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[The author writes for Business News Americas in Sao Paulo.]

At the end of May, the US sent its top trade negotiator Robert Zoellick to Brazil to accelerate and deepen talks for the creation of the Free Trade Area of the Americas (FTAA). The creation of the world's largest trade bloc covering an area that has 800 million inhabitants and a combined GDP of US$11.4 trillion is one of the top priorities of the administration of US President George W. Bush on the commercial front.

"It is necessary that all the countries of the continent stick to the time frame of January 2005 agreed in Quebec," emphasized Zoellick, referring to when negotiations must be concluded. He added that, given the recent vulnerabilities of Latin American economies, the need for the FTAA is even greater, and he argued that a hemispheric free trade area would give Brazil and other countries a competitive advantage against China. But government officials and civil-society leaders in the Southern Hemisphere remain concerned that their fragile economies might not benefit from a possible trade deal with the US.

Many Latins fear that their markets will be swallowed up by more competitive, better capitalized US firms. Even the GDP of Brazil, the region's largest economy, is just one- eighteenth the size of the US GDP. In addition, opening up to increased foreign competition in the past has not resulted in increased economic growth nor better living standards. Imported goods have often displaced local producers causing increased unemployment, more poverty, and heavier debts.

At the end of 2001, desperate economic conditions in part linked to increased market openings, in Argentina led to riots, which forced the country's president to step down (see NotiSur, 2002-01-11).

New political leaders take office

Having had enough of recurring economic crises, local electorates have put into office more left-of-center politicians. This new political wave culminated in the election of Luiz Inacio Lula da Silva as president of Brazil. Lula experienced first hand the grinding poverty that a third of his population suffers, and he promised to enact changes from past administrations.

His first initiative, which he has taken to meetings of the Group of Eight (G-8) major industrialized countries, is the Fome Zero (Zero Hunger) program (see NotiSur, 2003-02-21). Lula does not just want to provide better social- assistance programs but also to defend Brazil's economic development on the international front. And Lula is not alone.

Nestor Kirchner, who assumed the presidency in Argentina on May 25, has already met with Lula and promised to deepen regional integration (see NotiSur, 2003-05-23). The close ties between the

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two countries is institutionalized in the Southern Cone Common Market (MERCOSUR) trade bloc, which also includes Uruguay and Paraguay, with Bolivia and Chile as associate members.

In recent years, this customs union has been weakened by the economic crises of participating members. "We are giving priority to a strategy of reconstructing MERCOSUR with economic, political, and institutional integration," said Kirchner after meeting with Lula last month.

Celso Amorin, Brazil's foreign minister, explains that there are two reasons for pushing ahead with MERCOSUR. "The need for more integration between us in benefit of our industrial, agricultural producers, etc., and also the external dimension of fortifying our capacity to bargain with other countries and trade blocs," he said.

Obstacles faced in the FTAA

Currently, the US imposes average tariffs of 3% on Brazilian goods, compared to Brazilian duties of 16% on US imports. However, Brazilians are quick to point out that the disparity in tariffs is not as large as it seems, since the 15 most important Brazilian exports to the US are charged, on average, a tariff of 45.6%. Brazilians add that many of their exports also confront numerous phytosanitary barriers and quotas, such as those applied to tobacco. When the quotas are surpassed, US tariffs on those commodities can reach 350%.

Yet what concerns Brazilians and other Latin Americans is not so much lower tariffs on products, but access to US markets. The perception is that whenever a country becomes competitive in an industry, the US throws up barriers. Steel trade epitomizes the deadlock facing the trade talks (see NotiSur, 2002-01-25). The US steel industry, suffering under high pension liabilities and other problems, has successfully pressured the US government to impose safeguards against more competitive steel imports. But Brazilian steelmakers, some of the lowest-cost producers in the world, feel that their investments aimed at increasing exports to the US have been undermined.

With growing doubts that the FTAA would meet their objectives, Brazilian government officials proposed that the US negotiate a deal directly with MERCOSUR. But Zoellick emphasized that the FTAA is the priority, and he even gave new offers of lower tariffs on textiles and other products.

To secure access to the US market, Brazilian diplomats want to include US anti-dumping laws and agricultural subsidies in the FTAA talks. But the US remains adamant that the two issues will only be negotiated under the ambit of the World Trade Organization (WTO). The result will be a watered down FTAA.

"Yes, Brazil wants to negotiate the FTAA. But if the US only puts its sensitive products under the WTO, why do we have to put our sensitive products in the FTAA?" said Lula. Sensitive areas for Brazil that the US would like to gain greater access to include government procurement, industrial policies, and development programs all key elements for a backward country to climb the technological ladder.

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Working toward South American unity

To improve its bargaining position in trade talks with the US, Brazil is working not only to revitalize MERCOSUR but establish closer ties with other South American countries. When meeting with 18 other South American heads of state on May 20, Lula sought a common front against the US and is putting his money where his mouth is. Through the federally-owned Banco Nacional de Desenvolvimento Economico e Social (BNDES), Brazil is providing needed financing to neighboring countries. The first cooperation deal was signed with Venezuela. The BNDES will provide up to US$1 billion in credits for the country to buy Brazilian goods and services. And the guarantee is Venezuelan oil.

Similar deals being negotiated with Argentina and Bolivia are expected to total US$1 billion and US$600 million, respectively. Brazil is also looking to become the largest shareholder in the Corporacion Andina de Fomento (CAF) by increasing its stake to 20% with a US$400 million investment. Many cooperation deals and intergovernment visits involve infrastructure projects between countries. One of the reasons for historical divisions between South American countries has been the lack of an adequate transport network.

"Infrastructure is the base. We want infrastructure to allow for a great circulation of goods and services, but also goods and services produced in the region," said Brazil's Amorin. Henrique Rattner, a political economist at the Universidade de S

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