

Comment: Congress is right to oppose trade deal with Colombia

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BOSTON (Reuters.com) -- The U.S.-Colombia Free Trade deal is one of the most deeply flawed trade pacts in U.S. history. It will hardly make a dent in the U.S. economy, looks to make the Colombian economy worse off and accentuate a labor and environmental crisis in Colombia. The Democratic majority in Congress is right to oppose this agreement and call for a rethinking of U.S. trade policy.

According to new estimates by the United Nations Economic Commission for Latin America, the net benefits of the agreement to the U.S. will be a miniscule 0.0000472 percent of GDP or a one-time increase in the level of each American's income by just over one penny. The agreement will actually will make Colombia worse off by up to \$75 million or one tenth of one percent of its GDP; losses to Colombia's textiles, apparel, food and heavy manufacturing industries, as they face new competition from U.S. import, will outweigh the gains in Colombian petroleum, mining, and other export sectors, it concludes.

Nor is it clear that the agreement will bring foreign investment to Colombia. The World Bank's 2005 Global Economic Prospects report warned that trade and investment agreements themselves would not necessarily translate into new foreign investment. This conclusion was based on a study they commissioned that examined the experience of twenty developing countries between 1980 and 2000 to determine whether agreements that provided assurances to foreign investors did indeed attract investors. More recent studies have similar findings for Latin America. Articles in peer-reviewed journals Latin American Research Review and Journal of World Investment and Trade found no independent correlation between foreign trade or investment agreements and increases in foreign investment in the region.

NAFTA and Mexico, however, are the exception. At least until 2000, Mexico was able to attract unprecedented amounts of foreign investment increasing more than fivefold and third only to Brazil and China as the largest recipients of foreign investment in the developing world. However, Mexico's foreign investment has not translated into the promised benefits. Although foreign investment has surged, total investment has lagged at less than 20 percent of GDP, one of the reasons why Mexico's economy has barely grown in per capita terms since NAFTA.

New research shows that although Mexico was initially successful in attracting multinational corporations, foreign investments waned in the absence of active government support and as China became increasingly competitive. Moreover, the foreign investment created an "enclave economy," the benefits of which were confined to an international sector not connected to the wider Mexican economy. In fact, foreign investment put many local electronics firms out of business and transferred only limited amounts of technology.

The U.S.-Colombia FTA will do little or nothing to reverse Colombia's abysmal labor rights record. According to the AFL-CIO, since 2004, 275 trade unionists were murdered in Colombia and only a handful of these crimes have resulted in convictions. To get anywhere near credibility, Colombia would need to meet established human rights benchmarks, such as making significant inroads in the prosecution of these crimes.

The deal amounts to a rollback of previous environmental provisions in U.S. trade agreements. Unlike past U.S. trade pacts, this deal doesn't provide any new funding for cooperation, clean up, or compliance.

Finally, the deal has a little secret also not allowed under the WTO. It leaves open the possibility that ad hoc investment tribunals will interpret social and environmental regulations as "indirect expropriation." Under such interpretations, multinational firms themselves (as opposed to states filing on a firm's behalf such as in the WTO) can file suit for massive compensation from foreign governments. Under NAFTA such suits have been filed against the U.S., Mexico, and Canada. Indeed, Methanex Corp. filed a \$1 billion suit against the state of California for banning a gasoline additive that was polluting water sources.

The Democratic majority is right to oppose this agreement. Rather than granting a lame duck president another foreign policy quagmire for his successor, Congress should wait until a new president is in office and then rethink the direction of U.S. trade policy has taken over the past eight years.

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