the neoliberal precepts of untrammelled capitalism and free trade in the Americas. He is the only one of the presidential candidates in either party who voted for the 1994 NAFTA bill. Thus, with either Democrat in the White House in 2009, there will clearly be more protectionist sentiment than with a Republican administration - although free traders may have slightly more reason for hope in an Obama, than a Clinton, presidency.

Prior to the campaign neither Democratic candidate assumed a high profile on Latin American issues, either in the US Senate or in their writings. Obama did make a March 2007 speech on the region but oddly, his website ignores Latin America. Until recently in the primaries the issue of free trade, which resonates less with the average voter than, say, Mexican immigration or responding to Chavez' Venezuela, has also been soft-pedalled. However, at this point in the campaign both Democratic candidates have distanced themselves from the free trade enthusiasm of the Democratic Leadership Council (DLC), representing the center-right of the party and its former leader and US president, Bill Clinton. They have less faith in the 1990s bipartisan ideology promoting the certain benefits that accrue to all sides in any regime of unrestricted commerce. They pledge no knee-jerk, neoliberal approval of FTAs wherever and whenever. But more pragmatically for the campaign season, they most often argue that free trade agreements should be examined and even rejected primarily based on their impact on US jobs.

Thus, with the exception of the free trade debate on Colombia, with its terrible human rights record, the Democrats have appeared somewhat parochial and indifferent to the concerns of Latin Americans. A party which otherwise professes an internationalist, social justice agenda, has orchestrated the debate so far to deemphasise the issues of labour rights, health and environmental stipulations in countries trading with the US.

The most protectionist voice among the Democratic presidential contenders was that of John Edwards. After he abandoned the race at the end of January, both Barack Obama and Hillary Clinton have taken up the anti-free trade mantra. They have been especially critical of the trade pact between the US, Canada and Mexico known as the North American Free Trade Agreement (NAFTA). Since the 1994 NAFTA vote, the Democratic Party - if not always its representatives in Congress - has gradually adopted a more protectionist stance, increasingly chary of trade deals whether bilateral or multilateral. Labour connects the loss of roughly three million US manufacturing jobs since 2000 with globalisation and free trade. These doubts regarding the benefits of free trade for working people, as well as the links between the anti-war movement - so important in taking back Congress in 2006 - and anti-globalisation forces, has reinforced this tendency. Nevertheless, it should be kept in mind that the party and its two remaining candidates have mixed feelings on the free trade issue, not least because they also receive funding from industries in the export sector.

Obama and Clinton as anti-free traders

When dealing with NAFTA and FTAs in general the two Democratic contenders rarely support their opposition or reluctance with a specific discussion of the social and economic effects of free trade and globalisation in Latin America; rather their focus is the putative negative impact on US workers. An important thrust of the Democratic campaign is to win back the embattled working class (including so-called Reagan Democrats) who have suffered job losses and shrunken economic horizons because of globalisation and the shift away from the “smokestack” capitalism of a half century ago. Both Obama and Clinton are therefore plumping for a large dollop of protectionism to address middle America’s economic woes.

As the primary season has segued to economically straightened states like Ohio and Pennsylvania, Democrats express skepticism of the Bush administration’s love-affair with free trade - basing their criticism less on the economic merits than the socio-economic implications for the US. Both Obama and Clinton have recently stressed more transition assistance for displaced workers.

It is politically prudent - at least in the short run - for the presidential aspirants to articulate how they would “restore the economic security” of the US middle class. Indeed, Obama and Clinton have expressed their support for strengthening the Trade Adjustment Assistance Programme, seen as crucial in helping US workers displaced by trade. They have mentioned, if not elaborated upon, their ideas about investing in infrastructure, science, and alternative energy (as has the presumptive Republican presidential candidate, Sen. John McCain) and touched on the need to include strong labour, safety, and environmental standards in trade agreements.

Perhaps we will have to wait until the general election campaign, but it would be helpful for the Democratic candidates to address NAFTA as an international, as opposed to domestic, issue and in a more nuanced way. Both have promised to review the NAFTA accord and possibly amend the agreement to improve labour standards. Clinton voted no to extending the Andean Trade Preference Act in 2002. Clinton, unlike Obama, has even indicated a preference for freezing new trade agreements - calling it “a little time-out”. Both cite their opposition to the 2005 Dominican-Republic-Central American Free Trade Agreement (DR-CAFTA). While Clinton has some free traders around her, she also has many trade advisers from the pro-union, anti-globalisation Economic Policy Institute and the AFL-CIO union federation.

So far, the white working class voter has tended to favour Clinton, notably in Ohio and Pennsylvania. Hillary Clinton, for her part, has based a good part of her appeal on affecting the image of a populist “blue collar mama”, attuned to the travails of ordinary working people in small towns and rural America. From the beginning she has been able to depend on broad support from the protectionist-oriented AFL-CIO. While there is hardly any difference in their trade votes in the Senate since Obama arrived in 2004, Obama’s rhetoric and views before the campaign skew slightly more towards free trade positions. Moreover, Austan Goolsbee, Obama’s principal economic adviser, is a modified free-trade advocate who at the same time recognises the need for softening the dislocations among workers. Accordingly, Obama has nuanced his position with a proposal for tax incentives for those companies that invest at home. Obama’s union backing is weighted toward the Service Employees International Union and the Teamsters, neither of which is threatened by FTAs - indeed the Teamsters benefit from them. By contrast, the Clinton campaign claims no professional economist of national stature and her campaign has taken a more strident rhetorical line against NAFTA. Her trade advisers include those from the Economic Policy Institute and the AFL-CIO, both of which are repositories of free trade criticism.

However, we should not place too much stock in the Democrats' protectionist posturings. In the 1990s President Bill Clinton achieved considerable bipartisan support for the NAFTA agreement and the principles of free trade. Even today, the Democratic candidates' arguments against FTAs appear strained, more of a campaign ploy to lure back to the party blue collar families in the traditional industrial heartland and Eastern rustbelt. Nor should the Democrats' critique of free trade be interpreted as a posture of sympathy with Latin American farmers, the rural poor and working classes, who critics feel are hurt by the consequences of neoliberal free trade policies. Thus, although the Democratic candidates' opposition to free trade dovetails with progressive anti-globalisation forces, it is not a true measure of ideological positioning or a likely indication of what they will advocate once in power. Nevertheless, the promissory notes written during the campaign can be called in after the election and ignored only at some political peril.

Obama and Clinton as free traders

Comparing their rhetoric with the reality of their past positions and other indicators, we think they do protest too much. Asides from the issue of Colombia, where Democratic positions are heavily freighted by human rights concerns, both Senator Obama and Clinton, as First Lady and as Senator, are cautious and intermittent free traders. Obama, according to trade experts, including those at the establishment Council on Foreign Relations and the libertarian CATO Institute, is considered more of an instinctive free-trader than Clinton. Yet despite a voting record and recent rhetoric that is slightly more protectionist than Obama's, Clinton's campaign harbours former administration officials from her husband's presidency, like ex-Secretary of the Treasury Robert E. Rubin, who are enthusiastic free traders. And despite denials, and her rather disingenuous assertion in her February 26 debate with Obama that "you know, I have been a critic of NAFTA from the very beginning", Clinton supported NAFTA during her husband's tenure on various occasions. In 1994 she helped block opposition to NAFTA from labour and environmental groups. In 2004, Clinton declared at a news conference that she thought NAFTA "on balance has been good for New York and good for America" and as recently as September 2006 she was still defending her husband's promotion of the three-country agreement: "Everybody is in favour of fair trade and I think NAFTA is proving its worth".²

For the record, both candidates supported the 2006 Free Trade Agreement with Oman, which was quite unpopular in Democratic circles, and the 2007 Peru Free Trade Accord, which no major US labour or environmental group supported, but which a majority of Congressional Democrats backed. (Note: they both conveniently skipped the Senate vote). Earlier, before Obama arrived in the US Senate, Clinton, as First Lady and US Senatorial hopeful, campaigned for the free trade-oriented Permanent Normal Trade Relations (PNTR) agreement with the People's Republic of China (2000). She also voted yes to normalising trade with tariff parities for Vietnam in 2001 and yes to the Singapore and Chile free trade agreements in 2003.

Notwithstanding the ratcheting up of their anti-free trade rhetoric, both campaigns have been embarrassed by signs of cracks within their camps regarding their protectionist appeals. In March Obama's senior economic adviser, Austan Goolsbee, downplayed Obama's anti-NAFTA rhetoric to Canadian officials. He was cited in a memo from the Canadian consulate in Chicago as saying that Obama's position is "more reflective of political maneuvering than policy". While the Obama campaign claimed that Goolsbee had been misinterpreted, the suspicion remained that there had been some subtle message to the effect that Obama's campaign rhetoric - at least on trade - should not be taken too literally. Then in April Clinton suffered a loss of credibility when it was revealed that her chief campaign strategist, Mark Penn, had been involved in lobbying

² Associated Press, "Obama Hits Clinton on NAFTA Support," Feb. 24, 2008. Clinton Teleconference on Job Training Fund Cuts, January 5, 2004; 1/5/04; "Obama Camp: Clinton Owes Apology Over NAFTA Comments" *Huffington Post*, March 20, 2008 12:33pm.

for the Colombian Free Trade bill. At the same time voters were reminded that husband Bill had received hefty fees for lobbying efforts on behalf of the agreement. All this was taking place while she was barnstorming Ohio and Pennsylvania denouncing the proposed treaty.

Many economic analysts, including more progressive observers, believe that NAFTA (and the general issue of free trade in Latin America) is not the culprit Democratic politicians have made it out to be. Other forces in the globalised world, as well as trends in the domestic economy, may be more critical factors in explaining the contemporary problems of US labour. The problems of Ohio probably have more to do with the diminished economic clout of the automobile industry than with free trade. And Latin America takes a back seat to Asia—China, in particular with a US trade surplus three times that of Mexico, for undermining US manufacturing.

According to the Congressional Budget Office, NAFTA has had a mixed record for the past fourteen years. A Council on Foreign Relations Task Force reported in 2005, that NAFTA has “transformed Mexico, but it has also deepened and made much more visible the divisions that exist in the country”. The differences between US and Mexican subsidies to their farmers have hit Mexican corn farmers particularly hard, put pressure on the countryside and exacerbated the immigration problem. Illegal immigration from Mexico to the United States, which was supposed to slow as a by-product of NAFTA, in fact increased since the accord took effect. So far, the candidates have failed to address these kinds of larger, more complex effects of NAFTA to any degree.

Final thoughts

The Democratic primary campaign is being waged by two candidates with similar and occasionally overlapping views in many policy areas. In an April 21 editorial *The Financial Times* declared: “The contenders’ differences on policy look small and in reality are even smaller.” Their “anti-liberal” positions on free trade have for the most part lacked nuance and specificity. Their voting records pro and con have been chequered. By contrast John McCain has been utterly dependable and unambiguous in his full-throttled support for free trade and his conviction of its benefits.

But through the gauze of the Democratic candidates’ attitudes we may discern two basic factors to help us calculate the importance, to their potential presidencies, of the candidates’ past positions and campaign rhetoric on this central issue for the Americas. First, based on their records they would certainly be more attentive to the downside of free trade agreements here in the US and most likely abroad as well, and less willing to sign off without safeguards. At the same time they are less protectionist than many others in the party, like former presidential hopeful, John Edwards, and would probably work to steady a wavering Democratic Party’s support for FTAs. Second, a more troubling issue for Clinton than for Obama, whether on trade liberalisation or other foreign policy options, is the New York senator’s credibility and consistency. She has been anything but constant in her assessment of NAFTA. Clinton has also been a less visible and reliable critic than Obama on the Colombian Free Trade Agreement (which will be addressed in a second article). Additionally, those close to her have, in notable instances, contradicted her stated positions. While Senator Clinton would have to make good on some of her rhetoric in the campaign, there exists more doubt about whether she could be counted on to follow up on her most recent positions. We would expect Senator Obama to reflect fewer contradictions on the issue but, as his voting patterns have indicated, he would remain a cautious and careful free trader.

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