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Trading Away Development: The US-Colombia Free Trade Agreement

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Since the early 1990s Latin American nations have been signing trade treaties with the United States that have brought small gains and high costs. Pending deals between the United States and Colombia and the United States and Panama are no different. Each is based on the same template that has been the cornerstone of US trade policy since the North American Free Trade Agreement (NAFTA).

In a new paper I review estimates of the gains from trade from numerous Latin American-US free trade agreements (FTAs) from the 1990s to the present, and juxtapose such gains with the fiscal and regulatory costs associated with those treaties. The analysis shows that Latin American nations are signing deals where the net benefits are ambiguous at best. Indeed, estimates show that the US-Colombia trade treaty pending in the US Congress would yield negative net welfare benefits for Colombia, cost the Colombian government $633 million in tariff revenue, and force Colombia to deregulate its financial sector, and choke its policies for innovation and productive development.

If these treaties fall short of bringing real benefits to Latin America, then why do Latin American governments sign them? Those nations that end up signing with the US usually converge around: having high initial export dependence on the US that accentuates asymmetric bargaining power on the part of the US; the dominance of right-wing political parties in Latin American countries at the time of negotiation; a "race" to gain access to the US before a neighbor with a similar export does; and a pervasiveness of "neo-liberal" ideas throughout elite decision-making circles in the nations that choose to sign treaties with the US.

Take Colombia for example. Close to half of all its exports are destined to the US, and many of those exports come into the US through special preference programs. The US told Colombia that they would lose those preferences if they did not sign an agreement. Moreover, the US has a mammoth economy 116 times the size of Colombia's with average income 17 times higher than Colombia's.. As Albert Hirschman spelled out in his classic *National Power and the Structure of International Trade*, a negotiation with this type of asymmetry quickly becomes an offer the Colombians can't refuse.

Like most Latin American nations that sign with the US, the Colombians didn't want to refuse in the first place. Indeed, the deal was negotiated with right-wing political parties aligned with domestic exporters who all share a commitment to neo-liberal economic policy regardless of its poor record in the region. In my study I show that most treaties follow a similar pattern of the US teaming up with a right-wing government that can't say no but they don't want to say no!

A related factor is the collective action problem. In these trade deals the benefits are highly concentrated in a handful of sectors but the costs are dissipated across the populace and into the future. For instance, a cost of NAFTA-style intellectual property rules is the inability to put in place a proper innovation system for long-run development. By their very nature many of the innovation policies that many countries want the policy space to deploy are policies to correct market failures so that firms and general welfare benefits can be created in the future. Thus, the beneficiaries of such policies are either small and weak or not even yet in existence.

Of course, Brazil is the counter example. Brazil's economic might is large enough that it presented a counterweight to the US when the US wanted a Free Trade of the Americas. Moreover, the center-left governments there were aligned with domestic industrial capitalists who benefit from the fruits of Brazil's innovation policies, and well-organized unions that depend on that industrialization for jobs and livelihoods. Moreover, Brazil never fully plugged in to the Washington Consensus and large components of the Brazilian government and economics profession hold what would be considered heterodox views of economic policy. Thus, Brazil broke off negotiations for a Free Trade Area of the Americas because deregulating intellectual property, foreign investment, and financial services would bring heavy costs to its growth prospects.