

# The FTAA after Toronto and Seattle: Why It Still Matters

## EXECUTIVE SUMMARY

For the past year, the possibility of a successful launch of a Millennium Round of multilateral trade talks in Seattle has overshadowed the negotiations for a Free Trade Area of the Americas (FTAA) which officially began in April 1998. Potential scenarios for the FTAA ranged from relegation to the back burner (in the case of a successful launch of a comprehensive new round of world trade negotiations), to the FTAA regaining some of its appeal if the Millennium Round got off to a slow start. Since very few observers predicted the fiasco in Seattle in December 1999, not much serious thought had been given to the consequent impact on the FTAA of a failure in the World Trade Organization (WTO). All major regional and world trade negotiations could be affected by the events in Seattle; however, the FTAA should regain the favour of governments in the hemisphere which are looking for a forum where broad-based negotiations on economic integration can effectively be conducted in the coming years. Since this proposed hemispheric trade arrangement is part of the Summit of the Americas agenda, leaders of the hemisphere are unlikely to turn away from the FTAA. Canada played a leading role in the FTAA in 1998 and 1999. Now with the hand-off as Chair of the FTAA negotiations to Argentina at the Toronto Trade Ministerial in November 1999, Canada may still find some benefit from actively promoting a hemispheric trade agreement.

## RÉSUMÉ

L'an dernier, les négociations en vue d'établir une Zone de libre échange des Amériques (ZLÉA), entamées officiellement en avril 1998, ont été éclipsées par l'éventualité du lancement du cycle de négociations commerciales multilatérales du Millénaire à Seattle. Les scénarios potentiels pour la ZLÉA sont allés de sa mise en veilleuse (en cas de lancement effectif d'un nouveau cycle complet de négociations du commerce mondial) à un regain d'intérêt si le cycle du Millénaire démarrait lentement. Il y a eu si peu d'analystes à prévoir le fiasco de Seattle en décembre 1999 que l'on n'a guère songé aux répercussions d'un échec de l'Organisation mondiale du Commerce (OMC) sur la ZLÉA. Pourtant toutes les grandes négociations commerciales régionales et internationales pourraient être affectées par les événements de Seattle; s'agissant de la ZLÉA toutefois, elle devrait connaître un regain de faveur auprès des gouvernements dans l'hémisphère qui sont à la recherche d'une tribune où négocier l'intégration économique dans les années à venir. Étant donné que ce projet d'accord commercial hémisphérique est à l'ordre du jour du Sommet des Amériques, il est peu probable que les chefs de gouvernement dans l'hémisphère se désintéressent de la ZLÉA. Le Canada a joué un rôle capital dans la ZLÉA en 1998 et en 1999. Même si le Canada a cédé la présidence de la ZLÉA à l'Argentine, lors de la réunion des ministres du Commerce en novembre 1999 à Toronto, il pourrait bien avoir intérêt à continuer de promouvoir activement un accord commercial hémisphérique.

## RESUMEN

Durante el pasado año, la posibilidad de lanzar con éxito la ronda del Milenio de negociaciones comerciales multilaterales en Seattle había ensombrecido las negociaciones dirigidas a un Área de Libre Comercio de las Américas (ALCA) que se habían iniciado oficialmente en 1998. Los escenarios potenciales serían desde relegar al ALCA a un segundo plano (en caso de que esta nueva ronda global de conversaciones comerciales tuviese éxito) hasta darle un renovado impulso en el caso de que la ronda del Milenio no estuviera a la altura esperada. Dado que muy pocos observadores previeron el descalabro que se produjo en Seattle en diciembre de 1999, no se había dado mayor consideración al posible impacto que podría tener sobre el ALCA un fracaso en el marco de la Organización Mundial de Comercio (OMC). Todas las principales negociaciones a nivel regional y mundial podrían verse afectadas por los acontecimientos de Seattle. Sin embargo, el ALCA deberá recuperar el favor de los gobiernos del hemisferio que buscan un foro donde puedan efectuarse negociaciones comerciales amplias sobre temas de integración económica de manera efectiva en los próximos años. Como esta propuesta de acuerdo comercial forma parte de la agenda de la Cumbre de las Américas, es poco probable que los líderes del hemisferio se distancien del ALCA. Canadá tuvo un papel dirigente en el ALCA en 1998 y 1999. Ahora, con el traspaso de la presidencia de las negociaciones del ALCA a Argentina durante la Reunión Ministerial de Comercio celebrada en Toronto en noviembre de 1999, Canadá podría aún encontrar algún beneficio en la promoción activa de un acuerdo comercial hemisférico.



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## AN FTAA PRIMER

At the First Summit of the Americas, held in December 1994 in Miami, the Heads of State of the 34 democracies of the Western Hemisphere agreed to complete negotiations for a Free Trade Area of the Americas by 2005. The work plan for the FTAA was developed at successive **Trade Ministerials**:

- First Western Hemisphere Trade Ministerial, Denver, USA, June 1995.
- Second Western Hemisphere Trade Ministerial, Cartagena, Colombia, March 1996
- Third Western Hemisphere Trade Ministerial, Belo Horizonte, Brazil, May 1997
- Fourth Western Hemisphere Trade Ministerial, San José, Costa Rica, March 1998
- Fifth Western Hemisphere Trade Ministerial, Toronto, Canada, November 1999

Initially, 12 FTAA Working Groups were established to gather information on the current status of trade relations in the Hemisphere. At the 1998 San José Ministerial, these working groups were transformed into the following nine **Negotiating Groups**:

- Market Access
- Investment
- Services
- Government Procurement
- Dispute Settlement
- Agriculture
- Intellectual Property Rights
- Subsidies, Antidumping and Countervailing Duties
- Competition Policy

A Consultative Group on Smaller Economies was also created, as well as a Committee on Civil Society and a Committee of Experts on Electronic Commerce.

The **Chairmanship of the Negotiations** rotates every 18 months, or after each Trade Ministerial. Canada handed over the Chairmanship of the FTAA process to Argentina at the Toronto Trade Ministerial. Argentina will chair the negotiations until the next Ministerial in Buenos Aires, in April of 2001, where it will hand over the Chairmanship to Ecuador. Brazil and the United States will co-chair the process for the final 18 months until the 2005 deadline.

A **Trade Negotiations Committee (TNC)**, composed of the Vice-Ministers for Trade, oversees the actual negotiations and is to meet no less than once every 18 months. The Chair of the FTAA process also chairs the TNC. The next meeting of the TNC will take place in Miami, April 12-14 2000.

**The negotiations will be hosted** successively by the United States (Miami) for three years, Panama (Panama City) for two years and Mexico (Mexico City) for two and a half years, or until the conclusion of the negotiations.

A **Tripartite Committee**, consisting of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the Organization of American States (OAS) and the Inter-American Development Bank (IDB) provides technical assistance to the process.

The FTAA negotiations are part of the **Summit of the Americas** process. The First Summit of the Americas was held in Miami in December 1994. The Second Summit of the Americas took place in Santiago in April 1998 and the Third Summit of the Americas will take place in Quebec City, a few weeks after the Buenos Aires Trade Ministerial, in April 2001. At the Santiago Summit, where the FTAA negotiations were officially launched, the mandates adopted in the Santiago Plan of Action, were divided into four "baskets":

- Education
- Preserving and Strengthening Democracy, Justice and Human Rights
- Economic Integration and Free Trade (of which the FTAA is a part)
- Eradication of Poverty and Discrimination

For more information on these processes, consult the following web sites:

- The FTAA official website: [www.ftaa-alca.org](http://www.ftaa-alca.org)
- The OAS Trade Unit website: [www.sice.oas.org](http://www.sice.oas.org)
- The Summit of the Americas Information Network: [www.summit-americas.org](http://www.summit-americas.org)

## THE MILLENNIUM ROUND POSTPONED

The negotiations in Seattle failed primarily because of fundamental disagreements among developed countries. The European Union (EU), the oft-forgotten proponent of a comprehensive new round of trade negotiations, was unwilling to compromise on the timeframe for the elimination of agricultural export subsidies when even hardliners on the issue, such as Japan, were willing to work toward a consensus. The United States, on the other hand, did little to give the Europeans room to manoeuvre, by insisting on a narrow agenda for the new round, preferably limited to trade in agriculture and services, while the EU wanted a broad agenda including the creation of rules on investment and competition. The U.S., for fear of antagonizing powerful domestic union lobbies in a pre-election year, was also inflexible, refusing to discuss the question of anti-dumping measures, a major irritant in its relations with its main trading partners.

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If disagreements on an East-West axis were the fundamental reason for the failure in Seattle, North-South disputes also contributed to the breakdown and will probably loom larger in the mind of negotiators when another attempt is made to launch a new round of multilateral talks. The main demand of developing countries in Seattle centred on the issue of implementing commitments made in the Uruguay Round of trade talks. Developing countries believe that the Marrakesh Agreements signed in 1994 have proven to be much less beneficial to them than originally thought and want some adjustments. Those demands led some commentators to observe that, ironically, the failure in Seattle may have stopped a slowing down of trade liberalization in the developing world by forcing developing countries to abide by the Marrakesh Agreements. Another consequence of the events in Seattle is the apparent willingness of smaller economies to join forces in order to stop larger countries from imposing a deal negotiated in back rooms upon them. Their concerns will have to be addressed in any future trade negotiations at the world or regional level.

While the violence in the streets of Seattle certainly caught the attention of the media, protests by civil society groups were not a direct cause of the collapse of the talks. In the weeks leading to the Seattle Ministerial, negotiators in Geneva were at a complete deadlock and were not able to agree on a draft declaration for Ministers of Trade. Nevertheless, the demands of civil society groups for more transparency in the negotiating process and for the inclusion of labour and environmental concerns in trade agreements will certainly have to be dealt with in any future attempt to launch another round of multilateral talks. These concerns will have to be balanced against the views of the business sector, largely absent from the debate surrounding the launch of a new round of global trade talks, who may feel that a more vocal presence in these debates will now be necessary if their interests are to be given due consideration.

## PROSPECTS FOR THE FTAA

The Seattle fiasco probably has affected all trade negotiations for the near future, and the Free Trade Area of the Americas (FTAA) is no exception. While the day-to-day work of the negotiating groups and special committees continues, and the limited commitments agreed to in November 1999 at the Toronto FTAA Trade Ministerial stand, in reality the commitment of the two key players to the process, the United States and Brazil, is in doubt.

### The Short Term

For the U.S., the trade priorities for lawmakers over the next few months are:

- the vote on continued membership of the U.S. in the WTO;
- the vote to grant permanent most-favoured nation status for China; and
- the vote on the new Caribbean Basin Trade Enhancement Bill, which extends the Caribbean Basin Initiative (CBI) privileges to include the apparel and textiles industries.

Fast-track authorization for the President is not even being considered in 2000, proponents of this legislation preferring to concentrate their energies on getting presidential hopefuls to commit to seeking this authority as a matter of priority early in the new administration, preferably before the Third Summit of the Americas in Quebec City in April 2001. In the aftermath of Seattle, the future of these trade bills is very much in doubt and presidential candidates are understandably coy about committing themselves to specific actions on trade issues.

The view from the south of the hemisphere is equally bleak at the moment. The Southern Common Market (MERCOSUR), with Brazil at its core, has been embroiled in internal trade disputes, resulting in part from the devaluation of the *real* a year ago, and must worry about its own survival and strengthening before focusing on the future of the FTAA. Furthermore, Brazil feels rebuffed by the two key players in the WTO debate on what it considers core issues. According to Brazil's Foreign Minister Luiz Felipe Lamprea, "After Seattle, it will be difficult for us to advance in negotiations with the U.S. on the FTAA or in free-trade negotiations with the EU. [Both] have been paralysed by the same factors that led to failure in Seattle: the EU showed that it would not open its agricultural market and the U.S. made it clear that it would continue to protect specific sectors." MERCOSUR was never very warm to the idea of an FTAA in the first place, since these regional trade negotiations would force an even faster pace of liberalization on its member states. MERCOSUR also views the NAFTA-inspired FTAA as a potential threat to its own integration model. Therefore, for now, MERCOSUR probably will focus its attention on resolving its very serious internal disputes, particularly in the automobile sector, and then possibly move on to integrate Chile and Bolivia as full members. Brazil's ideal objective would be have its MERCOSUR partners sign a Free Trade Agreement with the Andean Community (AC), following its lead when it signed a trade agreement with the AC in July 1999. This would in effect create a South American Free Trade Area (SAFTA), which would help increase the bargaining power of South American countries vis-à-vis the U.S. in the FTAA negotiations.

### **Conflicting Scenarios for the Medium Term**

In the medium term, scenarios for the future of the FTAA differ widely. At one extreme, pessimists believe that the set-back in Seattle definitively has put to rest an already weakened FTAA process. Proponents of this scenario point out that, even though Toronto did not witness the public protests seen in Seattle, negotiators were barely able to come to an agreement on the very limited agenda before them. Only timid business facilitation measures were adopted, in addition to the commitment to have draft chapters of a FTAA ready 12 weeks ahead of the next FTAA Trade Ministerial in Buenos Aires (early April 2001), a far cry from the objective, pushed by Canada, of having the outline of the agreement in 2001. The fact that the U.S. and Brazil/MERCOSUR joined forces to obstruct this Canadian objective is even more worrisome for FTAA enthusiasts. According to pessimists, Seattle was just the last salvo hitting an already sinking FTAA boat.

At the other extreme, optimists maintain that the failure in Seattle has given an unexpected boost to prospects for

the FTAA. Following conventional wisdom, these observers hold that, as in the past, a stalemate at the global level will foster integration at the regional level. They point out that NAFTA was undertaken partly as a result of stalled negotiations during the Uruguay Round of trade talks. Thus, countries of the hemisphere will soon "rediscover" the FTAA, a process that has already addressed and resolved some of the procedural and substantive issues that impeded the launch of the Millennium Round.

In between those extremes, others hold that the FTAA negotiations will neither die nor get a new lease on life, but will continue to go on for several years, without ever reaching a successful conclusion by 2005, so hoped for at the 1994 Miami Summit of the Americas. The FTAA negotiations could continue to serve as a kind of "technical talking shop", where trade negotiators of the hemisphere would get to know and understand each other's concerns and build hemisphere-wide consensus on questions negotiated at the global level, as was the case at the Toronto Ministerial with respect to eliminating subsidies in the agricultural sector. This ongoing negotiating process could also help reach limited agreements on issues such as business facilitation measures or facilitate sub-regional or bilateral deals among countries of the hemisphere.

### **Some Basic Considerations**

While each of these scenarios hold some validity, a few basic points can be made to guide our understanding of trade negotiations in the Americas.

***Globalization will go on.*** This self-evident assertion seems to be forgotten these days, either by gloomy analysts or by cheerful opponents of globalization. While in the past trade agreements determined the economic relations between independent states, in today's world they merely help countries and firms adjust and compete in a pervasive globalized space. Since these processes of informal integration will continue both at the regional and global level, it can be expected that negotiations for formal integration through trade agreements will not lag too far behind.

***A globalizing world needs global rules.*** Arguing that after the failure in Seattle the world will divide into three closed regional blocs makes little economic, financial or business sense. While political analysts have a natural tendency to focus on bloc dynamics, the day-to-day actors of globalization have little time for competing rules and regulations that impede their access to the global marketplace. Most trade negotiations today, including the FTAA, look for WTO compatibility and

industry-wide standards. When contemplating the integration of financial markets, production processes and communications networks, it becomes obvious that regional agreements can only function as building blocs toward global trade agreements that countries will eventually have to agree to.

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**Regional talks can help build momentum at the global level.** It is instructive to note that the last time multilateral trade negotiations were at such a low point, regional talks were launched, not terminated. In 1990, the gridlock during the Uruguay Round negotiations brought several commentators to pronounce the talks dead. It was in that same year that President Bush unveiled his Enterprise of the Americas Initiative. In 1992, the North American Free Trade Agreement (NAFTA) was signed and FTAA negotiations were launched two years later. It would make little sense to put an end to the FTAA talks precisely at the moment when these could only serve to prod WTO member states back to the negotiating table. Furthermore, since the FTAA has a long-term completion date of 2005, Heads of State of the Americas do not have to take the extraordinary step of killing the talks now, rather, they can let the negotiations proceed at a steady pace. The next meeting of the Heads of State is during the Summit of the Americas in Canada (April 20-21, 2001) and leaders will simply have to provide a progress report on the FTAA.

**The FTAA has an agreed-to agenda.** Again, the problem in Seattle was deciding the agenda for the negotiations, something that the FTAA addressed early on, at the San José Trade Ministerial in March of 1998. A wide agenda of nine areas of negotiation was then adopted for the FTAA, including agriculture, competition policy, subsidies, anti-dumping and countervailing duties, investment and services. The issues of smaller economies and civil society are also being considered, (although not always to the extent wished for by those concerned), through a consultative group and a committee respectively.

**The FTAA is part of a much wider process.** The Summit of the Americas process has twice brought together the Heads of State of all 34 democratically elected governments of the hemisphere, first in Miami in 1994 and then in Santiago in 1998. The next Summit of the Americas will take place in Canada in April 2001. At these Summits, economic integration is only one of several “baskets” covering issues such as democracy, poverty, drugs, education and sustainable development. Therefore, the potential consequence of a failure in the FTAA talks has a wider impact: without negotiations on the “hard” issue of trade, Latin American and Caribbean governments would have little incentive to continue cooperating on the “soft” issues (such as democracy, human rights) that are of particular interest to Canada and the United States. Actively halting the FTAA must be seen in a broader political context.

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**A return to economic growth should help the FTAA.** Since the Miami Summit, the region has been hit with two major economic and financial crises following the Mexican and Brazilian devaluations in late 1994 and early 1999 respectively. While these have put a damper on integration efforts as governments have been more concerned with protecting vulnerable industries, the return to growth in the next few years should provide a more positive atmosphere in which to conduct trade negotiations. According to forecasts by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the region as a whole should grow by 3.5% in 2000, with Mexico, Chile, the Dominican Republic and Central America showing the highest growth rates, while Venezuela, Colombia and Ecuador will recover slowly from the deep recession of 1999, provided oil prices maintain their current high levels. However, the political turmoil in several Andean nations, and a return to political gridlock in Brazil, could rein in these optimistic economic forecasts. Nonetheless, the fact that the countries most tightly integrated with the booming U.S. economy have been able to weather the worst of the crisis in 1999 will surely not be lost on trade negotiators of the region.

## POLICY OPTIONS FOR CANADA

Given its inherent vulnerability to the whims of the giant south of the border, Canada has traditionally been a leading proponent of a multilateral, rules-based system. Canada has also been an earnest advocate of the FTAA process and, just like its hemispheric trading partners, does not see its efforts at the regional level as undermining its global trade goals. With the WTO negotiations at a low point, and with the FTAA process lacking momentum, Canadian negotiators have their plates full if they want to get these liberalization processes back on track. Some may use this time of crisis after Seattle to question whether continuing Canada's heavy involvement in the FTAA process is the best use of our limited resources and, looking at Canadian trade figures for the region, they may have a point.

In 1999 Canada's exports to the U.S., not including services, will reach an unprecedented 87% of its total world exports, up from 79% in 1995 when the FTAA process got under way. During that same period, Canada's exports to Latin America and the Caribbean have stagnated at just below 2% of its world total. Canada still managed to increase its exports to the region from C\$4.1 billion in 1994 to C\$5.8 billion in 1998. What this means is that exports to the region have generally grown in step with world-wide exports, while Canada has become much more integrated into the North American economic bloc. More worrisome, but not surprisingly so considering the recession that has engulfed most of South America last year, Canadian exports to the region have dropped by as much as 15% in the first three quarters of 1999 as compared to the same period in 1998. Since the country's imports have grown by over 10% during the same period of time, Canada's trade deficit with the region, which already stood at C\$7.1 billion in 1998, is bound to increase substantially. Canadian direct investment figures are somewhat more encouraging but still show a tight integration into the North American market.

Since Canada is becoming even more dependant upon the U.S. for trade, an aggressive strategy to get both the WTO and FTAA negotiations moving forward would best serve our interests. These two processes can be mutually reinforcing as long as the principle of WTO compatibility is followed, as is already the case for the FTAA negotiations. More to the point, looking at Canada's increasing integration into NAFTA, its basic interests may lie in the spreading of the "NAFTA Model" both at the regional and global level. Fortunately, the trends in this regard are already apparent and Canada only needs to help push them forward. At the global level, agreements negotiated or proposed in the past few years appear to be heavily influenced by the nature and structure of

NAFTA. At the regional level, the influence of the "NAFTA Model" is even more apparent in the structure adopted for the FTAA negotiations.

Furthermore, when it comes to the FTAA talks, taking a back seat when the major players (such as the U.S. and MERCOSUR) are distracted, either because of their domestic or regional agendas, would not only be against Canada's economic interests, it would also seriously hurt our foreign policy interests for the region. Without the FTAA, the rest of the Summit of the Americas agenda would quickly fall apart. With Canada now chairing the Summit Implementation Review Group (SIRG) and hosting the next Summit of the Americas in 2001, de-emphasizing the FTAA negotiations, while forcefully pushing forward our non-trade agenda for the hemisphere, would make little sense.

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Even if Canada's ability to move the FTAA forward is limited by the conflicting agendas of the EU, U.S. and MERCOSUR, the "NAFTA Model" can at least be spread through bilateral agreements. In fact, a quick look at the maze of trade agreements between countries of the hemisphere shows that the "NAFTA Model" is already spreading fast, thanks in part to Mexico's aggressive trade agenda. For its part, Canada already signed a NAFTA-like, Free Trade Agreement (FTA) with Chile in 1996. The most effective approach to bilateral negotiations is, of course, to negotiate with sub-regional groups such as MERCOSUR or the Andean Community (AC). While Canadian efforts for an FTA with MERCOSUR have been frustrated so far because of Brazil's opposition, caused in part by the Bombardier – Embraer dispute, the Andeans seem to be much more open to trade negotiations and have apparently made a specific offer to negotiate a trade agreement with Canada at the Toronto meetings on the FTAA.

Extending the reach of the "NAFTA Model" through bilateral agreements may also mean initiating negotiations with smaller economies of the hemisphere. While devoting the energies of overworked trade negotiators on opening such small markets for Canadian exporters may appear to be an unwise use of resources at first, looking at it through the larger goal of getting more countries to accept NAFTA standards makes these negotiations worthwhile. Furthermore, the new found

assertiveness of smaller economies in trade negotiations, seen recently in Toronto and Seattle, creates an added incentive for Canada to take their particular concerns for special and differential treatment into consideration.

Finally, getting smaller economies to agree to NAFTA-like norms and regulations will help Canada to counter their potential opposition to similar norms at the regional and global level. A good starting point could be a Free Trade Agreement with Central American countries such as Costa Rica. Indeed, President Rodriguez came seeking such a deal in January 2000. Canada should make sure that an agreement with Costa Rica will be NAFTA-like, as is the case of the 1995 Costa Rica – Mexico FTA, and not similar to the more recently signed Costa Rica – Chile agreement which, by excluding several sectors, falls short of the “NAFTA Model”.

Overall, bilateral trade agreements between Canada and the countries of the hemisphere need not undermine Canada’s larger regional and global trade goals but can only help move them forward. The country now finds itself in a win-win situation whereby it can sign bilateral trade agreements without antagonizing the U.S.. In fact, the Clinton Administration seems to be waving Canada forward since this may provide another argument to convince the U.S. Congress to grant fast-track negotiating authority to the U.S. Administration. Bilateral trade agreements could also create a window of opportunity for Canadian exporters, who could make themselves

known in the hemisphere before an eventual FTAA levels the playing field for their U.S. competitors.

## CONCLUSION

In the coming year, the FTAA negotiations may be adversely affected by the failure to launch new round of multilateral trade negotiations in Seattle. The scenarios for the FTAA, once the initial Seattle aftershock has been absorbed, vary widely. While the view that the FTAA will benefit from the Seattle fiasco may be too optimistic, arguing that Seattle will definitively put to rest an already weakened FTAA underestimates the value of these regional negotiations. The FTAA process can serve both as a stimulus for resuming WTO talks and as a useful forum to reach consensus positions and – who knows – even a trade agreement.

For Canada, taking a back seat in the FTAA negotiations in order to focus on reviving the WTO talks would be counterproductive. While the subdued Canadian role in Seattle was certainly not one of the main causes of the failure, we have seen that nothing good comes from sitting back. Canada is best served by pushing forward at the global, regional *and* bilateral level, as long as it insists on WTO compatibility and, preferably, NAFTA-like norms and regulations. After the spectacular failure of Seattle, the world is in dire need of boring, behind-the-scenes, Canadian successes.

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1 Nicholas Street, Suite 720  
Ottawa, Ontario  
K1N 7B7 Canada  
Telephone: (613) 562-0005  
Fax: (613) 562-2525  
E-mail: [focal@focal.ca](mailto:focal@focal.ca)  
Web Site: [www.focal.ca](http://www.focal.ca)