Economic Perspectives

Volume 3 *An Electronic Journal of the U.S. Information Agency* *Number 2*

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The 34 democratically elected leaders from the Western Hemisphere are scheduled to meet for the Second Summit of the Americas April 18-19 in Santiago, Chile.

They are expected to launch negotiations for a Free Trade Area of the Americas (FTAA), pressing forward on the goal they set at the 1994 summit in Miami for a trade agreement by 2005 and concrete results by 2000.

The Santiago summit will be about more than trade, though. It will focus also on promoting education, improving government and reducing poverty — all ways of assuring that the political and economic reforms of the past decade endure.

ECONOMIC PERSPECTIVES

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❏ FROM MIAMI TO SANTIAGO: THE JOURNEY FOR DEMOCRACY, JUSTICE, AND PROSPERITY

By Thomas F. (Mack) McLarty III, Counselor to the President and U.S. Special Envoy for the Americas

Until families throughout the Western Hemisphere can realize tangible gains from democratic government and open markets, the trend toward political and economic reform remains vulnerable, says Thomas F. (Mack) McLarty, counselor to President Clinton and U.S. special envoy for the Americas.

At April's Summit of the Americas in Santiago, he says, democratically elected leaders from 34 countries will consider ways to promote education, make government more fair and open, and reduce poverty.

Also, he says, the leaders will launch negotiations for a Free Trade Area of the Americas, carrying forward the goal they set at the 1994 Miami Summit.

This is a particularly important time in our history as we seek to shape the new Americas, North to South. In all but one nation, authoritarian rule has been replaced by democratically elected governments, and centrally planned, state-run economies have been replaced by market-based economies.

Not coincidentally, this new era has led to an unprecedented level of U.S. presidential engagement with the Western Hemisphere, including the first-ever gathering of the heads of state of the 34 democracies of our hemisphere at the Summit of the Americas in Miami, which President Clinton convened in 1994. The summit served to deepen cross-border economic integration and expand cooperative efforts across the spectrum of development challenges all nations face.

Next month in Santiago, the heads of state will convene again at the Second Summit of the Americas to evaluate progress made since Miami and synthesize the concrete actions that governments must take to further open their markets to private investment and to deepen democratic reforms. The leaders will also seek to ensure that policy reforms improve the quality of life of those who have been traditionally marginalized.

The summit implementation process itself has evolved and will continue to evolve from summit to summit as we learn how to better structure the so-called baskets/issue areas and the initiatives derived from them for addressing developmental challenges. At the 1994 summit, the leaders agreed to a plan of action that included 23 initiatives covered in four baskets: Preserving and Strengthening of Democracy; Promoting Prosperity Through Economic Integration and Free Trade; Eradicating Poverty and Discrimination; and Guaranteeing Sustainable Development and Conserving Our Natural Environment for Future Generations.

Some initiatives have been addressed comprehensively since the first summit, among these sustainable development and environmental preservation, for which a summit was held in Santa Cruz, Bolivia, in 1995. This progress has allowed summit coordinators to refocus priorities and remove baskets or initiatives in preparation for the next summit. For example, progress made in sustainable development and environmental preservation will now be covered in all of the new baskets.

THE NEW EDUCATION BASKET

The upcoming summit will be focused on education issues. Education will have a basket to itself — Education: Investing in People Defining Our Shared Future — in which the nations of the hemisphere will agree to implement reforms that will improve the delivery of primary and secondary education. These include increased resource allocation from national budgets for basic education, improved teacher training and curricula, increased availability of textbooks, and expanded access to modern technology. We firmly believe it is in stronger education standards and a better educated youth where the best opportunities lie for improving the quality of life of segments of the population that have traditionally been disenfranchised.

The other baskets for the Santiago Summit include: Making Democracy Relevant, Enjoying the Fruits of Freedom; Building Our Wealth Through Economic Integration and Trade; and Rejecting Poverty Amid Growing Prosperity. Again, as we move from one summit to another, we expect that the baskets and some of the initiatives that fall within each basket will change. Initiatives will either be removed because they have been addressed, or they will be kept intact or linked to other initiatives to be addressed more comprehensively.

In the area of democracy and human rights, the leaders are looking to consolidate the gains made in the conduct of free and fair elections and the peaceful transfer of power from one democratically elected government to another — so-called first-generation reforms.

Many countries throughout the hemisphere have held at least three consecutive free and fair elections since the end of authoritarian rule. Leaders are now focusing on second-generation reforms, which involve institution-building to improve the protection of human rights through a strengthened judiciary and to increase responsiveness to constituents through greater government accountability and transparency.

There also is interest in expanding the role and participation of civil society/nongovernmental organizations to assist in assigning priorities to the policy reforms to be addressed as well as in pressing forward on the implementation of those reforms. The modernization of state in matters relating to adoption of labor standards and enforcement is likewise addressed in this basket.

FOCUS ON THE FTAA

In the area of economic integration and free trade, leaders hope to capitalize on gains made in the last decade with the adoption of macroeconomic reforms and advance toward the overriding goal established at the Miami Summit of establishing a Free Trade Area of the Americas (FTAA) by 2005. The stable macroeconomic environments found throughout the hemisphere are due largely to tighter fiscal policies, more predictable currency exchange rates, decentralized central banks, and more open trade policies, all of which serve to attract increased private investment.

Further market-opening measures are required under this basket; these are part of the ongoing FTAA negotiation process that will be formally instituted at the Santiago Summit. Trade ministers and vice ministers will shortly convene in San Jose, Costa Rica, to recommend the structure under which FTAA negotiations are to be carried out. They also will seek to gain agreement on the principles (why) and objectives (how) for the overall FTAA process, as well as for each of the negotiating groups.

The fourth basket contains initiatives aimed at the eradication of poverty and discrimination. Covered in this basket are initiatives to promote creation of micro, small, and medium-sized enterprises through the increased availability of credit, as well as to provide mechanisms for property registration/land titling essential for gaining access to credit. Land titling has the effect not only of providing an instrument for use as collateral for obtaining credit, but also of providing the structure for the informal economy to have access to private and state legal protections.

The heads of state and the trade ministers are not the only ones who meet on a formal basis to advance the Plan of Action of the Miami Summit. The overall summit process is coordinated and driven by the foreign ministries, which have instituted a Summit Implementation Review Group (SIRG) that meets periodically to evaluate progress made in the various initiatives and have final say on the language to be included in the Declaration of Principles and Plan of Action for the summit. In addition, the ministers of energy, finance, defense, justice, transportation and education have been holding hemispheric meetings since the Miami Summit.

PRESERVING DEMOCRATIC REFORMS

The challenge that the nations of the hemisphere face in terms of free trade, economic integration, and a prosperity that erases the inequities of the past is more critical than ever before. As President Clinton has pointed out time and time again, we cannot and should not afford to take for granted the gains made in our hemisphere with more democratic forms of government and more open economic regimes. Democracy is being tested. Families discussing these issues around their kitchen tables must experience tangible economic gains, or democracy will become an elusive ideal likely to cause governments to reverse course and raise protectionist barriers.

The investment that we as a community of nations make in peace and stability will be far less than the cost of war and reconstruction that will likely occur if the fundamental changes that are being sought through the summit process are not properly implemented.

Oscar Arias, Nobel laureate and former president of Costa Rica, best captured the fundamental change that has taken place throughout the hemisphere and the challenge that now confronts us when he stated: "So long as Latin America and Caribbean democracies do not face the challenge of poverty, they will not fulfill their basic responsibility to protect human dignity. Out of poverty sprout social instability and desperation, which delegitimize governments that declare themselves democratic."

If the current trend of increased trade integration and market-opening measures continues, today's youth stands to benefit tremendously both in developed and developing countries well into the next century. Under business as usual, the economic gains for either will be considerably more modest, limiting the reach of prosperity. The choice, therefore, is clear: We must stay the course, remain engaged, and ensure that the increased wealth being generated reaches everyone. ❑

❑ THE FTAA: A COMMITMENT TO FAIR AND OPEN TRADE

By Ambassador Richard Fisher, Deputy U.S. Trade Representative

The growing realization that trade benefits all will lead negotiators to complete a Free Trade Area of the Americas (FTAA) on time by 2005, says Richard Fisher, deputy U.S. trade representative for the Western Hemisphere and Asia-Pacific region.

The FTAA must go beyond market-opening initiatives already required in the World Trade Organization (WTO), he says. In meetings over the weeks ahead the 34 participating countries should agree on achieving concrete progress by 2000, he says. They should agree on continuing the existing practice of imposing no import duties on Internet transmissions, he says.

And they should consider establishing FTAA study groups on trade-related aspects of labor and the environment, Fisher says.

The Free Trade Area of the Americas (FTAA) represents a commitment to fair and open trade throughout the Western Hemisphere by 2005. Among the 34 democratically elected leaders who launched the FTAA in December 1994, there is a common understanding that increased trade in the region offers the potential to increase economic growth and raise incomes for all.

We have come a long way in the past three years. Since the 1995 Denver trade ministers' meeting, we have developed inventories of the current rules and national legislation throughout the hemisphere. Since last May's Belo Horizonte trade ministers' meeting, we have begun to define how the negotiations will proceed. Now we are only weeks away from the Santiago Summit of the Americas, at which time we expect our leaders to start negotiations that will lead to the FTAA.

THE IMPACT OF OPEN MARKETS

While we have been working together to lay the groundwork for the FTAA, there has been an impressive growth in trade between the United States and countries in Latin America. Since 1992, U.S. imports from Latin America, excluding Mexico, have grown by more than 60 percent. U.S. exports have risen dramatically as well, by close to 80 percent.

The United States today exports more to Latin America and the Caribbean than it does to the European Union. One of the principal reasons that we are experiencing this expansion of trade with Latin America is that there has been a dramatic reorientation in trade policy on the part of many, indeed most, Latin American countries during the past several years.

Countries throughout the region are abandoning the protectionism and heavy government intervention of the past for market-oriented policies that are increasing their ability to compete in the global economy. They have been reducing their tariffs and nontariff barriers due to the implementation of their Uruguay Round obligations and through unilateral reductions. State-owned enterprises have been privatized; laws on intellectual property protection have been modernized; and macroeconomic reforms and realistic exchange rate regimes have been introduced. For some countries, these changes have been as revolutionary as the changes that occurred in the economies of Eastern and Central Europe at the beginning of this decade.

The greater openness of Latin American economies has stimulated a resurgence of economic growth and new trade alliances in the region. In fact, no region of the world has a more active agenda of free trade area negotiations than Latin America. At the subregional level during the past year we have witnessed the conclusion of the Chile-Canada Free Trade Area (FTA), the MERCOSUR-Chile FTA, and the MERCOSUR-Bolivia FTA, as well as the initiation of negotiations between MERCOSUR and the Andean Pact, between Panama and Chile, between Mexico and the Northern Triangle of Central America (Guatemala, El Salvador, Honduras), and between Central America and the islands of the Caribbean.

Such subregional agreements can contribute both to hemisphere-wide trade agreements through the Free Trade Area of the Americas and to multilateral market-opening through the World Trade Organization (WTO). As firms and farmers face ever widening realms of direct competition through subregional free trade areas, they become prepared for competing with the entire hemisphere. Subregional economic cooperation has also helped to foster regional and subregional political cooperation, transforming historical rivals into trading partners and political allies. This trend toward subregional cooperation in Latin America and the Caribbean is part of the broader process of hemispheric economic and political cooperation that began in Miami. We hope to give it further impulse at the Santiago Summit.

THE LEADERS' COMMITMENTS

Against this backdrop of change, the FTAA process has followed the blueprint provided by the Miami Summit Declaration and Plan of Action. Miami set 2005 as the latest date to conclude FTAA negotiations, and it included the following commitments by all 34 leaders:

- To work toward balanced and comprehensive agreements that maximize market openness through high levels of discipline covering tariffs, nontariff barriers in goods and services, agriculture, subsidies, investment, intellectual property rights, government procurement, product standards, rules of origin, anti-dumping and countervailing duties, sanitary and phytosanitary procedures, dispute settlement, and competition policy;

- To achieve concrete progress by the end of the century;

- To further secure the observance and promotion of workers' rights; and

- To make our trade liberalization policies and our environmental policies mutually supportive.

At the Denver Trade Ministerial in June 1995, the 34 countries agreed that the FTAA will be a "single undertaking," that is, all countries ultimately will assume all of the obligations of the FTAA — with no free riders.

It also was agreed at Denver that the FTAA will be WTO-consistent. Thus, the FTAA will apply WTO obligations as the baseline for negotiations.

But there is no reason to negotiate an FTAA if we stop at existing WTO provisions. The FTAA will thus build well beyond the WTO and be future-oriented. It must be responsive to new technologies and new ways of doing business, and it should draw from the best, most appropriate practice in the subregional arrangements.

In other words, the FTAA should be "the state of the art" in trade and investment agreements when it is concluded. It should not be simply another agreement in the hemisphere. It should bring the existing agreements together within a single set of rules and obligations; otherwise it would complicate business in the hemisphere rather than facilitate it. If some countries in subregions wish to have a greater degree of economic cooperation than is provided by the FTAA (for example, a common external tariff or monetary union), they would still be free to do so.

BUILDING ON THE WTO

So, where do we stand on the eve of the San Jose Trade Ministerial? For starters, we have begun defining how to fulfill our leaders' mandate for "concrete progress by the end of the century."

All the countries in the hemisphere, with the exception of the Bahamas, are members of the WTO. Developing countries, and this includes the majority of countries in the hemisphere, were given longer periods to meet their WTO commitments. We believe these countries should work toward meeting these commitments by 2000. This will allow the FTAA to be built on a WTO "floor."

Recognizing the challenge this poses for some countries, the October meeting of the Working Group on Smaller Economies created a questionnaire to allow countries to identify their technical assistance needs with respect to meeting WTO commitments and preparing for the FTAA. Countries' completion of this questionnaire and their being directed toward available technical assistance will be critical as they strive to meet existing WTO commitments. The ability to meet Uruguay Round commitments should give countries greater confidence in their ability to participate in FTAA negotiations.

However, concrete progress by the end of the century should not be limited to full implementation of Uruguay Round commitments. Progress should include business facilitation measures, which should be set according to private sector priorities. These could range from adopting customs procedures for express shipments, to promoting the development of international accounting standards for use in the preparation of financial statements. Interim agreements also should be considered, just as they were permitted by the Punte del Este Declaration that launched the Uruguay Round in 1986. Interim agreements could include anything from an agreement on transparency and due process in government procurement, to mutual recognition agreements for certification of telecommunications and information technology equipment, to a code of conduct for customs officials. Our citizens should be able to reap the benefits of this process long before 2005.

TECHNOLOGY CONSIDERATIONS

As we move into the negotiating stage of the FTAA, we must take into account rapidly changing technology. In terms of business facilitation, electronic commerce is the future — now. Countries in the hemisphere should make a commitment to duty-free cyber space. A recent study demonstrates the explosive growth of Internet usage in Latin America — growth greater than anywhere else in the world. Among the study's key findings:

• From 1995 through 1997, usage of the Internet increased more than 788 percent in Latin America — almost double the average growth rate worldwide.

• The average Latin American user spends eight hours a week surfing the net, approximately 15 percent longer than his or her European counterpart.

• Language is not a barrier to Internet usage: 85 percent of Latin Americans visit U.S. Web sites, and more than half visit sites from other countries. As a matter of fact, 81 percent of respondents said that English is not an obstacle to Web use.

• The Internet is used by those Latin Americans with purchasing power: 90 percent of Latin American users come from upper-middle and high socioeconomic classes.

Now is the time to ensure continued duty-free access to cyberspace (no country in the world imposes import duties on electronic transmissions), allowing domestic entrepreneurs as well as foreign investors to make decisions based on the certainty that future access will not be curtailed.

Finally, we must respond to our leaders' mandate in the Miami Declaration and Plan of Action regarding the relationships of workers' rights and environmental protection with the construction of the FTAA.

Taking a close look at the trade-related aspects of labor and the environment through FTAA study groups would be consistent with our leaders' commitment in Miami and would not prejudice any country's views on these subjects. The importance of these issues to the hemisphere is not questioned. The Organization of American States is a forum for labor and environmental ministerials. To include discussion of such issues in the context of the FTAA is timely and necessary.

We have come a long way together. Taken as a whole, the progress toward the FTAA is astounding. Small countries, large countries, countries of varied languages and backgrounds have come together to work toward an agreement that will ultimately bring the benefits of trade to all the people of the hemisphere. We have learned more about each other — our economies, our aspirations, our fears, and our mutual commitment to improving the lives of our citizens. This is the fundamental belief that brought the leaders of the hemisphere to Miami in December 1994. It is the reason that they will announce the launch of negotiations in Santiago, and it is what will bring us to completion of the negotiations by 2005. ❑

❑ LINKING TRADE WITH WORKER RIGHTS AND THE ENVIRONMENT

By Richard A. Gephardt, Minority Leader, U.S. House of Representatives

The United States must insist that negotiations for a Free Trade Area of the Americas (FTAA) include working groups on workers' rights and environmental standards, says Representative Richard Gephardt, the Missouri Democrat and minority leader in the House of Representatives.

Gephardt says experience from NAFTA demonstrates that attempting to deal with labor and environment issues through negotiated side agreements instead of in a core trade agreement does not work.

Support for free trade everywhere depends on the benefits of trade reaching many people, not just a fortunate few, he says.

In Gephardt's view, Congress should give President Clinton fast track authority for negotiating trade agreements only in legislation clearly setting negotiating objectives about who receives those benefits.

The debate between free trade and protectionism is behind us. The question now is not whether we open markets, but under what terms and who benefits.

President Clinton is right when he says that this is a debate about the future. As the process of globalization accelerates, we must prepare for change, not protect against it. But we must not jump into negotiations before we define our goals and objectives; proceeding without a road map is a recipe for failure.

What's at stake are two very different competing ideological approaches to globalization. The president will not be able to find a compromise between these visions — he will have to choose. Otherwise, we risk compromising our future.

THE HEART OF THE FAST TRACK DEBATE

The debate over fast track boils down to this: A majority of congressional Democrats want proper enforcement of national environmental and labor laws to be as integral to the negotiations as issues such as intellectual property and protections for capital. We are demanding that people and the environment be given the same protections and enforcement in trade treaties as copyrights.

Why is that considered an insurmountable hurdle? Because Republicans, who hold a majority of votes in Congress, argue that the environment and worker rights rate less consideration than protecting intellectual property and therefore belong in side agreements and not in a treaty itself. The evidence from our experience with the North American Free Trade Agreement (NAFTA) thus far shows that those side agreements are virtually meaningless.

Including and enforcing worker and environmental protections in the core text of trade agreements would help to begin to build a consuming class in the countries the United States is doing business with in Latin America and across the globe. It's the right thing to do — and it's economically smart. People would be able to buy more U.S. products; we would abate the worldwide low-wage derby that threatens our standard of living and our middle class. Environmental enforcement would reduce global pollution. And companies would not continue to chase low wages and lax environmental enforcement, exporting jobs overseas simply to reduce their costs.

Developing nations should welcome the protections that I and others are arguing must be integral components of trade agreements. No country should want to auction off its standard of living or environment to the lowest bidder — to compete against other countries for investors who aren't interested in expanding growth and opportunity and improving environmental conditions.

The real question is how to protect the rule of law — how to have our trade agreements protect basic standards rather than undermine them. Those who argue against this approach are short-sighted.

The U.S. experience with NAFTA should also have taught us that any new trade agreement should address human rights, democracy, food safety, narcotics flows, financial flows, and transitional assistance. Trade policy has to focus on more than short-term profits, no matter what the costs in terms of pollution, income distribution, and social concerns. This is a decisive choice — and the alternative we're fighting for is truly freer trade and long-term prosperity in a world that respects human rights, workers' rights, and the environment. To achieve that, we have to expand the debate.

CREATING A CONSUMING CLASS

So far, the benefits of more open trade have not trickled down to middle class citizens and those struggling to get into the middle class. The profits of trade simply will not "trickle down" to everyone. The experience with NAFTA bears this out. The income gap in Mexico has increased, not decreased. A United Nations report described the same phenomenon on a wider stage: "As trade and foreign investment have expanded, the developing world has seen a widening gap between winners and losers .... The greatest benefits of globalization have been garnered by a fortunate few."

In August I traveled to Chile, Argentina, and Brazil to understand firsthand both the opportunities and problems of expanding trade. I was struck by the vibrancy of the markets and how the United States could benefit if we could reduce the barriers to our products and not just the other way around. But they can't buy our American goods without adequate purchasing power. Improving their wages and living standards can create tremendous markets for U.S. products and services and relieve the downward pressure on jobs and wages in the United States.

Those who say that low wages largely reflect low productivity, providing no real benefit to foreign producers, are simply wrong. The statistics show that plants and workers throughout Mexico and other developing nations are as quality conscious and as productive as some of the best workers and facilities in the United States and elsewhere. Workers around the world are reaching new competitive benchmarks on a daily basis.

The Latin America trip also highlighted the fragility of the political systems in countries only recently freed from military rule. The authoritarian regimes there did little to address economic disparities and in many cases consciously deepened them. Ensuring that economic growth is more equitably distributed would help secure these democracies.

The president does not "deserve" fast track as some argue; he has to earn it. The U.S. Constitution vests power over international trade in the legislative branch, not in the executive branch. From time to time, Congress has delegated that authority. But in so doing, it has set out objectives that have to be met as part of that agreement.

Let's recognize that the way to achieve results is by establishing obligations in the body of trade agreements, not hoping for future action as a result of limited and ineffective side agreements or as part of some future trade negotiation. If you believe, as I do, that free markets entail free labor markets as well, then you must include these issues in the core of any agreement. And if you believe, as I do, in the importance of the environment — both on its own terms and in terms of its impact on economic competition — then you must include environmental issues in future trade agreements as well.

The United States must work aggressively to link trade with environmental and worker rights issues at both the San Jose trade ministerial in March and the Summit of the Americas in Santiago in April. We need to accomplish the longstanding U.S. policy objective of setting up working parties to address these concerns in negotiations for a Free Trade Area of the Americas (FTAA).

Some nations have been recalcitrant on these issues, but congressional support for moving forward on future trade agreements will depend on their formal inclusion in the process. Addressing worker rights and environmental protection will ensure that the promise of trade benefits all our people, not just the fortunate few.

These issues can not be afterthoughts — they are integral to the success of our trade and economic relations. And we need to do more here in the United States to build support for freer trade by developing and implementing policies and programs that address the transitional dislocations that occur — with or without trade agreements. Rather than being offered as a way of assuaging congressional concerns a week before a vote is scheduled, they must be viable, long-term programs with the necessary resources to ensure that average people see themselves as potential beneficiaries of trade agreements rather than victims.

The status quo just isn't working. The status quo caused the 1994-95 financial crisis in Mexico. The standard of living of Mexico's people declined precipitously in that period. Yet the perceived success of the Mexico bailout helped facilitate, in part, the Asian currency crisis. It's time for the ideologues who cling to the past approach to update their thinking and develop a trade policy for the 21st century. We need a trade policy that recognizes the complexity of our relationships and seeks to develop flexible responses that advance our common interests.

In many ways, we have figured out the supply side of trade. Now it's time to develop the demand side. We cannot just create producers without creating consumers as well. ❑

❑ CONGRESS, FAST TRACK, AND THE FREE TRADE AREA OF THE AMERICAS

By Representative Bill Archer, Chairman of the Ways and Means Committee, U.S. House of Representatives

The delay in Congress over granting fast track trade negotiating authority to President Clinton should in no way impede robust negotiations on a Free Trade Area of the Americas (FTAA), says Representative Bill Archer.

A Texas Republican and chairman of the House of Representatives Ways and Means Committee, Archer says any results from April's Summit of the Americas in Santiago showing potential U.S. gains from an FTAA will give supporters of fast track the kind of information they need to get the bill passed.

As the 34 democratically elected leaders of the Western Hemisphere prepare to gather in Santiago, Chile, for the second Summit of the Americas, time should not be lost regretting the recent delay in passing fast track trade negotiating authority for President Clinton.

To be sure, the delay over fast track, which most immediately has prevented the United States from honoring its commitment to negotiate Chile's entry into the North American Free Trade Agreement (NAFTA), does entail some costs for the strength of U.S. leadership in the Free Trade Area of the Americas (FTAA) process. By the same token, however, our trading partners should be aware that internal divisions in the United States, while only temporary, do open doors for other countries to exert positive influence and direction in these historic negotiations.

GOALS FOR SANTIAGO

In spite of the fast track delay, leaders in Santiago have every reason to succeed in meeting the challenge of their mandate, which was established in the visionary Miami Declaration of 1994. The decision to launch FTAA negotiations must be taken at Santiago, along with key decisions on the establishment and the structure of the negotiating groups that will be tasked with crafting proposed agreements. How market access issues are broken down for consideration within these groups is of keen interest to all countries, and there is no doubt that agreement on a detailed framework for the talks will stand out as a significant breakthrough.

In addition, leaders should reach agreement on what constitutes "concrete progress" for purposes of the interim deadline of 2000 set out in the Miami Declaration. The instructions of the hemispheric leaders at the summit to their trade negotiators must be clear: The FTAA talks will proceed energetically and systematically toward the announced conclusion date of 2005. Our intent is for countries to substantially exceed levels of trade liberalization achieved under the World Trade Organization (WTO). It is my strong view that the summit declaration should include a standstill commitment designed to guard against the adoption of protectionist measures during the negotiating period leading up to 2005. Achieving such a discipline has grown in importance in light of the financial shocks spreading from the Asian currency crisis to many of the Western Hemisphere countries attending the summit.

Clearly other countries should not use the lack of U.S. fast track trade negotiating authority as an excuse for not making solid forward movement on the FTAA. Indeed, we must recognize that it will be a great loss for progress in the region if 34 heads of state convene for a summit meeting that contributes only minimally to furthering trade liberalization.

THE U.S. TRADE POLICY DEBATE

The dust has settled a bit from the hectic weekend of November 10 when President Clinton recognized that he did not have the necessary votes to pass fast track legislation and was forced to request that consideration of the legislation by the House of Representatives be postponed. This decision was not only a defeat for the president but was a setback as well for the Republican leadership in the House and Senate, which stood united in support of the bill. A huge majority of Republicans in the House were prepared to vote for the bill when it was pulled from the schedule.

Much has been written about a waning commitment in the United States to free trade policies, most of which I believe is exaggerated. Certainly our domestic debate has not been easy. In every country, facilitating the reduction of trade barriers faces the opposition of entrenched interests. The current congressional debate in the United States is characterized by divisions within the president's own Democratic party, many members of which propose including untenable requirements in fast track legislation. They want a bill that would force the president to insist on a range of largely unrelated issues when he negotiates trade agreements, including labor rights, environmental objectives, and social policies involving, for example, immigration regulations and even family planning. With no domestic consensus in sight, pushing that agenda could cripple a diverse and dynamic multilateral trade negotiation such as the FTAA. In my view, it is an agenda that, if adopted, would also yield no real additional support in Congress for fast track and free trade policies.

U.S. history shows that success in implementing past trade agreements and free trade policies has been achieved only when the president joins with congressional leaders to aggressively and consistently communicate the benefits of free trade to the American people. Silence, delay, and a studious avoidance of a strategy to defend the effects of NAFTA on our citizens have exacted a toll. In every country, the average citizens are often of two minds on trade. At the moment, the stalled U.S. trade agenda is reinforcing isolationist tendencies among some Americans. President Clinton is presently unable to persuade more than a very small minority of his own party about the merits of the pending fast track bill.

MISSING ELEMENTS

With their success in delaying the vote on fast track, there is no doubt that labor unions and their representatives in Congress won a hard-fought battle. Building on experience from the divisive national debate on NAFTA in 1993, these groups put in place a grassroots campaign that filled a void created in the summer of 1997 when President Clinton postponed sending his fast track proposal to Congress. While the House Ways and Means Committee waited for an administration position that would bring the bipartisan support necessary to move a bill, anti-fast track groups were united and forceful with a common message in opposition to further trade expansion. I believe the proponents of fast track failed in not generating enough open debate, and in not highlighting the benefits of NAFTA in particular. This discussion would have helped neutralize the sensationalism associated with many of the anti-fast track, anti-NAFTA allegations about the effects of open trade on our economy.

Also missing from the U.S. debate on fast track was the clearest expression possible of the lost opportunities for U.S. firms and workers and for the hemisphere as a whole, in the absence of fast track authority for the president. Our goals in the FTAA are strategic as much as they are economic. They lie in consolidating the historic gains that democracy and free market reforms have made throughout the region. As is often observed, the vision of the FTAA, as expressed in the Miami Declaration, is a startling breakthrough if we keep in mind the closed economic policies and authoritarian governments that held sway in many Latin American and Caribbean countries as recently as 10 years ago. Our overall objective in the FTAA is to help lock in place the free market reforms and gains in democracy that buttress stability and economic opportunity in our region.

COSTS OF INACTION

I am firmly convinced that a more concrete picture of the costs of inaction will go a long way in selling fast track in Congress. Latin American and Caribbean countries are currently the most dynamic and attractive regional markets for U.S. products, together purchasing 19.2 percent of our exports. U.S. sales to these countries are now growing at an annual rate of about 23 percent. This is almost four times the growth rate of U.S. exports overall. U.S. exports to Brazil grew by 25.1 percent in 1997. These trends stem from the fact that historical trading patterns are changing. By the end of 1998, our exports to the Western Hemisphere are projected to surpass our exports to Europe; by 2010 they may well surpass U.S. exports to Europe and Japan combined. These figures represent vibrant business relationships that will endure and prosper in spite of the problems we have had in Washington in passing fast track legislation.

A substantive result at the Santiago Summit of the Americas will clearly illustrate the practical future costs associated with not having fast track authority. When U.S. firms and workers can see the broad outlines of how countries intend to negotiate the removal of trade barriers under the FTAA, they can get a better picture of the market-access opportunities they will lose in their sector if the U.S. negotiators do not have the authority they need to strike the best deal possible.

The responsibility facing Congress and the president is to succeed in enacting fast track legislation so that the promise of the FTAA and the precedent-setting commitments of the Miami Declaration are not sacrificed. The fact of the matter is that the president and the Republicans, along with a few key Democrats in Congress, have made enormous progress in fashioning legislation that incorporates what I believe to be the widest possible array of viewpoints concerning the future direction of U.S. trade policy. We have an excellent bill; however, we do need more time and more tangible examples of lost opportunities in order to successfully sell it in the House of Representatives.

I sincerely believe that the president is committed to continuing to work with Congress, in spite of the demands of the Asian financial crisis and currency instability that face us all. There can be no mistake about the importance of the Santiago summit meeting and of the necessity of moving forward. Inaction in light of minor setbacks, such as a delay in passing fast track, is a decision to sacrifice an unprecedented chance to achieve fundamental security objectives as well as enormous economic gains for the firms and workers in our hemisphere. ❑

❑ FROM THE LOST DECADE TO THE SANTIAGO SUMMIT

By Carla Hills, Chairman and CEO, Hills & Company

U.S. leadership in the early 1990s promoting freer trade, economic reforms, and debt restructuring helped make possible the Western Hemisphere leaders' decision at the 1994 Miami Summit of the Americas to establish a Free Trade Area of the Americas (FTAA), says Carla Hills, who served as U.S. trade representative from 1989 to 1993.

What the hemisphere's leaders should do at the 1998 Santiago Summit of the Americas is to make the vision of Miami a reality, she says.

Hills is now chairman and chief executive officer of the international consulting firm Hills & Company in Washington.

When the 34 democratically elected leaders of the Western Hemisphere come together in Santiago in April, they are set to address an agenda for cooperative action that would have been inconceivable only a decade ago. Democratic government, an increasing commitment to free markets, and a growing acceptance of economic interdependence are creating a new environment of opportunity throughout the region.

For most of Latin America, the 1980s were a lost decade, marked by economic stagnation and a punishing external debt burden that limited access to international financial markets. Average per capita income across the region declined 9 percent between 1980 and 1990. Inflation in several of the largest economies in 1990 exceeded 1,000 percent; significantly, only a handful of small economies had figures in the single digits.

RECOVERING FROM THE LOST DECADE

Regional economic integration was similarly stalled. In 1990, trade within Latin America accounted for 15.8 percent of those countries' total trade. However, intraregional trade within the Andean Group was only 4 percent of its members' total trade. MERCOSUR had not yet been created, and trade among the four current members, which include the two largest economies in South America, was only 9 percent of their total trade.

Beginning in the early 1990s, the United States played a critical leadership role in encouraging an economic and political transformation in the region. With the launching of the Enterprise for the Americas Initiative and the opening of negotiations with Mexico and Canada on the North American Free Trade Agreement (NAFTA), U.S. policy shaped a strategy to encourage sustained economic growth and liberalization in the region.

The Enterprise for the Americas Initiative was a comprehensive proposal designed to:

• Create a framework for a hemisphere-wide free trade system;

• Encourage fundamental economic reform;

• Ease debt burdens;

•Promote sound environmental programs.

The signing of the NAFTA in 1992 and the successful implementation of the Brady Plan to restructure Latin American debt opened up the prospect of hemispheric economic progress grounded in market-oriented policies and free trade. Trade liberalization went to the top of the agenda throughout the region and, with it, a more determined commitment to the kinds of internal economic reforms necessary to support an open economy.

Widespread privatizations of state-owned enterprises generated new dynamism and provided significant new resources to capital-starved economies. Social security and labor reform, government deregulation, and financial reforms made economies more flexible and more transparent. The hemisphere was collectively adopting a market economy.

PROGRESS SINCE MIAMI

This changed consciousness was unmistakable at the December 1994 Summit of the Americas in Miami. Momentum had been established that translated into consensus on a surprisingly broad range of issues. Even previously taboo issues, such as corruption, were squarely addressed by the participants.

The centerpiece of the summit was the mutual commitment to achieve agreement on a Free Trade Area of the Americas by 2005. The FTAA pledge was symbolic of a commitment to continued reform and, more importantly, of the expectation that improved market access throughout the hemisphere would more than justify these often painful measures.

In the years since Miami, the wisdom of open markets and economic restructuring repeatedly has been demonstrated.

In the wake of the 1994-95 peso crisis, and bolstered by its NAFTA commitments, the Mexican government followed a tough, consistent policy of continued liberatization that permitted a rapid return to growth. The Mexican economy expanded by 7 percent in 1997, characterized by steady improvements in employment, inflation, and domestic consumption.

Brazil similarly confounded skeptics by firmly implementing its Real Plan and bringing inflation down to a post-war low of 4.5 percent while maintaining modest growth. In Argentina, Peru, Chile, and El Salvador, the story has been much the same — stable economies generating impressive growth rates. Throughout the region, net foreign direct investment has quadrupled since 1991.

Regional trade integration has been an essential element of this economic turnaround. The success of NAFTA and the prospect of free trade in the hemisphere have invigorated integration efforts. Bilateral and multilateral trade agreements have proliferated. MERCOSUR has been successful, both in developing its internal market and attracting the interest of neighbors.

THE TASK IN SANTIAGO

The fundamental goal of hemispheric cooperation is to ensure sustained, widely shared, high levels of economic growth. Without such growth, the achievement of all other objectives is threatened. Poverty is a far more powerful generator of environmental degradation than is development. Resource-starved economies are ill-equipped to make the institutional changes necessary to better defend human rights or strengthen social infrastructure. Failure to secure gradually improving economic conditions for the bulk of the population ultimately undermines the credibility of fragile democratic institutions and economic reform.

Today, the challenge for the Santiago Summit is to make the vision of Miami a reality. The inability, thus far, of the Clinton administration to secure fast track trade negotiating authority and anxiety over the potential impact of the Asian financial crisis on trade and investment flows in the region should spur not caution, but more vigorous efforts at creating a hemisphere united in its pursuit of increasingly open, just, and productive societies. This means, above all, a substantial, and not rhetorical, launching of negotiations for the FTAA, with a clearly defined structure for proceeding.

The truly revolutionary change that swept the hemisphere over the past decade has left our nations collectively stronger, more confident, and better able to confront the challenges of the global economy. Santiago could stimulate new momentum for an undertaking that is far from completed. ❑

❑ TRADE LIBERALIZATION IN THE AMERICAS: CHALLENGES AND OPPORTUNITIES

By Miguel Rodriguez, Director of the Trade Unit, Organization of American States

While obstacles to achieving a Free Trade Area of the Americas (FTAA) are formidable, they are surmountable, says Miguel Rodriguez, director of the Organization of American States' trade unit.

FTAA supporters must overcome doubts in the United States about the merits of free trade and fatigue in Latin America from years of economic reforms, he says. The negotiators of the FTAA must achieve an agreement that abides by existing alliances, that overcomes fears of smaller economies, and that does not violate obligations under the World Trade Organization.

A provocative study recently produced by the World Bank outlining an agenda for reform in Latin America and the Caribbean is aptly entitled "The Long March." This is a reference to the fact that maintaining current economic stability in the region will require a sustained commitment to a range of comprehensive policy initiatives. The report notes that many, if not all, of these endeavors are likely to require years of careful cultivation before bearing fruit.

This is certainly the case with trade liberalization. Further reducing barriers to the flow of goods and services in the region may be enhanced by a high level of economic integration in the Americas. This may well take many years to be achieved. But working in concert with initiatives targeting such areas as fiscal policy, infrastructure, and labor markets, trade liberalization, including regional trade liberalization, is central to the success of what is sometimes referred to as the "second generation" of economic reforms.

The good news on the trade front is that the "first generation" of reforms (i.e., the initiatives undertaken in the late 1980s and early 1990s that rescued the region from its debilitating debt crisis) provide a solid foundation for pursuing an aggressive agenda. Since the late 1980s, many countries have acted unilaterally to open their markets. Reinforcing these actions has been a flurry of negotiations that have created a new network of trade-liberalizing alliances in the Americas while strengthening old ties as well.

While much attention has gone, deservedly, to the completion of the North American Free Trade Agreement, the most radical change has occurred in Latin America, where previously protectionist economies have done an about-face and embraced the notion of free trade. Since the late 1980s, average tariffs in the region have fallen from 40 percent to 11 percent.

Lower tariffs helped to reinvigorate Latin America's trade and integration efforts, as can be seen in the new vitality present in subregional groups such as the Andean Community, the Central American Common Market, and the Caribbean Community and Common Market (CARICOM).

THE IMPACT OF MERCOSUR

Another potent example of this new order can be found in South America's Southern Cone, where Brazil, Argentina, Uruguay, and Paraguay have joined together to form MERCOSUR. In the first half of the decade alone, market-opening measures adopted under MERCOSUR helped spur a tripling of trade between member countries.

Equally important, MERCOSUR has reached out to all of South America. Chile and Bolivia are now linked to MERCOSUR via free trade agreements, and negotiations are under way to form similar bonds between MERCOSUR and other South American nations (and with Mexico and Canada as well). The once-remote idea of a South American Free Trade Area, or SAFTA, now seems on the verge of becoming a reality.

Holding out the potential to unify all of this market-opening activity in the North and South under the aegis of a single agreement is the current effort to construct a Free Trade Area of the Americas, or FTAA. Though this is an idea that has been kicking around since the days of Bolivar, it took flight at the 1994 Summit of the

Americas in Miami, where the leaders of the hemisphere's democracies agreed to build a free trade area running from the Yukon to Patagonia, and to complete negotiations by 2005.

The fulfillment of this vision would result in the world's largest free trade area, an undertaking involving 34 countries, 754 million people, and economies with combined gross domestic product of $9 trillion.

CHALLENGES TO THE FTAA

In the past two years, governments in the Americas have laid the groundwork for the FTAA by focusing on the systematic gathering of the technical data that must be in hand before negotiations can be launched. Now, the process has reached a crucial juncture. In April, at the Summit of the Americas in Santiago, Chile, hemispheric leaders are expected to formally launch the FTAA negotiations. The question is: What happens after negotiations are set in motion?

The challenges to the FTAA as it moves to the next level are formidable but entirely surmountable. On the political front, negotiations will proceed most swiftly if there is solid public support for the FTAA. And there are issues to be addressed in this area. For example, in the United States, uncertainty about the benefits of free trade have prevented the current administration from obtaining the kind of negotiating authority that would enhance its participation in the process. Meanwhile, in Latin America, some see the citizenry as suffering from "reform fatigue" and thus unable to generate considerable enthusiasm for pursuing the FTAA.

In the trade policy arena, the FTAA must somehow bring the economies of the Americas together under a single agreement while preserving, in some form, existing alliances, such as MERCOSUR and the Andean Community, whose goals go beyond what are normally considered free trade areas. The FTAA also seeks to knit together some of the world's smallest economies with some of the world's largest. (Consider the fact that Canada's economy is 125 times as large as Jamaica's; and Canada's is not the largest economy in the Americas, nor is Jamaica's the smallest.) Smaller economies need assurances that the FTAA is not a threat to their economic well-being but is, rather, an opportunity for growth.

In addition, the FTAA cannot contain measures that conflict with members' obligations to the World Trade Organization (WTO). In other words, while the FTAA should enhance the terms of trade between countries in the Americas, it cannot do so by erecting market barriers to other countries.

THE BENEFITS OF THE FTAA

Of course, all of the challenges facing the FTAA represent potential benefits as well.

Politically, a robust public discussion about the positive effects of open markets should create a broader base of support for the FTAA, particularly at the grass-roots level. Instead of feeling threatened by the debate, supporters of the FTAA should seize upon it as an opportunity to make the case for free trade. That does not mean that free trade should be sold as the cure for all ills. But neither should it be allowed to serve as the scapegoat for all of our economic uncertainties.

As for strengthening trade policy, the FTAA can serve as a vehicle to "lock in" the market-opening measures of the 1990s and make a return to protectionism a less seductive option. It would also provide a common set of rules for the entire hemisphere in such areas as investment policy, customs procedures, and standards, making it much easier to take advantage of business opportunities in the Americas.

Moreover, in regard to its effect on WTO agreements, the FTAA can blaze new trails in areas that have not been addressed in a comprehensive fashion by the WTO — such as trade in services and competition policy — thus providing a model for new agreements on a global scale.

To be sure, trade liberalization in the Americas is not something that occurs in a vacuum. In addition to overcoming the challenges mentioned above, the FTAA and other trade initiatives will succeed only if they move forward in tandem with a host of activities addressing a range of social and economic concerns.

As OAS Secretary General César Gaviria frequently notes, the trade agenda in the Americas cannot advance "unless we understand the political economics of integration — the combination of economic, social, and political forces needed to make integration viable in the concrete reality of decision-making in our countries." ❑

❑ THE SUMMITS OF THE AMERICAS: MAJOR MEETINGS FROM MIAMI TO SANTIAGO

THE SUMMIT OF THE AMERICAS
MIAMI, FLORIDA
DECEMBER 9-11, 1994

The region's 34 democratically elected leaders hold their first-ever summit and sign the Miami Declaration of Principles. They affirm their shared interest in prosperity, democracy, and hemispheric security and agree to begin work immediately toward establishing a Free Trade Area of the Americas (FTAA) by no later than 2005.

FIRST WESTERN HEMISPHERE TRADE MINISTERIAL
DENVER, COLORADO
JUNE 30, 1995

Regional trade ministers meet for the first time to examine approaches to constructing an FTAA that would build on existing regional and bilateral trade agreements. They affirm that an FTAA should be fully consistent with the agreements establishing the World Trade Organization (WTO) and announce creation of the following working groups: Standards and Technical Barriers to Trade; Customs Procedures and Rules of Origin; Smaller Economies; Investment; Market Access; Subsidies, Antidumping, and Countervailing Duties; and Sanitary and Phytosanitary Measures.

SECOND WESTERN HEMISPHERE TRADE MINISTERIAL
CARTAGENA, COLOMBIA
MARCH 21, 1996

Trade ministers direct their vice ministers to assess when and how to launch formal FTAA negotiations and to present recommendations on these issues at the next ministers' meeting. They announce creation of four additional working groups: Government Procurement, Intellectual Property Rights, Competition Policy, and Services.

THIRD WESTERN HEMISPHERE TRADE MINISTERIAL
BELO HORIZONTE, BRAZIL
MAY 16, 1997

In a joint declaration, regional trade ministers recommend that formal FTAA negotiations be launched at the Second Summit of the Americas in Santiago, Chile.

They further recommend that FTAA talks take into consideration the broad social and economic agenda of the Miami Declaration of Principles and accompanying Plan of Action. They also establish a working group on Dispute Settlement.

FTAA WORKING GROUPS

- Standards and Technical Barriers to Trade
- Customs Procedures and Rules of Origin
- Smaller Economies
- Government Procurement
- Investment
- Intellectual Property Rights
- Market Access
- Competition Policy
- Subsidies, Antidumping, and Countervailing Duties
- Services
- Sanitary and Phytosanitary Measures
- Dispute Settlement

Source: Tripartite Committee (Inter-American Development Bank, Organization of American States, United Nations Economic Commission for Latin American and the Caribbean)

❑ U.S. 1997 TRADE WITH OTHER FTAA COUNTRIES

	Millions of dollars, not seasonally adjusted		
	Bilateral balance	1997 exports	1997 imports
North America			
Canada	-16,600.0	151,450.5	168,050.5
Mexico	-14,451.6	71,378.3	85,829.9
Central America			
Belize	37.5	114.8	77.3
Costa Rica	-300.0	2,023.5	2,323.4
El Salvador	51.6	1,398.2	1,346.6
Guatemala	-262.4	1,727.7	1,990.1
Honduras	-308.6	2,013.6	2,322.1
Nicaragua	-149.9	289.3	439.2
Panama	1,170.4	1,537.8	367.4
Caribbean			
Antigua and Barbuda	80.0	85.1	5.0
Bahamas	644.1	809.9	165.8
Barbados	238.9	281.1	42.1
Dominica	28.3	37.4	9.1
Dominican Republic	-400.8	3,928.2	4,329.0
Grenada	34.1	40.6	6.5
Haiti	311.6	499.9	188.2
Jamaica	679.5	1,417.4	737.9
St. Kitts and Nevis	7.9	37.8	29.9
St. Lucia	55.1	89.3	34.2
St. Vincent and the Grenadines	50.0	54.4	4.3
Trinidad and Tobago	-27.0	1,106.0	1,133.0
South America			
Argentina	3,595.4	5,807.8	2,212.4
Bolivia	72.3	295.3	222.9
Brazil	6,282.5	15,912.3	9,629.7
Chile	2,076.4	4,375.1	2,298.7
Colombia	474.3	5,198.6	4,724.3
Ecuador	-532.8	1,522.7	2,055.4
Guyana	30.5	142.5	112.0
Paraguay	872.5	913.2	40.7
Peru	187.2	1,959.8	1,772.6
Suriname	91.7	183.2	91.5
Uruguay	319.1	547.5	228.5
Venezuela	-6,841.0	6,607.5	13,448.5

	Bilateral balance	1997 exports	1997 imports
MEMORANDA			
North America	-32,377.7	221,502.7	253,880.4
South/ Central America	9,367.7	63,034.0	53,666.3
Western Europe	-17,500.0	155,415.5	172,915.5
Eastern Europe	-727.2	7,721.5	8,448.7
Former Soviet Republics	-284.2	5,029.8	5,314.0
Pacific Rim	-121,084.4	193,921.3	315,005.7
World Total	-181,827.2	688,896.1	870,723.3

NOTE: Export figures are on an f.a.s. basis; imports are on a customs basis.

Source: U.S. Department of Commerce, Bureau of the Census

❑ U.S. TRADE LIBERALIZATION INITIATIVES IN THE WESTERN HEMISPHERE

U.S.-CANADA FTA AND NAFTA

The United States created the world's largest free trade areas, next to the European Union, with the implementation of the U.S.-Canada Free Trade Agreement (FTA) in 1989 and then the North American Free Trade Agreement (NAFTA) — embracing Canada, Mexico, and the United States — in 1994.

When NAFTA went into effect, the FTA's operation was suspended and most of its provisions were incorporated in the new, larger agreement.

The United States is already Canada's and Mexico's largest export market. Canada is the United States' largest export market, Mexico its second largest export market.

The goal of NAFTA is to eliminate barriers to trade and investment between the three countries. The implementation of NAFTA on January 1, 1994, brought the immediate elimination of tariffs on more than one half of U.S. imports from Mexico and more than one third of U.S. exports to Mexico. Within 10 years of implementation of the agreement, all U.S.-Mexico tariffs should be eliminated except for some U.S. agricultural exports to Mexico that will be phased out in 15 years. Most U.S.-Canada trade is already duty free. NAFTA also seeks to eliminate nontariff trade barriers.

The NAFTA agreement commits all parties to end restrictions on NAFTA-member foreign investors, provide a high-level of intellectual property rights protection, liberalize trade in services, and establish dispute settlement mechanisms to be used among the three partners. NAFTA has side agreements on environmental and labor standards, making it the first U.S. trade accord to be formally linked to such commitments.

NAFTA's central oversight body is the North American Free Trade Commission, made up of the U.S. trade representative, Canada's minister of international trade, and Mexico's secretary of commerce and industrial development. The commission has established working groups and advisory bodies to handle the day-to-day operation of the agreement.

NAFTA has its own rules governing trade and investment liberalization that are used in addition to or in place of World Trade Organization rules. NAFTA rules apply in areas that include openness to government procurement, product standards, protection of intellectual property rights, telecommunications standards, investment, rules of origin, safeguards against import surges, and services.

OTHER TRADE LIBERALIZATION INITIATIVES

The U.S. government has sponsored two major unilateral initiatives to encourage more-open trade and investment as part of a "trade-not-aid" policy for regional development.

The Caribbean Basin Initiative and the Andean Trade Preference Act build on the worldwide Generalized System of Preferences (GSP), under which the United States and other industrialized countries eliminate tariffs on most products from developing countries.

Caribbean Basin Initiative (CBI): CBI was launched in 1982 to encourage growth in export-oriented industries in the smaller economies of the Caribbean and Central America. The goal is to help reduce the region's dependence on exports of traditional but price-volatile basic commodities and agricultural products. CBI's "centerpiece" is the unilateral U.S. tariff exemption/tariff reduction program that began on January 1, 1984, and that was improved in 1990.

The CBI tariff exemptions and reductions cover more products than the GSP, are permanent, and are not subject to annual reviews where they can be suspended for certain reasons, as are those under GSP. The 24 CBI participants include all Central American countries, all island Caribbean countries (except Cuba, Anguilla, the Cayman Islands, and the Turks and Caicos Islands), and

Guyana. The beneficiaries cannot be graduated from the program because of increased per capita incomes as in GSP although countries can be suspended for other reasons.

In 1996, of the $14,544 million in U.S. imports from CBI countries, 18.9 percent entered duty free and another 0.3 percent with reduced tariffs under the CBI program. Costa Rica and the Dominican Republic provided about 57 percent of the U.S. imports under CBI. They are also the biggest Caribbean region exporters to the United States.

CBI initially excluded apparel. However, a special program grants CBI countries liberal import quotas for apparel produced from fabric made and cut in the United States. Apparel is the region's most rapidly growing export to the United States. In 1996, apparel accounted for 42 percent of the value of total U.S. imports from the CBI-eligible countries.

Andean Trade Preference Act: The Andean Trade Preference Act (ATPA), effective in December 1991, eliminates or reduces tariffs on designated U.S. imports from Bolivia, Colombia, Ecuador, and Peru. ATPA is intended to promote broader-based economic development in the Andean countries and thereby offer long-term economic alternatives to the cultivation of coca and the production of cocaine.

Compared to GSP, ATPA covers more products, offers more liberal product-qualifying rules, and does not have annuals review in which items can lose their eligibility. The ATPA tariff concessions will expire in December 2001.

In 1996, of the $7,867 million in U.S. imports from the ATPA countries, 15.8 percent entered duty free under the ATPA program and 0.3 percent entered under reduced duty.

Of the four countries, Colombia is the largest U.S. trading partner and the largest ATPA beneficiary. The main product qualifying under ATPA is fresh-cut flowers, accounting for about one-quarter of the products entering under the program, with most of these coming from Colombia.

ENTERPRISE FOR THE AMERICAS INITIATIVE (EAI)

EAI was launched in 1990 to capitalize on new thinking among Latin American leaders in favor of trade and investment liberalization.

At the time of its creation, the three pillars of EAI were trade liberalization, investment liberalization and reform, and negotiated reduction of debts the EAI countries owed directly to the U.S. government.

To provide an arrangement to advance the liberalization efforts, EAI called for trade and investment liberalization framework agreements to be signed by the United States and each eligible Latin American country or bloc of countries.

Each agreement set up a "Trade and Investment Council" that served as a forum for officials from both sides to meet on a regular basis to discuss issues concerning trade and investment barriers.

In the EAI's first year, the United States signed a trade and investment framework agreement with nearly every eligible Latin American country. There were also agreements with MERCOSUR and CARICOM.

Meetings of the trade and investment councils established by the agreements have continued. Some meetings are scheduled during 1998. ❑

Sources: U.S. International Trade Commission; Office of the U.S. Trade Representative; U.S. Department of Commerce

❑ SUBREGIONAL TRADING GROUPS

Aside from the North American Free Trade Agreement (NAFTA) among the United States, Mexico and Canada, which is covered in the previous section, a number of other countries in the Western Hemisphere have formed regional groups with the goal of establishing common trade policies and, in some cases, common monetary policies. Following is a list of the most prominent of those organizations.

SOUTHERN COMMON MARKET
(Mercado Comun del Sur/Mercado Comun do Sul Mercosur/Mercosul)

The Southern Common Market, best known by its Spanish acronym MERCOSUR, was established in 1991 and is the largest of the regional groupings. Argentina, Brazil, Paraguay, and Uruguay are members. Chile and Bolivia are associate members.

MERCOSUR was established with the objective of encouraging economic integration among member states by means of the free flow of goods and services. A common market among members, which removed tariffs from 85 percent of intra-regional trade, went into effect on January 1, 1995. MERCOSUR's common external tariff also came into effect at that time, along with a list of exceptions. MERCOSUR has the goal of common tariffs for all imports by 2006. MERCOSUR also seeks the adoption of a common commercial policy and coordination in economic policy.

The highest policy institution of MERCOSUR is the Common Market Council (Consejo de Mercado Comun). This council approves any changes in regulations, such as increases or decreases in common tariffs.

THE ANDEAN COMMUNITY
(La Communidad Andina)

The Andean Community was established 1996 as a successor to the Andean Group, which had its origins in the 1969 Cartegena Agreement, also known as the Andean Pact. The Andean Community's members are Bolivia, Colombia, Ecuador, Peru, and Venezuela. Panama has observer status. Chile was a founding member of the Andean Pact but withdrew in 1976.

The Andean Group's original intent was to increase trade among the members and to devise joint industrial programs for industries such as petrochemicals, metalworking, and automobiles. There was also an effort to launch a new common currency.

An Andean Group agreement dating from 1971 that sharply circumscribed foreign investment in the member nations was eliminated in May 1987 when the members signed the Quito Protocol, which allowed members to establish their own rules.

After the association languished during the 1980s, an effort was launched in 1990 to revitalize it. The 1996 Reform Protocol of the Cartagena Agreement changed the nature of the organization. The new organization's major features include an Andean Presidential Council to provide leadership, a commission, and a General Secretariat. The Andean Community maintains a common external tariff, with some exceptions.

The members of the Andean Community are currently negotiating with MERCOSUR to join as a group as associate members.

CENTRAL AMERICAN COMMON MARKET (CACM)
(Mercado Comun Centroamericano - MCC)

The Central American Common Market was founded in 1960 under the General Treaty of Central American Integration. CACM's members are Costa Rica, Guatemala, El Salvador, Honduras, and Nicaragua.

The General Treaty's original intent was to create a free trade area among the Central American countries while establishing a common tariff with nonmember countries. A Permanent Secretary for the treaty was established to provide institutional support for the integration process. There was also an agreement, signed in 1964, aimed at eventually harmonizing monetary policies and adopting a common currency.

The CACM made considerable progress toward its trade objectives in the 1960s. However, the system began to end in 1970 following a brief military clash between Honduras and El Salvador. Honduras began to levy duties on imports from other CACM countries and imposed a trade embargo against El Salvador that was not lifted until 1982. Political upheaval in the region in the 1980s pushed Central American integration into the background. Inter-CACM trade dropped sharply. In 1990, the presidents of the five Central American countries committed themselves to revitalizing the CACM, as part of efforts to promote peace, as regional civil wars were winding down. In late 1993, the CACM country presidents and the president of Panama signed a protocol to the 1960 treaty pledging themselves to the full economic integration of the region.

CACM maintains a common external tariff. The organization also has a development bank, the Bank for Central American Economic Integration.

CARIBBEAN COMMUNITY AND COMMON MARKET (CARICOM)

CARICOM was founded in 1973 with the signing of the Treaty of Chaguaramas, succeeding the Caribbean Free Trade Association (Carifta) established in 1968.

CARICOM's 14 members include 13 former British territories and Suriname. The members are: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobogo. The British Virgin Islands and the Turks and Caicos Islands are associate members.

CARICOM's objectives are the economic integration of the members through a common market, coordination of the foreign policies of member states, and functional cooperation, especially in areas of social and human development. CARICOM maintains a common external tariff with exceptions.

ORGANIZATION OF EASTERN CARIBBEAN STATES (OECS)

Seven CARICOM members form the smaller Organization of Eastern Caribbean States, which has a common central bank and a common currency, the only such arrangement in the Western Hemisphere. The Eastern Caribbean Central Bank issues the Eastern Caribbean Dollar, which is the currency of Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, and of the British-dependent territory of Anguilla.

The OECS members also have a joint stock exchange. ❑

Sources: The Europa Yearbook; MERCOSUR; CARICOM

KEY FEDERAL GOVERNMENT CONTACTS AND INTERNET SITES

U.S. Department of Commerce
International Trade Administration
International Economic Policy Group
Herbert Clark Hoover Building
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230 U.S.A.
Telephone: (202) 482-3809
Internet: http://www.itaiep.doc.gov/ftaa2005/

U.S. Department of State
2201 C Street, N.W.
Washington, D.C. 20520 U.S.A.
Economic Policy and Summit Coordination Office
Telephone: (202) 647-0614
Internet: http://131.94.20.45/state/
Bureau of Inter-American Affairs
Telephone: (202) 647-5780
Internet:
http://www.state.gov/www/regions/ara/index.html

United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20506 U.S.A.
Telephone: (202) 395-3230
Internet: http://www.ustr.gov

U.S. Department of Energy
Energy Information Administration
Washington, D.C. 20585-0601 U.S.A.
Telephone: (202) 586-8800
Internet: http://www.eia.doe.gov/summit/b.html

OTHER KEY INTERNET SITES

Tripartite Committee:
— Inter-American Development Bank
— Organization of American States
— United Nations Economic Commission for Latin American and the Caribbean
http://www.alca-ftaa.org/EnglishVersion/Alca_e.htm

Organization of American States
Trade Unit
http://www.sice.oas.org/ftaa_e.stm

United Nations Economic Commission for Latin America and the Caribbean
http://www.eclac.org/index1.html

The Council of the Americas
http://www.counciloftheamericas.org/index.html

Summit of the Americas Center
Florida International University
http://americas.fiu.edu/americas/americas-frames-content-noblue.html

Latin American Network Information Center
University of Texas
http://lanic.utexas.edu/la/region/trade/

Latin American Trade Council of Oregon
Sites for International Trade with Latin America
http://www.latco.org/tools.htm

Institute of the Americas
http://ioa.ucsd.edu/

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