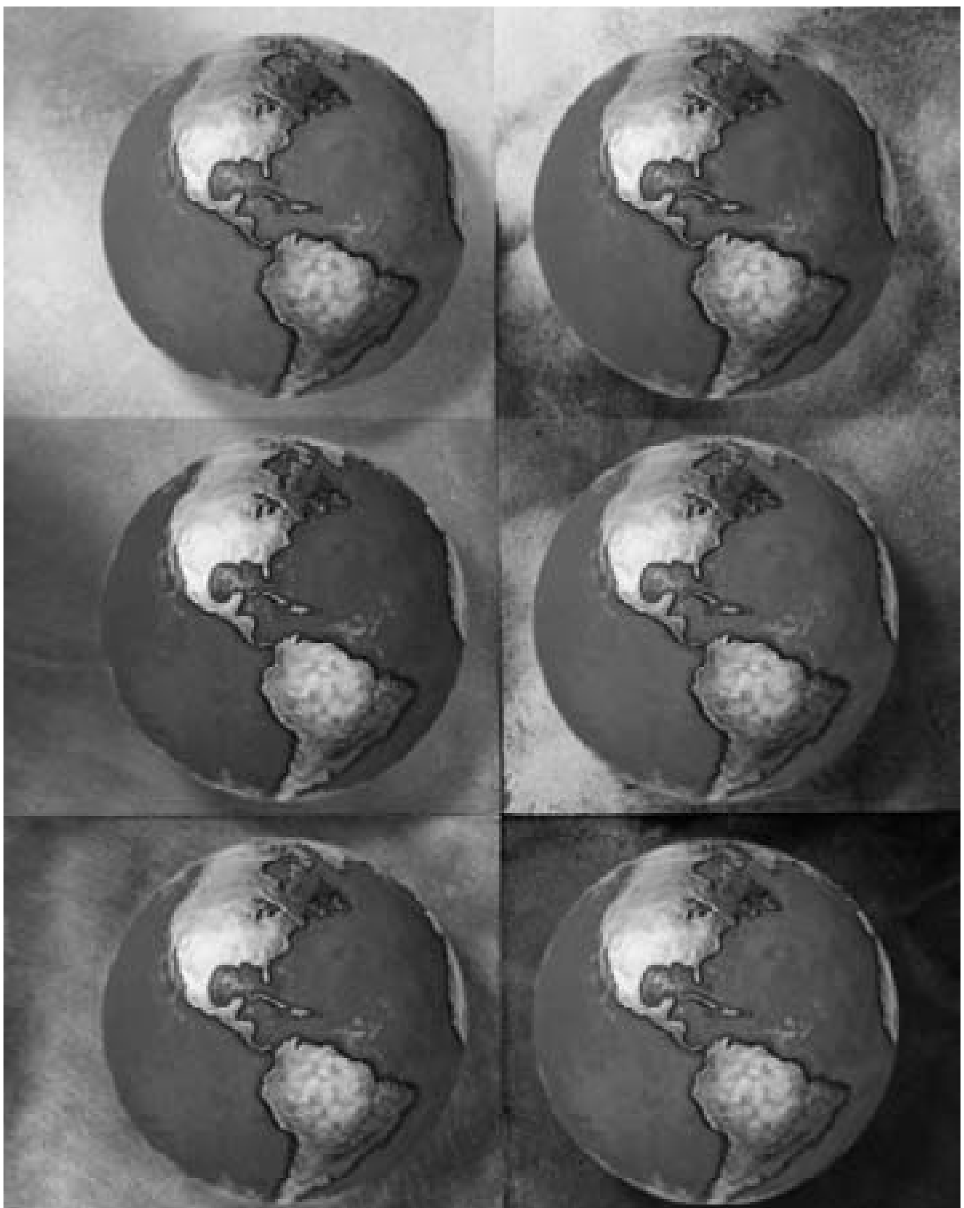
Economic Perspectives

Volume 7 | An Electronic Journal of the U.S. Department of State | Number 3

The Free Trade Area of the Americas: Expanding Hemispheric Trade



— October 2002 —

ECONOMIC PERSPECTIVES

The Free Trade Area of the Americas: Expanding Hemispheric Trade

U.S. DEPARTMENT OF STATE *ELECTRONIC JOURNAL* *VOLUME 7, NUMBER 3*

In November 2002, the United States and Brazil assume co-chairmanship of the final phase of the Free Trade Area of the Americas (FTAA) negotiations, aiming by January 2005 to reach agreement on creating a single free trade zone stretching from Alaska to Argentina.

In this issue of *Economic Perspectives,* we review the role of trade in the context of U.S. policy in the Americas, the potential benefits of an FTAA for the entire region, the progress thus far in the FTAA talks, and the obstacles still facing negotiators as they work to meet the deadline set by regional leaders at the 1994 Summit of the Americas in Miami.

U.S. Trade Representative Robert Zoellick outlines the United States' goals for the FTAA negotiations. U.S. Assistant Secretary of State Otto Reich stresses the importance of trade liberalization in the Americas — not only to boost economic growth but also to strengthen the ties that unite the region's 34 democracies. Under Secretary of Commerce Grant Aldonas says the full potential of the FTAA will be realized only if negotiators address a number of areas beyond trade and investment, such as dependable law enforcement and independent judiciaries. Adolfo Franco, assistant administrator for the U.S. Agency for International Development, describes U.S. programs designed to help smaller economies adapt to the challenges of a free trade environment.

Given that the FTAA is a regional undertaking, this journal also includes articles from Ambassador Rubens Barbosa on Brazil's perspective as it prepares to work with the United States for the duration of the FTAA talks, and from Mexico's Minister of the Economy, Ernesto Derbez, who describes his country's successful moves over nearly two decades to deepen its integration into the world economy.

Economist Jeffrey Schott provides an overview of the many challenges facing the FTAA negotiators, while Scott Otteman of the National Association of Manufacturers urges countries to stay the course on trade liberalization as the most reliable and effective path to prosperity.

In separate articles, two members of Congress who hold key trade-related positions — Republican Philip Crane and Democrat Sander Levin — offer their views on how the FTAA negotiations can best shape the rules of regional trade to maximize the benefits of globalization.

Finally, this journal lists a series of useful resources, including links to Internet sites and selected readings available in print, dealing with FTAA-related issues.

ECONOMIC PERSPECTIVES
An Electronic Journal of the U.S. Department of State

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ECONOMIC PERSPECTIVES

An Electronic Journal of the U.S. Department of State — *Volume 7, Number 3, October 2002*

The Office of International Information Programs of the U.S. Department of State provides products and services that explain U.S. policies, society, and values to foreign audiences. The Office publishes five electronic journals that examine major issues facing the United States and the international community. The journals — *Economic Perspectives*, *Global Issues*, *Issues of Democracy*, *U.S. Foreign Policy Agenda*, and *U.S. Society and Values* — provide statements of U.S. policy together with analysis, commentary, and background information in their thematic areas.

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U.S. Department of State
Office of International Information Programs
October 2002

❑ TRADING IN FREEDOM: THE NEW ENDEAVOR OF THE AMERICAS

By Robert B. Zoellick, United States Trade Representative

U.S. objectives for the November 1 meeting of Western Hemisphere trade ministers in Quito, Ecuador, include creation of a Hemispheric Cooperation Program for smaller, developing countries and the establishment of firm schedules for the negotiations to open markets in each of the 34 democracies participating in the Free Trade Area of the Americas (FTAA) talks, says U.S. Trade Representative Robert Zoellick.

Concrete negotiations are under way and the long-standing dream of an FTAA is now a "firm possibility," Zoellick says. He acknowledges that "skeptics abound" and that many sensitive topics must still be addressed, but says the United States is pushing for conclusion of the talks by the January 2005 target date. "Only time will tell whether the sharp objections are negotiating positions or the bluster of fearful politicians," Zoellick says.

Moreover, while Bush administration officials would like to negotiate with all the democracies of the Americas through the FTAA, "we are also prepared to move step-by-step toward free trade if others turn back or simply are not ready," he adds.

Following is Ambassador Zoellick's October 14 speech in Miami to the Miami Herald's Sixth Annual Americas Conference.

It is a special pleasure to be with you in the "Gateway to the Americas."

Whenever I visit Miami, I sense its excitement, feel its energy. This is where the intellectual, economic, cultural, and human currents of North and South come together. The people of Miami have blended these movements to create a community that draws on the best art, architecture, traditions, and scholarship from two continents and many cultures.

Twenty-five years ago, as troubles abounded, many people were worried that Miami's best days were behind it. Fortunately, optimism — backed by energy and civic commitment — prevailed. Today, this jewel of the Americas sparkles as a shining example of the power of regeneration — a city that has transformed itself into a vibrant center of commerce and culture and confidence.

Like Miami, Latin America and the Caribbean have seen their fortunes rise and fall; they have experienced struggles and despondency, only to reinvent themselves through the open-mindedness, hard work and perseverance of home-grown intellectual and political leaders.

All of us know that the work of the Americas is still in progress. For some, slowdowns and setbacks stir discouragement. Others, looking ahead, recognize that Latin America and the Caribbean still need to build the political and civil institutions, public trust, business networks, and security partnerships that will unlock the region's full potential.

As President Bush said right here in Miami in August 2000: "Some still look at Latin America through old stereotypes. But I see a hemisphere of 500 million people, striving with the dream of a better life."

For my part, I believe we should not rest until people from Bogota to Buenos Aries to Managua have come to experience the same opportunities that the citizens of Miami enjoy today.

This extraordinary city will play a leadership role in extending U.S. hands to hold, help, and hearten our hemispheric partners.

Therefore, I am pleased to announce today that when I join my fellow ministers negotiating the Free Trade Area of the Americas in Quito in two weeks, I will propose that the United States host the next FTAA ministerial meeting — in 2003 — and, if our hosts agree, that we do so right here in Miami.

CHALLENGES AND PROMISE IN LATIN AMERICA

We know that this is a time of trial for many in the region.

After the dramatic political and economic reforms we witnessed in the early 1990s, some governments have faltered in their efforts to address the deeper and more complex tasks of institutionalizing democracy, good governance, the rule of law, strong education systems, fair and effective tax systems, pension reforms, and free markets.

Eighty percent of Latins believe that corruption, organized crime, and drug trafficking have "increased a lot" in their countries over the past several years, according to research by Chile's Latinobarometro.

The World Bank estimates that weak or corrupt judiciaries drag down Latin America's economic growth by an average of 15 percent per year by discouraging foreign investment, pushing productive enterprises into the black market, and failing to enforce contracts.

In the democracies of today's Latin America, impatience and frustration prompt political unrest and create openings for populists who tap these resentments, mobilizing against rather than for. Yet democracy also creates an opportunity for a man born poor in a *favela* to aspire to the presidency of the largest country in Latin America.

The challenges are genuine. We should not minimize their significance. But if the Americas are going to chart a successful course for the future, we must also recognize what has changed for the better. This is the foundation on which to build.

In 1970, 17 of 26 countries in Latin America and the Caribbean had authoritarian regimes. In the mid-1980s, when I served in President Ronald Reagan's Treasury Department, Latin America was plagued with hyperinflation, a debt crisis, and a breakdown in public sector services. In 1989, when I joined President George H.W. Bush's State Department, violent conflicts were ripping apart the thin fabrics of societies. The Organization of American States (OAS) was still paralyzed by the doctrine of nonintervention and failed to defend democracy.

Today, circumstances are dramatically different.

Cuba's island dictatorship stands alone and isolated in a democratic community that spans the hemisphere.

On the economic front, there has been real progress:

- Inflation is down region wide, from an average of 500 percent in 1990 to 7 percent last year. The Americas learned that it is the poor, most of all, who suffer in societies where prices spiral ever upward.

- Real GDP (gross domestic product) grew at an annual average rate of 3.4 percent in the 1990s, well above the 1.2 percent of the 1980s.

- On a per capita basis, real GDP in the 1990s rose at an average annual rate of 1.5 percent, far short of what is necessary, but much better than a decline of almost 1 percent in the 1980s.

- Export volume grew by 10 percent per year in the 1990s, twice the rate of the previous decade. As both the IDB (Inter-American Development Bank) and the IMF (International Monetary Fund) have reported, trade growth helped increase productivity and create better paying jobs.

- Privatization — especially of utilities — produced better services, more extensive coverage, increased investment, and enhanced efficiency. Millions and millions of people can now get telephones, electricity, and clean running water, which used to be the domain of the privileged.

- According to the UN Economic Commission on Latin America, poverty declined from 41 percent in 1990 to 35 percent by late in the decade.

- Foreign direct investment surged from $9 billion in 1990 to $76 billion in 2000, and this investment was closely linked to expanding exports and creating jobs.

In the space of a single generation, Latin America has moved from being a region dominated by stagnant autocracies to one of striving democracies, most of which are sustaining growing economies. This is a hemisphere of promise — and of near-term possibility.

REFORMS NORTH AND SOUTH

As Latins know well, this is also a region of great diversity. The histories, problems, and political cultures of sub-regions and individual countries vary enormously. As regional and even global integration deepens, we can learn from one another and support each other, while also perceiving special needs and circumstances.

In this context, Mexico to the north and Chile to the south stand out for what can be accomplished. In a world of global capital flows, the premier links of trade and investment through free trade agreements with the United States can prove especially valuable: following the 1982 peso crisis, it took Mexico seven years to be able to borrow again in international financial markets; after the financial shock of 1994-95, with the help of NAFTA (the North American Free Trade Agreement), it took just seven months. Following the 1982 crisis, it took seven years for U.S. exports to Mexico to reach their pre-crisis levels; after the '94-'95 shock, it took just 17 months.

Moreover, contrary to the forebodings of Latin parochialists, Mexico's and Chile's free trade policies have enabled both to be stronger not only with the United States, but throughout the Americas and within the world economy. Mexico followed up NAFTA by negotiating nine free trade agreements with 29 Latin partners. This month, it is hosting the summit of the Asia Pacific Economic Cooperation (APEC) group, and next year it will highlight Mexico's leadership in the World Trade Organization (WTO) by convening the global ministerial.

A new report by the United Nations Industrial Development Organization ranks Mexico 12th in the world for high-tech exports, 10th for medium-tech products, and 11th for low-tech exports. In 1985, Mexico eked out a listing of 23rd for low-tech exports and could not even get on the scale for medium- and high-tech products.

Four thousand miles to the south, Chile provides another example of the gains from sound policies. In the midst of a global slowdown, Chile has continued to grow: by 4.4 percent in 2000, and by 2.8 percent last year. Chile's resilience is a direct function of its openness, with economic growth led by an export sector that has surged by 8.2 percent in the past nine months alone. Chile's growth has enabled it to cut its poverty rate in half, from 45 percent in 1987 to 22 percent in 1998.

REFORMS IN THE CENTER: EL SALVADOR

Other countries in the hemisphere are committed to adding to the examples set by Chile and Mexico. Consider the case of El Salvador, whose transformation is every bit as impressive as its more high-profile partners.

Throughout the 1980s, violence and fear were a way of life for millions of Salvadorans. El Salvador's economic performance was poor, even compared to other Central American economies. In a 1991 book on Central America by the *New York Times'* State Department correspondent, the chapter on this poor country was depressingly titled "The Salvadoran Quagmire."

Following an historic peace accord signed in 1991 on New Year's Eve, El Salvador's leaders turned to the task of building a new future. They tackled inflation, cracked down on corruption, cut spending, restructured and privatized the banking system, privatized inefficient state-owned businesses, and opened the country's borders to trade. Drawing on Chile's example, El Salvador has begun to harness the power of private markets to provide for the pension needs of its citizens, simultaneously increasing the pool of national savings and investment — and moving ahead of the United States. The *Economic Freedom of the World: 2000 Annual Report* ranks El Salvador as the 14th freest economy in the world — up from 67th place in 1990 — and ahead of Japan, Germany, and France.

Sound policies have produced results. According to the World Bank, from 1991 to 2001, El Salvador grew by an average of 4.3 percent per year, compared with 1.3 percent from 1981 to 1991. On a per capita basis, El Salvador's GDP grew more than 10 times as fast in the 1990s than it did in the 1980s.

Many Salvadorans still struggle to overcome poverty. Yet economic growth — spurred by trade — is making a real difference in their lives. President Francisco Flores told President Bush, during his visit to San Salvador this April, that "many women in the rural areas have the opportunity to work today, thanks to the openness of the United States ... it is producing dramatic change throughout the rural areas of our country."

In El Salvador, trade and reform have real, encouraging names, spoken by hard-working people. Sigma S.A. was founded in 1933 to manufacture packaging products, such as cardboard boxes and plastic bottles. Recognizing the export opportunities afforded by San Salvador's pro-trade policies, Sigma expanded to achieve multinational status, employing 3,000 people and selling into markets throughout Central and South America. Sigma has even begun to make inroads into European markets for luxury packaging, through contracts with Meissen in Germany. And Sigma is linked to the U.S. economy, the source of its paper and most of its manufacturing equipment.

Bocca Deli, which makes snack foods, used to be focused exclusively on the domestic market — and was fearful about free trade. Today, 74 percent of the company's sales are made abroad — up from zero a few years ago. And Bocca Deli's story reveals the win-win nature of trade: the company makes its corn chips from the white corn sold by U.S. farmers.

And there is St. Jack's, a small textile manufacturer that makes T-shirts and children's clothing using fully licensed Disney motifs. Despite its modest size, St. Jack's supplies big retail outlets in the United States — including Kohl's and J.C. Penney — under the reduced tariffs provided in the Caribbean Basin Initiative. St. Jack's also markets its own brand throughout Central America, Mexico, and the Dominican Republic. Rolando Siman, CEO of St. Jack's, reports that El Salvador's new free trade agreements with Mexico and the Dominican Republic spurred expansion inside Latin America. He also notes that his company buys most of its thread and yarn from the United States.

Salvadoran exports to Mexico have doubled in the first year of their new free trade agreement and are predicted to double again in 2003. Exports to the Dominican Republic rose 160 percent in the first year of that free trade agreement.

President Flores has been clear where this path of reform leads: El Salvador has "advanced much more in the ideas that we share with the United States" — toward an Americas of democracy, open markets, transparency, and the rule of law.

THE U.S. COMMITMENT TO LATIN AMERICA

In the aftermath of September 11, there was anguish in the hemisphere that the demands of war would lead the United States to lose interest in Latin America. Nothing could be further from the truth: President Bush is committed to Latin America as a fundamental economic, political, and security partner.

The president and the American people appreciate the solidarity of the hemisphere after September 11, when the OAS activated the Rio Treaty. We also appreciate that solidarity runs both ways.

Over the past 20 months, the president has had 30 Oval Office meetings with Latin American heads of government. His first foreign trip as chief executive was to Latin America. His first summit was the Summit of the Americas. He has visited El Salvador, Peru, and Mexico. For President Bush, this hemisphere is home, the neighborhood of the Americas.

Knowing the importance of trade in the Americas, the president asked me to visit our friends here frequently. During my year and a half as trade representative, I have traveled to Argentina, Brazil, Canada, the Caribbean, Chile, Colombia, Mexico, Peru, and Uruguay to listen and learn. Last month, I journeyed to Trinidad and Tobago to discuss the special needs of small island economies with the trade ministers of the Caribbean Community and Common Market. Later this month, I will visit Bolivia and Ecuador. I have met with small businesses competing to be a part of Wal-Mart's global sourcing network in Brazil, entrepreneurs in Colombia, and factory workers and environmentalists in Chile — and I have seen the face of hope.

President Bush's intentions have been backed by actions and results.

This August, the president's perseverance on trade paid off when the U.S. Congress passed the Trade Act of 2002. Reversing the three failed efforts in the 1990s, President Bush pressed vote-by-vote to regain Trade Promotion Authority, so that we can bring back our trade agreements to Congress without amendment.

We are wasting no time employing this authority to open markets and opportunities.

Two weeks ago, I formally notified the Congress of our intention to try to complete negotiations of the U.S.-Chile Free Trade Agreement by the end of this year.

Two weeks ago, I sent another letter formally notifying Congress of the administration's intention to begin negotiations on a free trade agreement with the five nations of the Central American Common Market — Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

Trade Promotion Authority also impels new momentum toward our agreed goals of completing both the new WTO global trade negotiations and the Free Trade Area of the Americas by 2005.

It took a partnership among the ministers of the Americas to achieve the launch of the new WTO negotiations at Doha last November, reversing the failure in Seattle. My friends and close colleagues Celso Lafer of Brazil, Luis Derbez of Mexico, and Pierre Pettigrew of Canada worked hand-in-hand with me through an all-night session in Doha to craft the WTO negotiating mandate and persuade our more reluctant colleagues. Chile's Deputy Trade Minister, Heraldo Munoz, Colombia's Trade Minister, Marta Lucia Ramirez, now the Defense Minister, and other close Latin associates all played key roles.

The Americas delegation at Doha was particularly focused on cutting barriers to agricultural trade, which can generate great growth for the hemisphere. The United States has followed through on our commitment with a bold proposal to eliminate all agricultural export subsidies, to slash $100 billion worldwide from domestic farm subsidies that distort production — including our own — and to cut tariffs by 75 percent.

Brazil and the United States, in a group chaired by Minister Derbez of Mexico, also led the way in working out a landmark understanding so that the rules on intellectual property will both safeguard the development of life-saving drugs and enable developing countries to license pharmaceuticals to cope with HIV/AIDS, malaria, tuberculosis, and other pandemics.

Throughout the Americas, I sense a strong common purpose to press the WTO negotiations forward, to open access for agriculture, manufactured goods, and services. And it will be the Americas — in Cancun — that will host the key WTO midpoint meeting of ministers next year to keep the Doha agenda on track.

President Bush's trade strategy for the hemisphere is already delivering results. The Trade Act of 2002 includes the renewal and expansion of trade preferences — the unilateral lowering of U.S. tariffs to zero — for an estimated $20 billion of exports from developing countries, with about $7 billion of this trade coming from our partners in Latin America and the Caribbean.

The Trade Act of 2002 renewed the Generalized System of Preferences (GSP), which enables some 3,500 products from 140 developing economies to enter the United States free of duties. We are already reviewing how we can use this authority to expand imports from Argentina, and are inviting others to submit petitions for the product review that we will begin later this month.

The Act expanded the Caribbean Trade Partnership Act by liberalizing apparel provisions.

And the new Trade Act extended and augmented the Andean Trade Preference Act (ATPA), first passed in 1991 by President George H.W. Bush, increasing the list of duty free products to some 6,300.

We know well the importance of the ATPA to Colombia, Bolivia, Peru, and Ecuador.

In August, I was honored to attend the inauguration of President Alvaro Uribe in Bogota. The morning of the inauguration, I joined outgoing President Andres Pastrana for his last official event: a meeting of Colombian business people to discuss how they could use the expanded ATPA to strengthen Colombia's economy during this time of danger. A few hours later, I stood in Colombia's Chamber of Deputies while terrorist guerillas fired rockets in a failed effort to stop democracy. Nor have they halted the new Colombian business of selling cut flowers to the United States — now a $500 million enterprise that supports 75,000 jobs in Colombia — which flourished because the ATPA cut U.S. tariffs on those flowers to zero. Colombia's exports to the United States have increased 155 percent under the ATPA, which Colombia estimates generated about $1.2 billion of output between 1992 and 1999.

President Bush is delivering on his promise to Latin America to invigorate the drive for political and economic liberty through trade — and to reach across the seas and the isthmus to create a hemisphere that trades in freedom. Yet he recognizes that trade alone is not enough.

That is why the United States stepped in with the IMF and the G-7 (Group of Seven) economies to give Uruguay — a country that has pursued sound policies — the opportunity to revive a banking system under severe stress. It is why the United States stands by Brazil with a new $30 billion IMF support package. It is why the United States is working with the IMF, the World Bank, and the Inter-American Development Bank — led by our friend Enrique Iglesias — to assist Colombia. And it is why the United States is willing to support assistance from international financial institutions for our friends in Argentina if the country's political leaders can take the necessary steps for self-help.

THE FREE TRADE AREAS OF THE AMERICAS

Our greatest enterprise — the grandest goal — is to create a Free Trade Area of the Americas. This dream has inspired since the age of independence for Latin America, with visionaries from Henry Clay to Ronald Reagan to George H.W. Bush articulating the potential, the possibilities, and the partnership.

President Reagan looked to a day "when the free flow of trade, from the tip of Tierra del Fuego to the Arctic Circle, unites the people of the Western Hemisphere in a bond of mutually beneficial exchange, when all borders become what the U.S.-Canadian border so long has been: a meeting place rather than a dividing line."

The ship of inspiration has now reached the shore of firm possibility: since last year we have been doing concrete work to construct the FTAA, or ALCA. Not surprisingly, skeptics abound. Some political leaders position themselves at home with warnings, while others seek to engage their publics about opportunities. Each of us has sensitive topics that we need to address with care, while not losing sight of the great gain for all. Only time will tell whether the sharp objections are negotiating positions or the bluster of fearful politicians. Amidst the rhetoric of resistance, it is striking that as many as 70 percent of Latins in a 2001 Latinobarometro survey said that they favor the creation of a hemispheric free trade zone.

As an avid student of history, I, too, am moved by the epic nature of this venture. As a practical person who must concentrate on achieving results, I am focusing on the milestones along the roads that lead over the next hill.

The United States is moving toward free trade in the hemisphere through free trade in North America, soon with Chile, next with Central America. We are preparing the way for more free trade by opening the U.S. market through the Caribbean Basin Trade Partnership and Andean Trade Preferences Acts. We want to negotiate with all the democracies of the Americas through the FTAA, but we are also prepared to move step-by-step toward free trade if others turn back or simply are not yet ready.

We want to offer the Americas the first choice. Countries in the Asia-Pacific region, Africa, and the Middle East are also interested in free trade agreements with the United States. With China, the fourth largest trading nation in the world, now in the WTO, Latin America will face stronger global competition. We want the Americas to be moving ahead, not standing still, or worse, falling behind.

THE QUITO ENDEAVOR: SEVEN OBJECTIVES

On November 1, the trade ministers from the 34 democracies participating in the FTAA will meet in Quito to endeavor to advance the negotiations into the phase of specific, concrete bargaining.

The United States will be seeking to achieve seven objectives in Quito.

First, we need to launch a Hemispheric Cooperation Program so that smaller, developing nations — especially in the Caribbean and Central America — have the capacity to participate in and benefit from the free trade negotiations. It is our aim to ensure these countries have the support to negotiate complex subjects, the ability to implement the final agreement, and the help to make the necessary structural adjustments that will be part of creating an effective free trade area. The Inter-American Development Bank, the U.S. Agency for International Development, and the U.S. Trade and Development Agency have been excellent partners in this effort to combine trade with aid for growth and opportunity.

Second, we will seek to establish firm schedules — over the coming months, not years — for the negotiations to open markets in each participant.

In addition, we will seek to negotiate tariffs downward from applied rates, not WTO bound rates. This principle may seem technical, but it would be a landmark statement of the seriousness of our common endeavor. Tariff reductions would be based on the reality of current trade patterns rather than the legally allowed, highest-case scenario. The "bound" tariff range of many countries is far above their current tariff levels, so cuts from bound tariffs would take much longer to affect trade. At the same time, we recognize that the small island economies of the Caribbean may need flexibility on the tariff starting points for a limited number of sensitive products.

Third, we will seek to establish chairs for the nine negotiating groups and three related committees, so that leaders will press the work forward.

Fourth, we will urge that the revised negotiating text be presented to the public, a practice we began last year in Buenos Aires. The release of this draft text should enhance the transparency of the FTAA process. We value public input, which we will seek to take into consideration as our work continues.

Fifth, we hope that Quito provides another opportunity to engage groups from our civil societies about the FTAA project. We will listen. And we will not shrink from explaining the benefits of free trade.

We have already received unprecedented input from civil society groups and are forwarding their recommendations — in both English and Spanish — to the negotiators on an ongoing basis.

Sixth, we look forward to listening and learning from representatives of private enterprise at the Americas Business Forum. The FTAA can only be an enabling framework within which the genius of entrepreneurs, the commitments of investors, and the energy of growing businesses create jobs, growth, and hope for the peoples of the Americas.

Finally, as the United States and Brazil are scheduled to serve as co-chairs of the negotiations from Quito to the conclusion, the United States will offer to host the next ministerial meeting right here in Miami in 2003. With your help — and your model of urban renaissance — this Gateway of the Americas will help make history for the Americas.

Working with your supportive governor and congressional delegation, we want to leverage the benefits of trade for the ever-brighter future of Florida within the new Americas.

CONCLUSION

The second half of the 20th century was characterized by a divide between East and West, by a long twilight struggle for freedom that defined the Cold War. In this new century, our vital challenge is to overcome the divide between North and South, to shine the light of a new dawn of hope and opportunity.

I believe it is here — in the new world of the Americas — that we can topple the walls of prejudice, poverty, and protectionism by connecting our two continents through the bonds of freedom and prosperity.

The U.S. free trade agenda can help fragile democracies in the Americas, just as U.S. trade policy after World War II helped secure democracy and hope in Western Europe and Japan.

We have seen that after crises in the 1970s and 1980s prompted the first generation of reforms in Latin America; rapid improvements gave people reason to hope that they could build a better life for themselves and their families. They began to dream great dreams.

Those dreams have not been realized as quickly as any of us would have liked. Yet there are real prospects for historic improvements. Even as recent shocks have roiled Latin economies, recovery has come more rapidly in most places than in the past, and the response of most democratic Latin leaders has been to deepen, not depart from, free market reforms.

Sadly, there is no quick fix to the problems of poverty and underdevelopment. The next generation of market and political reforms will require courageous leaders who will not flinch from their responsibility. It needs leaders who will look beyond self-interest, beyond the next election, to promote empowerment of all the people of Latin America. To succeed, such political leaders will also need the support of the private sector, not for private gain but for a public commonwealth.

For those in Latin America with that determination and foresight, let me leave you with this message: we will work with you. We will strive with you. We will reach with you to make this hemisphere a model for the world. ❑

❑ U.S. POLICY IN THE AMERICAS AND THE ROLE OF FREE TRADE

By Otto J. Reich, Assistant Secretary, Bureau of Western Hemisphere Affairs, U.S. Department of State

Freer trade has long been a centerpiece of U.S. policy in the Americas, not only to boost economic growth but also to strengthen the ties that unite the region's 34 democracies, says Otto Reich, the United States' top diplomat for the region. "There is a fundamental and mutually supporting dynamic between political and economic freedom," he says. Having recently obtained a grant of trade promotion authority (TPA) from Congress, Bush Administration officials are poised to pursue the FTAA talks with renewed vigor as the United States and Brazil prepare to assume joint leadership for the final phase of the negotiations. Ambassador Reich acknowledges legitimate concerns — in developed and developing countries alike — over the potential disruptions of open trade, but says "without change, there is only stagnation."

President George Bush believes that free trade is the path to prosperity and is essential to extending and expanding political and economic freedom throughout the world. Working for free trade is a top priority of U.S. policy in the Americas. President Bush believes that we can create the right environment that allows and encourages the people of the Americas to fulfill their potential.

The United States wants to work with our neighbors in the Western Hemisphere to build a community of democracies that is free, safe, and prosperous. The Free Trade Area of the Americas (FTAA) is the way to achieve this goal.

With one exception, Cuba, the countries of the Western Hemisphere share a commitment to freedom: political freedom through democracy, and economic freedom through market-based policies. There is a fundamental and mutually supporting dynamic between political and economic freedom. Most nations in the hemisphere are in transition, moving from authoritarian regimes to democratic republics, from state controls to market economies. Progress toward openness, individual liberty and opportunity, and equality before the law in the economic sphere are as important as — and complementary to — political progress.

The United States knows that our destiny is tied to the well-being of our neighbors. We understand that we cannot be safe at home if our neighborhood is not safe. We appreciate that our prosperity grows as our neighbors prosper. We believe that healthy relations between the United States and the other countries of the Western Hemisphere are to our mutual benefit, and this perspective informs our policy toward the region.

While we in the United States believe that trade is the most beneficial element of our economic relationship with the world, we are increasing our foreign aid and its efficacy. For 2002, the U.S. Agency for International Development (USAID) foreign aid program for Latin America and the Caribbean amounted to $828 million. Last March, President Bush announced that U.S. global development assistance would grow by 50 percent over the next three years. These new funds, $5 billion over and above the current aid program of $11 billion, will be directed toward nations that are investing in the health and education of their people, striving toward more responsive government and free markets, and fighting corruption. President Bush believes that supporting progressive political and economic reform is the most effective and beneficial use of our aid dollars.

Another important element in the economic relationship between the United States and the Western Hemisphere is the extent to which money earned in the United States supports the economies of our neighbors. The 2000 U.S. Census estimates that about 15 million people now living in the United States are from Latin America and the Caribbean. According to the Inter-American Development Bank, remittances from these U.S. residents to their native countries average close to $20 billion a year. Moreover, we have extended temporary protective status to migrants from several countries in the hemisphere for humanitarian reasons. In some cases, remittances amount to 10 percent or more of these countries' national income.

As important as aid and remittances are, U.S. trade and investment dwarf these substantial sums and are the primary sources of financing for development in the hemisphere. The stock of U.S. private investment in Latin America and the Caribbean amounted to $270 billion at the end of 2001, of which $18 billion was new investment during that year. Most of these investments transfer not only capital but also new technology, management expertise, improved labor standards, and better practices to safeguard the environment. Even more impressive is the value of trade between the United States and our neighbors. In 2001, we exported $324 billion to countries in the Western Hemisphere and imported $416 billion from them.

IMPROVING PEOPLE'S DAILY LIVES

Trade is much more than the mere exchange of goods and money; trade creates jobs, lowers prices, and improves the daily lives of people throughout the hemisphere. Everyone is better off when economies grow and prices are lower, but these benefits have a disproportional impact on the poor. About one-third of Latin Americans live on $2 a day. If a person can buy some clothes for just $2 less than he or she might now pay, that saves a day's wage, leaving more money to spend on food, shelter, and education.

World Bank studies show that developing nations participating in global trade can grow their economies and reduce poverty faster than either developed economies like the United States or developing economies not participating in international trade. Developing countries that opened their economies by cutting tariffs and reducing other barriers to trade grew at an annual per capita rate of 5 percent in the 1990s; developing countries that kept their economies closed actually experienced an annual per capita decline of 1 percent.

The impact of the North American Free Trade Agreement (NAFTA) on Mexico is an example. More than half of the 3.5 million new jobs created in Mexico since 1995 are connected to trade. NAFTA is also a major force in the political modernization under way in Mexico.

And Chile, which has established free trade with several hemispheric partners, has cut its poverty rate by more than half (45 percent to 21 percent) and its extreme poverty rate by more than 65 percent.

HELPING NEW ENTREPRENEURS AND SMALL ECONOMIES

Leading Latin American economists have come to appreciate that imports are as important as exports — a country that is importing is growing, becoming more efficient, creating jobs, and raising productivity — and a country that is exporting goods is doing better than a country that is exporting people. At the same time, we recognize that the nations in this hemisphere benefit by broadening their industrial base and diversifying their exports.

The United States is helping in several ways:

- President Bush fought hard to renew the Andean Trade Preference Act. The 2002 Trade Act, which renewed and extended the Andean Trade Preference Act, gives Bolivia, Colombia, Ecuador, and Peru trade preferences in the U.S. market on almost all their exports, thereby providing them with alternatives to the illegal drug trade that is devastating their economies and undermining their democracies.

- The Bush administration is also extending trade preferences for our neighbors in Central America and the Caribbean through the Caribbean Basin Trade Partnership Act, which was also renewed and expanded by the Trade Act of 2002.

- The Trade Act of 2002 also affirmed preferential treatment for more than 5,000 products from developing countries entering the United States under the Generalized System of Preferences.

The United States is committed to taking into account differences in the levels of development and size of the economies of the countries participating in the FTAA negotiations. We are open to a flexible system of mutual trade concessions, including different timelines for eliminating tariffs in the FTAA. We will also provide effective and timely technical assistance related to the FTAA and other trade-liberalizing agreements under negotiation. In fact, the United States is already providing some $50 million annually in trade-related assistance to Latin America and the Caribbean.

In trade between countries of differing size, the smaller country actually captures the greater share of benefits from trade. Barbados provides a good example of this dynamic. According to a recent report from the World

Trade Organization, Barbados "has used foreign trade and investment opportunities deftly to maintain living standards well above those of most developing countries…. The government considers that trade openness … is crucial in order to overcome any constraints arising from the small size of the economy, its restricted capacity to diversify risk, and limited institutional capacity."

EXPANDING THE WORLD'S LARGEST OPEN MARKET

The world's oldest and largest free trade area since the 18th century has been the United States. Our large market and strong economy laid the foundation for U.S. growth and prosperity. If the 21st century is truly to be a "Century of the Americas," as President Bush calls it, we must achieve the kind of free flow of goods and services throughout the Americas that we have enjoyed within the United States.

The United States is already the most open large market in the world. Last year we imported more than $1 trillion, roughly one third of that coming from the Western Hemisphere. The value of the tariffs that we actually collected on our imports last year was less than 2 percent. And few of those imports were subject to quotas or other nontariff barriers. More than a half-century of increasing openness of the U.S. market to the rest of the world has brought major benefits to the U.S. economy and to the global economy as well.

We want to open our market even further. The United States is pursuing global liberalization in the World Trade Organization's "Doha Development Agenda." We are pushing to conclude the Free Trade Area of the Americas negotiations by January 2005. We hope and expect to complete a Free Trade Agreement with Chile soon and to begin negotiating a Free Trade Area with Central America by early 2003.

The impact of achieving these goals will be substantial. By 2005, this hemisphere will represent a market of $13 or $14 trillion. If the FTAA stimulates the growth of this market by even a small amount — say, a 1 percent increase in growth — this would produce $130 billion to $140 billion per year in new income for the hemisphere.

FREE TRADE AND FREE SOCIETY

New income is not the only benefit of free trade. As I alluded to earlier, free trade has effects that go far beyond the economy. There is a virtuous dynamic between free economies and free societies.

- Increased growth from trade provides governments with more resources to address the problems of unequal access to education and health services, to protect the environment, and to improve law enforcement and security services.

- By encouraging market-based economic reforms and promoting greater openness in economic decision-making, free trade agreements advance political openness and democracy.

- By breaking up monopolies and oligarchies that seek to maintain the status quo, free trade fosters competition and innovation, economically and politically. Increased competition and investment and reduced government and monopoly influences in the economy eliminate opportunities for corruption and provide incentives to strengthen the rule of law.

The Bush administration recognizes the broad and positive impact of free trade. We know that a democracy cannot succeed if people are hungry or if they do not have the opportunity to work and create for themselves the prosperity that they see their neighbors enjoying. There is no logical reason why all of Latin America cannot enjoy the same prosperity that we do in the United States. When President Bush calls free trade a "moral imperative," he means that free trade is the proven and best path to eliminating poverty and building a better future.

A JOINT EFFORT BY HEMISPHERIC PARTNERS

The FTAA is being driven by the joint efforts of all the hemisphere's democracies. Thirty-four democratically elected heads of state set the course for the FTAA beginning in 1994, and they are continuing to direct the process. All countries have participated in organizing the negotiations and have taken turns in leading the negotiating groups and committees, the vice-ministerial meetings, and the ministerial meetings. The United States will assume joint leadership of the negotiations with Brazil this fall for the final phase: conclusion of the negotition of the FTAA by January 2005 as determined at the Summit of the Americas in Quebec in 2001.

With the passage last August of the Trade Act of 2002, President Bush now has the authority to pursue our trade goals in this hemisphere with renewed energy and the credibility that comes from having the backing of the U.S. Congress.

I know that there is some concern that the FTAA will bring with it changes as well as benefits. This concern is felt within the United States too. Change is often unsettling, whether caused by new technology or new competition or new conditions of trade. But it is important to remember that change is indispensable to growth and development; without change, there is only stagnation.

Fifteen years ago, there was considerable fear in Mexico of free trade with the United States, fear that Mexico would be swallowed up and dominated by its larger neighbor. But Mexican leaders in both government and the private sector had confidence in themselves and their people, and the wisdom to see that expanding trade was the way to prosperity for Mexico. Those leaders did not heed the pessimists who said that increased trade with the United States would lead to increased dependency. Indeed, the dramatic increase in trade between our two countries since NAFTA has had exactly the opposite effect from dependency — we are partners, working toward common goals and benefiting from our cooperation.

I believe that our potential partners in the rest of the Western Hemisphere will share similar success, progress, and prosperity within the Free Trade Area of the Americas. ❑

❑ THE FTAA: MAPPING THE ROAD TO ECONOMIC GROWTH AND DEVELOPMENT

By Grant D. Aldonas, Under Secretary for International Trade, U.S. Department of Commerce

Implementing a Free Trade Area of the Americas (FTAA) "is critical at this juncture in the history and development of the Western Hemisphere," says Commerce Under Secretary for International Trade Grant Aldonas. In addition to increasing economic prosperity throughout the hemisphere, the FTAA would open the door to long-term social and political initiatives that will strengthen democracy and regional stability.

Aldonas warns, however, that realizing the full potential of the FTAA will require negotiators to work on areas that have often been inadequately addressed, including the need for strong rule of law, democratic institutions, independent judiciaries, reliable regulatory agencies, dependable law enforcement, and efficient banking and social services. It is "a tall order," he says, "but one that we think can be achieved."

Over 150 years ago, José Artigas, the founder of Uruguay, said: "The countries of South America are inextricably linked through their proximity and mutual interests." President George W. Bush, during the Summit of the Americas in April 2001, expanded this vision to encompass the entire hemisphere when he said: "We have a great vision before us: a fully democratic hemisphere, bound together by goodwill and free trade. That is a tall order. It is also the chance of a lifetime. And it is the responsibility we share."

President Bush is deeply committed to ensuring that all nations realize the benefits of free trade. This is particularly true for the countries of Latin America. The administration is aggressively pursuing regional initiatives that will expand trade and economic growth, including the U.S.-Chile Free Trade Agreement, the Andean Trade Promotion and Drug Eradication Act (ATPDEA), and the U.S.-Mexico Partnership for Prosperity, as well as discussions toward a U.S.-Central American Free Trade Agreement. However, the cornerstone of President Bush's Latin American trade policy agenda is securing the creation of a Free Trade Area of the Americas (FTAA).

THE FTAA: ECONOMIC AND SOCIAL BENEFITS

Trade has the capacity to lift nations and people. Freer trade leads to expanded choices. Consumers benefit from lower prices and access to a greater variety of products, better and more affordable health care, and increased opportunities. Workers benefit from new and often higher-paying jobs. And farmers gain access to new markets.

The FTAA will be the largest free market in the world, stretching from Canada to Chile, representing more than 800 million people and a combined gross domestic product (GDP) of more than $13 trillion. Not only will the FTAA promote economic development and democratic governance among our trading partners, it will also strengthen our economy at home — benefiting American farmers, businesses, workers, and consumers.

The countries of the hemisphere are working hard to complete FTAA negotiations by January 2005 and to fully implement the agreement by the end of that year. Once enacted, the FTAA will serve as an impetus to investment, innovation, efficiency, and growth in all of Latin America. It will open markets, promote free commerce, and level the playing field for all signatories. It will also help cushion the shocks arising from individual country economic cycles and political changes. Nations will form closer ties as their economies become more integrated and interdependent, potentially resulting in eased political tensions and uniform democratic values across borders.

Furthermore, according to the United Nations' *Human Development Report 2002,* countries that are more integrated with the global economy have been the most successful in fighting poverty. By the time the FTAA negotiations are completed in January 2005, the Americas will be a $13 trillion market. Even a 1 percent increase in growth would produce a tremendous amount of new income, roughly $130 billion.

CHALLENGES STILL TO OVERCOME IN LATIN AMERICA

In many ways, the 1990s were beneficial for Latin America: previously closed economies were opened, liberalized trade agreements proliferated, and military governments gave way to burgeoning democracies. Government leaders throughout Latin America recognized that market, political, and social reforms would facilitate economic growth. Officials lowered tariff and nontariff barriers, privatized state industries, and pursued fiscal disciplines. The results were extremely positive. According to the United Nations Economic Commission on Latin America, inflation dropped, real GDP grew (compared to the decline of the 1980s), exports increased, foreign direct investment exploded, public social spending increased, and poverty declined.

But much remains to be done. Many of the gains failed to reach those at the lower end of society. Too many of the region's residents live at or below the poverty level, even in the more wealthy Latin American countries. Furthermore, the actual number of people living in poverty is increasing, and the gap between the rich and the poor is widening. According to the 2002 United Nations' development report, the actual number of people living in poverty in Latin America has increased by 3 million since 1990, and this number does not take into account the devastating effects of the current economic crisis in Argentina.

Many of the region's residents live and work outside of their nation's mainstream economy. Hernando de Soto and the Institute for Liberty and Democracy in Lima, Peru, have documented the inability of many low-income people to participate as meaningful economic actors in their nations' economies. One of the biggest challenges before us, and a responsibility we all share, is building broad-based support for trade-liberalizing agreements like the FTAA. Once that goal is achieved, and once the FTAA is enacted, we must work hard to ensure that its benefits reach those who are marginalized and impoverished.

As President Bush said, that is a tall order, but one that we think can be achieved. The FTAA is an opportunity to bring increased economic prosperity to the region and to support long-term economic, social, and political initiatives that will facilitate growth and democracy. But to do so, governments must do more than just eliminate duties. They must work on areas that have often been inadequately addressed. We must ensure that nations promote the rule of law and democratic institutions such as independent judiciaries, reliable regulatory agencies, dependable law enforcement systems, and efficient banking and social services. We must encourage transparent regulatory bodies, a sound tax and pensions savings base, fiscal responsibility, privatization, competition, and improvements in education and health care. Our efforts, along with those of all of the other nations of the hemisphere, will ensure prosperity and freedom for all of the region's residents.

The Bush administration is playing an active role in building support for the FTAA. Regional trade-expanding initiatives such as the U.S.-Chile Free Trade Agreement, the ATPDEA, and discussions toward a U.S.-Central American Free Trade Agreement are building blocks that will help us reach our goal of completing the FTAA. Also, programs aimed at deepening economic development, such as the U.S.-Mexico Partnership for Prosperity, which will foster economic growth in areas of Mexico that have been left behind, and the Plan Puebla Panama, an initiative created by Mexico's President Vicente Fox and the Central American countries to work together to solve long-standing structural problems, will do much to build support for the process.

ONGOING AND FUTURE INITIATIVES

Many agencies within the U.S. government are involved in supporting President Bush's vision of creating the FTAA. At the Department of Commerce, we are also doing our part to support the FTAA negotiations and to increase trade in the region, particularly for U.S. businesses. For example, Secretary of Commerce Don Evans led a trade mission to Mexico in June and recently announced that he will lead a business development delegation to Peru and Chile in early December. As Evans has noted: "The Bush administration is committed to increasing trade to these two countries and the entire Latin American region." Additionally, later this year, I will lead a trade policy and investment mission to Central America, and Bill Lash, Assistant Secretary for Market Access and Compliance, will travel to the Caribbean to promote private sector investment opportunities.

In addition, we will continue to administer programs that will forge deeper integration in the region, such as the Inter-American E-Business Fellowship Program. This program, a Summit of the Americas initiative, links U.S.

companies with fellows from Latin America and the Caribbean for a four-week period. The fellows receive hands-on training in the use of information technologies to improve efficiency and productivity and to increase their customer base when they return to their home countries. Plans are also under way to expand existing programs, such as the Department of Commerce Good Governance Program, to the Latin America region. This program will develop joint private/public sector activities that will promote transparency and fairness in government and business practices, which will, in turn, lead to increased trade and investment in the region.

The implementation of the FTAA is critical at this juncture in the history and development of the Western Hemisphere. We must balance the great benefits of trade with the overarching need of promoting democracy and equality among peoples. It is a difficult goal, but one that we are determined to reach. The United States and all of the nations of this hemisphere will bring down barriers and rise above borders in order to realize their great potential. ❑

❑ BUILDING TRADE CAPACITY IN THE AMERICAS

By Adolfo Franco, Assistant Administrator, U.S. Agency for International Development

Helping smaller economies attract trade and investment will be key to the success of the proposed Free Trade Area of the Americas, says Adolfo Franco, assistant administrator for Latin America and the Caribbean at the U.S. Agency for International Development (USAID). The agency plans to enhance existing programs and launch new initiatives to promote regional economic integration, fair competition, and legal and regulatory reforms, as well as to help countries address other trade-related issues.

While building national trade capacity in the hemisphere is a challenging task, he says, USAID is well positioned to strengthen the impact of its programs by creating alliances with public and private sector partners in the hemisphere.

The 34 democracies of the Western Hemisphere have pledged to complete by January 2005 an agreement that will remove most major barriers to trade and investment between their countries. Once achieved, this accord will drive new economic growth, reduce poverty, encourage democracy, promote honest government, and boost investment in health and education. As the primary development agency within the U.S. government, the U.S. Agency for International Development will be a key partner in working with its counterparts in other countries in supporting the types of reforms that will make possible a new era of prosperity in Latin America and the Caribbean.

While the nations of the region have made good progress over the years, economic growth cannot be taken for granted in today's complex global economy. Many factors must be taken into account, but as Chile, Mexico, and many other countries have shown, nations that adopt sound fiscal policies and orient their economies toward trade, foreign investment, and the rules-based system of the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA) can establish a strong record of performance.

Most countries have had a difficult time since the events of September 11, 2001. Nations that depend heavily on tourism have been particularly hard hit. The coffee crisis, too, has hurt several economies in this hemisphere.

But there is some good news for the nations of the region. On August 6, President George Bush signed the Trade Act of 2002, providing further assurance that the United States is committed to the completion of the Free Trade Area of the Americas (FTAA) by January 2005.

The commitment to the hemispheric free trade zone was first adopted at the Summit of the Americas in Miami in 1994 and unanimously reconfirmed at the Quebec City Summit in April 2001. Altogether, the FTAA represents a potential $13 trillion market, made up of 34 countries and more than 800 million people.

Whatever final shape the FTAA agreement takes, the result will mean more trade, more income, and more jobs for the countries of Central America, the Caribbean, and South America. Moreover, as Mexico's experience with the North American Free Trade Agreement (NAFTA) shows, a free trade agreement will mean more access to the U.S. market and more foreign investment in those countries.

In signing the Trade Act of 2002, President Bush made a clear connection between trade and development. "Free trade is also a proven strategy for building global prosperity and adding to the momentum of political freedom. Trade is the engine of economic growth," he stated. "In our lifetime, trade has helped lift millions of people, and whole nations, and entire regions out of poverty and put them on the path to prosperity."

Secretary of State Colin Powell made a similar point at the World Summit on Sustainable Development in Johannesburg when he said: "Official development aid alone is not enough. Countries must be able to attract the trade and investment that account for 80 percent of the money that is available for development."

Helping countries attract trade and investment is a major part of USAID's programming in the Western Hemisphere. To that end, the United States spent more than $150 million between 1999 and 2001 on trade-related initiatives in the region. About 70 percent of this funding came from USAID, and we will spend more than

$53 million on such programs in the current fiscal year. We expect to increase these funds in the coming years.

For the purposes of this article, I would like to divide our trade-related discussions into three geographic areas: Central America, the Andean Region, and the Caribbean.

CENTRAL AMERICA

On October 1, the U.S. Trade Representative, Ambassador Robert Zoellick, notified the U.S. Congress of the administration's intention to begin free trade negotiations with five Central American countries: Costa Rica, El Salvador, Honduras, Guatemala, and Nicaragua. This is no trivial market, and a Central American Free Trade Agreement (CAFTA) would clearly expand it. Since 1990 trade between the five countries and the United States has nearly tripled. In 2001 it totaled more than $12 billion — 43 percent of Central America's total.

Central America has made great strides in its trade policies in recent years. For example, average tariff rates in the region fell from 20 to 7 percent between 1990 and 2000. As a result of better intellectual property rights enforcement, greater acknowledgement of worker rights, and greater compliance with multilateral trade agreements, the Central American countries became eligible for expanded Caribbean Basin Initiative benefits while remaining eligible for Generalized System of Preferences (GSP) benefits in 2001.

While the lion's share of the credit clearly belongs to the countries themselves, USAID's trade-related technical assistance program — known by its Spanish acronym PROALCA — has played a positive role in the process. Launched in 1995, PROALCA has worked to expand intra-regional trade, lower tariffs, simplify customs procedures, and strengthen regional economic integration. PROALCA trained almost 2,000 people from Central America in trade issues in 2001 alone.

PROALCA is now poised to enter a second phase with a new five-year program worth $29 million. One of its new features is support for CAFTA. In addition, PROALCA II will continue to promote open trade and investment policies and work on WTO compliance, intellectual property rights, trade barrier elimination, regional dispute settlement, customs reform, labor, and a host of other issues.

At the same time, USAID is preparing a new trade-related initiative for fiscal year 2003 called the Opportunity Alliance for Central America and Mexico. This is part of our overall plan to double our economic growth, agriculture, and trade programming with Mexico and Central America. The goal of this alliance is to build employment opportunities and economic growth, with a particular focus on rural areas that have been ravaged by drought and the regional coffee crisis.

Specifically, the Opportunity Alliance will expand our trade-related technical assistance programs in four areas:

• Promoting regional economic integration and reducing tariffs and nontariff barriers.

• Creating the proper legal and regulatory environment to encourage trade and attract investment through commercial law reform, property rights, and contracts enforcement assistance.

• Identifying new business opportunities and training rural entrepreneurs and farmers to bring production more closely in line with regional and international markets.

• Launching a new regional coffee program that works with local producers on coffee quality improvement, competitive marketing, and business development and diversification.

THE ANDEAN REGION

The Trade Act of 2002 renewed the benefits of the Andean Trade Preferences Act (ATPA), legislation that provided Bolivia, Colombia, Ecuador, and Peru with access to markets in the United States. The benefits expired in December 2001. The new legislation allows products such as cut flowers and certain textiles to enter the United States from the Andean states without duties.

USAID has worked with the Andean countries for years with a view toward freeing them from the drug economy. No one should have any illusions that this is easy. It takes time to develop new products and develop markets for them, particularly for people living in isolated, rural areas where the government's authority is not always strong. But the Andean states have been making progress, and USAID intends to build on it with a new, expanded technical assistance program in fiscal year 2003.

The key elements of this program are:

• Forming a new Andean equity investment fund that provides capital and business assistance to small and medium-sized enterprises. USAID will contribute $3 million in 2002-2003 to this fund, and we expect at least that much to come from the private sector and other donors.

• Expanding regional trading capacity; building both public and private sector support for the FTAA, such as strengthening institutional capacity to promote fair competition and consumer protection; implementing WTO obligations in key sectors defined by the countries themselves, such as sanitary and phytosanitary (SPS) measures and intellectual property rights. We are devoting at least $1 million per year in fiscal years 2002 and 2003 to this regional program.

• Enhancing business development and competitiveness activities, such as Peru's Secondary Cities Program, that link rural enterprises and farmers to local, regional, and international markets. USAID plans to spend more than $13 million on these activities in this fiscal year.

THE CARRIBEAN

USAID is seeking to build on its trade-related programs in Jamaica and the Dominican Republic, expand activities under the Third Border Initiative, and help the 15 countries of the Caribbean Community and Common Market (CARICOM) prepare for the FTAA. There is reason to think that the FTAA may be more important to the Caribbean countries, with their small economies and close ties to the U.S. market, than any other part of the hemisphere.

Although the initiative was started with relatively modest funding — $1.5 million in Economic Support Funds in fiscal years 2002 and 2003 combined — we believe the potential benefits can be quite high.

Among its key goals are:

• Engaging and educating Caribbean businesses on FTAA opportunities.

• Supporting continued regulatory reform in the telecommunications sector in order to lower costs to consumers and businesses.

• Providing expert assistance in WTO compliance in areas such as services and SPS measures.

In fiscal year 2004, USAID plans to increase funding for programs in the region. This will allow us to focus new resources on:

• Encouraging competitiveness and public/private cooperation to remove business barriers and seek areas of economic advantage.

• Providing technical assistance to small and medium-sized companies in product and quality assurance and marketing.

In addition, USAID missions in such countries as Bolivia, the Dominican Republic, and Honduras have developed their own trade capacity-building programs. In general, these programs focus on "behind the border" issues such as trade policy reform and competitiveness.

USAID has worked hard to offer our partners in Latin America and the Caribbean pragmatic, effective trade-related programs that help them improve their business climate and compete in the global economy. But it is hardly time to be complacent. For our part, we at USAID stand ready to be of help in any way we can. ❑

❑ BRAZIL AND THE UNITED STATES: OVERCOMING OBSTACLES TO AN FTAA

By Rubens Barbosa, Ambassador of Brazil to the United States

Successful completion of a Free Trade Area of the Americas (FTAA) will generate not only new trade opportunities but also substantial developmental, technological, economic, social, and political gains throughout the hemisphere, says Rubens Barbosa, Brazil's ambassador to the United States. As co-chair with the United States for the final negotiating stage of the FTAA, Brazil will share responsibility for helping to frame outstanding issues. The ambassador expresses concern that deadlocks over issues related to agricultural subsidies and trade remedies in ongoing World Trade Organization talks could jeopardize timely completion of an FTAA.

The negotiating process of the Free Trade Area of the Americas will enter its final stage in the next few months as 34 countries begin their detailed discussions on trade liberalization through the reduction of tariffs, including tariff peaks, and the elimination of nontariff trade barriers.

Brazil wants the FTAA to be a landmark agreement that will define new trade patterns in the hemisphere in a balanced and equitable manner.

This essentially means that it will contribute to fostering and advancing our many common values and goals, as well as a greater sense of partnership and cohesion. The FTAA should help to reduce the disparities that now exist in and among our countries, as well as throughout our region.

The ultimate goal of the process is not free trade for its own sake, but rather achieving the developmental, technological, economic, social, and political gains that we believe an FTAA can help generate.

These benefits will not emerge automatically or as an inevitable corollary of increased trade liberalization, but will require a balanced and equitable process of give and take.

Current circumstances clearly attest to the need to improve market access for all countries in Latin America, which is the best way to avoid periodic financial crises and overcome difficulties in capital market assessments.

Brazil has been an active player in the ongoing negotiating process aimed at establishing an FTAA. The Brazilian government has pursued these negotiations in earnest since the initiative was first introduced, and shares the will to conclude them successfully by 2005.

From the start of the negotiations, Brazil's main goals have been to achieve market access, reciprocity, and balanced results at the end of the FTAA process.

But to achieve a balanced, equitable, and viable agreement we must bear in mind that tariff reduction or elimination is not the only, and sometimes not even the most significant, step toward freer trade. Ending practices such as the unfair subsidization of agricultural production and the abusive application of trade remedy mechanisms is as necessary as lower tariffs to allow trade and progress to flourish around the region.

A LOOK AT THE ISSUES

Beginning this November, Brazil and the United States will be co-chairs during the final negotiating stage and thus will share the responsibility of dealing with the existing challenges, as well as those that arise during this period when complex trade-related rules will take their final shape and final market access concessions will be made.

To engage in this delicate and complex process, it is necessary that every party have a mandate to negotiate all trade-related issues that are on the table. In this sense, the recent passage by the U.S. Congress of trade promotion authority (TPA) for the president was a positive development, enabling the United States to engage fully in the process and providing momentum for the multilateral and hemispheric negotiations to move forward.

The TPA, however, is merely a necessary precondition for negotiations to proceed; it does not, by any means, provide a formula for overcoming some of the more important hurdles in the negotiating agenda that will need to be addressed in order to successfully conclude the negotiations by January 2005. Because of the restrictive language it contains in certain key areas, the TPA, as approved, may limit the U.S. capacity to negotiate and may delay for an unreasonable period of time the liberalization of trade for a list of sensitive products.

Agreeing on methods and modalities to dismantle tariffs in the negotiations on market access and agriculture, as well as defining the future framework of the services chapter, are among the critical issues, as are trade remedies and disciplines for domestic support in agriculture, which still need to be worked out in order for us to conclude a successful hemispheric agreement by 2005.

SHARING THE BENEFITS

Brazil recognizes that a number of the difficulties in the negotiating process are related to the economic asymmetries among the countries of the Americas, and that successful completion of the FTAA will require taking into account the needs of the smaller economies, both during and after the negotiations.

Nevertheless, it would be contrary to the spirit and the ultimate goal of the FTAA negotiations to adopt rules and disciplines that in the end would allow the FTAA to become a mere aggregation of bilateral understandings, rather than a comprehensive agreement built on the regional application of the most favored nation principle.

In view of our trade negotiating goals, allowing a "bilateral approach" to prevail as the general rule would result in widespread discrimination among preferential partners, which, in turn, would result in the artificial diversion of trade and investment flows within the hemisphere.

We therefore insist that all participants must share the benefits of free trade equally, that liberalization of trade should be reciprocal, and that it should lead to the attenuation — rather than the aggravation — of the existing disparities in our region.

For Brazil, as was stated by President Fernando Henrique Cardoso in his speech at the Quebec City Summit, "a Free Trade Area of the Americas is welcome if its creation is a step toward providing access to more dynamic markets; if it indeed leads to common antidumping rules; if it reduces nontariff barriers; if it prevents the protectionist distortion of sound sanitary norms; if, while protecting intellectual property, it also furthers the technological capabilities of our people; and also if it goes beyond the Uruguay Round to redress the inequalities resulting from those negotiations, particularly with regard to agriculture. Otherwise, it would be irrelevant or, worse, undesirable."

THE NEED FOR COMPROMISE

The simultaneous negotiation of a hemispheric agreement and the World Trade Organization (WTO) Doha Round will certainly represent a challenge for the co-chairs of FTAA negotiations. It is true that multilateral rules establish the framework within which regional or bilateral trade agreements are negotiated. It is also true that some of the FTAA "hot topics" are equally controversial in the multilateral arena. So these two processes will inevitably become intertwined between now and 2005.

I do not have — and I actually doubt that anyone has — an easy answer for all the "what if" scenarios. Let us hope that a spirit of compromise will prevail, so that freer and fairer trade for all can be implemented on the basis of negotiated breakthroughs. Brazil will be doing its part, together with our MERCOSUR partners in the FTAA, and the United States will certainly do its part, as became clear with its groundbreaking agricultural proposal presented last July in the WTO.

But one must acknowledge that deadlocks at the multilateral level, especially those regarding agriculture, subsidies, and trade remedies, could jeopardize completion of the hemispheric negotiations within the agreed timeframe, taking into consideration the principle of single undertaking in both negotiations.

Another crucial issue for the completion of the FTAA hinges on the simultaneous negotiation of ongoing and new trade initiatives among hemispheric partners. Although initiatives aimed at providing better market access conditions within the region should be fully supported, there is a potential risk of dissipating the negotiating efforts to complete the FTAA once our partners have achieved their main trade goals through other negotiating fora.

LONG-STANDING PRIORITIES

The FTAA constitutes only one part of Brazil's broader trade negotiating agenda in the hemisphere, the centerpiece of which has been the construction of the Southern Cone Common Market, MERCOSUR.

MERCOSUR has been affected by the current economic and financial crises in all its member countries, casting doubts about its survival.

For Brazil, nonetheless, the current crisis provides a priceless opportunity to review our economic integration agenda. Any objective assessment of the current situation would clearly indicate the vast successful interaction that already exists and the degree to which the economies in the region have effects on one another. Our geographical circumstances, as well as the commonality of our values, objectives, and even cultures, points to a need for increased cooperation and integration. However, we are aware that, in order to keep moving forward, we will have to define our trade agenda realistically within new and achievable timeframes, so as to pursue our goal of building a common market.

The specific details of Brazil's future positions on MERCOSUR and the FTAA will obviously depend on the results of the October 2002 elections. All candidates, although proposing a more assertive stance in the negotiations, have indicated their intention to proceed with the negotiating process.

But a retrospective look at our commitments and achievements in these two negotiating arenas can offer important insights into Brazil's core trade policy guidelines that in all likelihood will be maintained by the government of the next president of Brazil, regardless of who is elected. These long-standing priorities have been to increase market access for our main exports and improve our competitiveness in the international economy through economic integration.

We are fully aware that the creation of the FTAA will involve costs similar to those associated with all integration and trade liberalization processes. But if a balanced and equitable agreement is achieved, its benefits will clearly outweigh its costs. That is why our commitment to these negotiations has remained steady and strong since their inception by the heads of state during the Miami Summit of the Americas in 1994.

Brazil believes that fundamental values, such as strengthening democracy, protecting human rights, safeguarding the environment, and fighting against poverty, discrimination, and organized crime, should be placed at the core of any meaningful integration process in the hemisphere.

Brazil and the United States have roles to play in this process, which should be the basis for progress and sustained growth for all countries in the region. ❑

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MEXICO AND THE FREE TRADE AREA OF THE AMERICAS

By Luis Ernesto Derbez, Secretary of the Economy, Mexico

Since the mid-1980s, Mexico has undertaken profound economic and legal reforms that have overhauled its trade, investment, and financial policies, providing macroeconomic stability and the basis for long-term sustainable development, says Luis Ernesto Derbez, Mexico's secretary of the economy. He credits those reforms with making Mexico one of the few emerging economies that provides a stable environment for business in spite of the economic uncertainty in much of the world today.

In this article, Derbez presents an overview of Mexico's integration into the world economy and the most important results of its network of free trade agreements. He also underscores Mexico's commitment to working toward the success of the Free Trade Area of the Americas, emphasizing its importance to growth, jobs, and rising standards of living for all countries in the region.

Mexico is firmly committed to economic liberalization. In the last 16 years, Mexico has made a dramatic transition from a relatively closed economy to one of the most open countries in the world. It has abandoned price controls and encouraged competition through regulatory reform and by eliminating artificial barriers to entry. Furthermore, it has abandoned the closed import substitution model of industrial development in favor of export-led growth.

After an initial unilateral reduction of tariffs and the elimination of import permits, Mexico in 1986 joined the General Agreement on Tariffs and Trade (today the World Trade Organization, WTO), has since followed free market policies with great determination and commitment, and actively engages in trade negotiations at the bilateral, regional, and multilateral levels.

Mexico joined the Asia-Pacific Economic Cooperation forum (APEC) in 1993 and became a member of the Organization for Economic Cooperation and Development (OECD) in 1994. It has implemented 10 free trade agreements (FTAs) and one agreement on economic complementation involving 32 countries on three continents. These accords have contributed significantly to our integration into the world economy and our dynamic export performance.

Mexico is hosting and chairing APEC during 2002 and will also host the Fifth WTO Ministerial meeting in Cancun in 2003. In addition, Mexico is hosting the last stage of the negotiating process for the Free Trade Area of the Americas (FTAA) from March 2003 until its scheduled conclusion in 2005.

MEXICO'S NETWORK OF FREE TRADE AGREEMENTS

Mexico's FTAs are a vital component of its economic strategy to improve global competitiveness and ensure long-term growth.

Mexico has negotiated 10 FTAs with: Chile (1992); the North American Free Trade Agreement (NAFTA), with the United States and Canada (1994); Bolivia (1995); Costa Rica (1995); Colombia and Venezuela (G-3, 1995); Nicaragua (1998); Israel (2000); the European Union (2000); Iceland, Norway, Liechtenstein, and Switzerland (EFTA, 2001); and Guatemala, Honduras, and El Salvador (North Triangle, 2001).

Since implementation of the accords, bilateral trade with Chile has increased 702 percent, trade with Bolivia 22 percent, with Colombia 103 percent, with Costa Rica 566 percent, with Venezuela 130 percent, and with Nicaragua 78 percent.

The Mexico-European Union FTA created the first free trade area between Europe and the American continent. During the first 18 months of the FTA's entry into force, total trade between Mexico and the EU grew 28.6 percent.

FTAs have also proven to be a critical instrument in mitigating the effects of adverse international circumstances, such as the sharp fall in oil prices, the decrease in international capital flows, and the global economic slowdowns.

MEXICO'S TRADE AND INVESTMENT PERFORMANCE

Mexico's trade liberalization measures and its network of free trade and investment agreements have made an important contribution to our long-term economic development. Ten years ago, few could imagine Mexico would become the seventh leading trading nation in the world and the first in Latin America, with 46 percent of the region's exports and 47 percent of its imports.

In 2001, despite the global economic slowdown and the terrorist attacks of September 11, Mexico's foreign trade surpassed $326 billion. The nearly $159 billion in exports registered last year more than tripled the amount that we exported in 1993.

Our market policies and network of FTAs have made Mexico one of the most attractive countries for national and foreign direct investment (FDI). Since NAFTA entered into force in 1994, Mexico has received more than $112 billion in FDI. This represents an annual average of almost $14 billion, more than three times the annual amount received in the six years prior to NAFTA. We can argue that these dramatic increases in FDI are largely due to the establishment of a legal framework that provides certainty and transparency for business transactions.

Investments contribute to increasing productivity, which in turn leads to higher wages. In the last seven years, employment in firms with FDI has grown more than twice as fast as the national average. Firms with FDI have created one out of every three new jobs since 1994 and currently retain more than 20 percent of the employed population.

Trade liberalization policies have also helped Mexico diversify its export base at both the sectoral and regional levels. In the early 1980s, oil and related products represented the majority of our exports. Today, nearly 90 percent of our foreign sales are manufactured goods.

The benefits of trade liberalization are spreading throughout the country. In the past, our export potential was limited to our northern border. Today, almost every state in Mexico participates in export activities. In fact, more than half of the new maquiladoras established in Mexico since 1994 are located outside the border region. This diversification is important because it brings jobs to the people, rather than the reverse. It also has a larger economic impact in the communities where operations are established.

MEXICO AND THE NORTH AMERICAN FREE TRADE AGREEMENT

NAFTA, which wiped out most restrictions on the flow of goods, services, and investment, has been a turning point in the economic integration of the United States and Mexico. Mexico and the United States share the second-largest bilateral trading relationship in the world. We also share an extensive border where millions of citizens on both sides live, work, and interact with one another. This is a reality reflected in the economic and social integration that we are experiencing today and that will be strengthened in years to come.

Through NAFTA, Mexico has consolidated its position as the second-largest trading partner of the United States. In 2001, bilateral trade exceeded $245 billion — an increase of nearly 188 percent since 1993. On average, the United States and Mexico trade more than $1.7 billion every day. The United States' trade with Mexico has grown faster than with any other major U.S. trading partner, including China, Germany, Korea, and the United Kingdom. Mexican exports to the United States have grown twice as fast as those from the rest of the world. As a result, Mexico has increased its share of total U.S. imports from 6.8 percent in 1993 to 12 percent in May 2002.

With Canada, our trade has increased from $4 billion to $12 billion in eight years, and, most importantly, we have become the fourth-largest supplier for Canada and the first in Latin America.

But looking beyond trade figures, we see the great advantage of NAFTA in terms of its contribution to job creation and to economic growth. Companies across the world increasingly view Mexico as part of the North American market. Hence, their investments are similar to those that take place in Canada and the United States. Mexico's attractiveness for investment is largely the result of an abundant skilled labor force that is young and has a proven ability to learn new production processes.

FDI has contributed to the regional boom of joint ventures in sectors such as automotive, electronics, and textiles. Increasingly, companies consider themselves as

North American because they source from and to a North American market, raising the competitiveness of their products worldwide.

FREE TRADE AREA OF THE AMERICAS

The FTAA is the most ambitious trade instrument that has ever been negotiated, both in terms of content and in number of participating countries. When completed, this agreement will encompass the biggest free trade area in the world, covering 34 democracies and comprising 800 million people.

In 2001, more than 80 percent of Mexico's total trade was carried out with economies of the Western Hemisphere — 95 percent of exports were traded within the FTAA region, while 78 percent of our imports came from those same economies.

Mexico is fully committed to the success of the FTAA. It has been deeply engaged in the negotiations since they began in 1994. In fact, Mexico has participated actively in all of the more than 300 meetings at all levels and has chaired a number of important negotiating groups.

Even if Mexico already has trade agreements with 12 countries of the American continent, the FTAA is extremely attractive, since it will create a wider framework for our relationship with the countries of the hemisphere, allowing us to diversify our markets.

Trade with those countries or regions with which Mexico does not have an FTA — such as MERCOSUR or CARICOM, the Caribbean Community — holds enormous potential for expanding not only the exchange of goods but also the flow of trade in services and investment. The FTAA will allow small and medium-sized enterprises to better integrate into regional trade patterns by providing them with easier access to specific market niches.

A fundamental aspect of the FTAA process is the interaction between governments and civil society. Mexico, aware of the need to consult civil society for the formulation of trade policy, organized on July 18, 2002, the North America Regional Seminar on the FTAA in order to reinforce the exchange of viewpoints between government and civil society in Canada, Mexico, and the United States. The seminar — the first of its kind in our hemisphere — is just one of several mechanisms by which the Mexican government consults with different segments of society with the goal of creating consensus for its participation in the FTAA negotiations.

On a parallel track, Mexico's entrepreneurial community has been actively participating in the Americas Business Forum, which gives private sector representatives an opportunity to formulate recommendations to FTAA trade ministers.

Mexico is now getting ready to host the FTAA negotiation process, from March 1, 2003, to early 2005. The venue will be the Convention Center of the city of Puebla — 80 miles east of Mexico City's airport.

THE FTAA: BENEFITS AND GOALS

At the center of the Americas, and as part of both the Pacific Rim and the Atlantic Basin, Mexico — the only country in the world with preferential access to the largest markets in the world (the United States and the European Union) and to the emerging economies in Latin America — is becoming the natural gateway for trade between North, South, East, and West.

Mexico is keen to share its experience and use its privileged relationship with its partners in the Americas to build a broad consensus in multilateral economic arenas such as the WTO and, above all, in our main regional trade initiative, the FTAA.

I am convinced that the FTAA will help the countries of the Western Hemisphere to increase and diversify investment and trade flows, to strengthen the productivity and competitiveness of our industries, and to create more and better-paid jobs.

Mexico has been an active supporter of the FTAA negotiations and now, as the host of the last stage of the negotiating process of the FTAA, commits itself to contribute toward a comprehensive and balanced agreement for all of our countries.

Our ultimate goal must be the improvement of the standards of living in the American continents. The FTAA will be a great step in that direction. ❑

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❑ CHALLENGES TO THE FREE TRADE AREA OF THE AMERICAS

By Jeffrey J. Schott, Senior Fellow, Institute for International Economics

Signs of economic recovery in Latin America, the launch of new World Trade Organization (WTO) talks, and other recent developments provide grounds for "fragile optimism" over the future of Free Trade Area of the Americas (FTAA) talks, says economist Jeffrey Schott. While he acknowledges that regional financial and political crises, concerns about the U.S. commitment to lifting trade barriers, and sluggish economic growth rates all contribute to pessimism regarding the FTAA, Schott notes that widespread criticism of other ambitious trade talks — including those under the General Agreement on Tariffs and Trade (GATT) — was ultimately proven wrong. In the case of the FTAA, he says, much depends on the health of the Brazilian economy and on the political will of leading trading nations to build a free trade regime that will benefit all.

In 1989, Lester Thurow, the well-known economist at the Massachusetts Institute of Technology, declared that "GATT is dead." Trade talks were adrift, and the leading trading powers seemingly unwilling to address the major barriers protecting their domestic markets. Yet four years later, Thurow's prophecy was forgotten, and the Uruguay Round of GATT negotiations successfully concluded.

In 2002, Thurow-like critiques now target another trade negotiation, the ambitious venture of the widely divergent countries of North and South America to craft a Free Trade Area of the Americas. Government leaders committed at the Miami Summit of the Americas in December 1994 to negotiate a hemispheric free trade pact by 2005. After three years of preparations, the Santiago Summit in April 1998 formally launched the negotiations. Hemispheric leaders then reaffirmed their mandate at the Quebec City Summit soon after President George Bush took office.

The FTAA initiative is now almost eight years old. Lots of meetings have taken place, but scant progress has been made on the principal task of eliminating restrictions on trade in goods and services that block access to foreign markets. Indeed, those talks have barely begun. Many countries seem distracted by pressing international actions against terrorism, as well as domestic economic and political problems. Not surprisingly, questions have been raised as to whether governments can fulfill their lofty summit promises — or whether they even still want to do so.

The FTAA negotiations have had a star-crossed history. Each summit meeting has been followed by serious financial crises in the region that have called into question the viability of the FTAA talks. The Miami Summit was followed almost immediately by the collapse of the Mexican peso; the optimism from the Santiago Summit faded several months later in the wake of the Brazilian financial crisis of 1998-1999; and the Quebec City Summit was soon overshadowed by the still-evolving crisis in Argentina. Each crisis tested national resolve to sustain domestic reforms and to pursue regional integration initiatives. In most cases, countries tended to reinforce their economic reforms instead of retrenching, although Argentina and Venezuela have raised some trade barriers and others have delayed privatization programs.

PROSPECTS FOR THE NEGOTIATIONS

To be sure, the current economic and political problems in the hemisphere are more complex and daunting than the localized crises of the past decade. The Argentine crisis, economic stagnation in the region, political instability in the Andean region, armed insurrection in Colombia, and drug-related violence in the Caribbean Basin raise major concerns about Latin American participation in the FTAA. At the same time, new U.S. farm subsidies and steel import restrictions provoke questions regarding what Latin American countries actually can gain from the trade pact. If governments do not adequately address these current problems, they could lose public support for continuing to pursue the longer-run benefits of the free trade pact.

What are the prospects for the FTAA negotiations? As trade officials prepare for the next FTAA ministerial in Quito on November 1, 2002, the unbridled optimism of the Quebec City Summit seems to have given way to untempered pessimism. This mood swing reflects three broad concerns about the FTAA process:

• Will economic growth be sufficient to sustain public support for trade and other economic reforms? To put the argument in simple terms, lower growth means a smaller economic pie to divide among national constituencies; workers and firms face harsher adjustments; and fewer revenues are generated to fund social safety net programs. Since the relative boom of 2000, when economic growth in Latin America and the Caribbean (LAC) averaged 4 percent, the region has suffered two years of stagnation and rising unemployment. Argentina faces an economic depression of a magnitude seen recently only in the transitional economies of the former Soviet Union. Despite high oil prices, Venezuela's economy is in recession and likely to contract by 5 percent or so this year. Most other countries are in the black, but growth is anemic — particularly in the two largest economies, Brazil and Mexico, which have been sideswiped by economic downturns in their neighborhood.

• Will current political strife in Argentina and the Andean region erode support for new trade reforms — or worse, be so destructive as to lead to a wave of "failed states" that consequently are unable to participate in a hemispheric pact? Such an outcome seemed unthinkable in the pro-democracy boomlet of the 1990s in Latin America. Since then, however, Argentina endured a parade of presidents in December 2001-January 2002; Ecuador disposed of five presidents of its own at a somewhat more leisurely pace in the late 1990s; the plague of military coups resurfaced in Venezuela; drug-related violence spread in the Caribbean Basin; and the peace process broke down in Colombia.

• How committed is the United States to liberalizing its own well-entrenched trade barriers? The new U.S. farm bill and steel import safeguards, coupled with congressional demands to "strengthen" U.S. antidumping laws, provoke skepticism in Latin America about the willingness of U.S. officials to open their market to foreign competition. Brazilian President Fernando Henrique Cardoso has bluntly warned that an FTAA would be "welcome if its creation is a step toward providing access to more dynamic markets ... otherwise, it would be irrelevant or, worse, undesirable."

A POSITIVE MEDIUM-TERM OUTLOOK

The current economic and political difficulties in Latin America lead some FTAA pundits to project a dismal outlook for hemispheric initiatives. Similar pessimistic projections were made in 1995 when the "tequila effect" of the Mexican peso crisis infected Argentina and others in Latin America, yet Latin American countries generally recovered strongly in the second half of the decade and continued to deepen their economic reforms and integration initiatives. While the immediate challenges seem daunting, the medium-term outlook remains positive, for several reasons.

First, economic prospects are improving, albeit from the weak base of 2001-2002. Overall, the Inter-American Development Bank predicts growth of 3 percent for the Latin American and Caribbean region in 2003 (compared to -1.3 percent in 2002). Even the Argentine forecast presages less volatility, inflation, and positive growth in 2003 — although at income levels well below those of the late 1990s. New International Monetary Fund (IMF) loans already have strengthened the financial reserves of Brazil and Uruguay, and likely will help restructure the disabled Argentine banking system in 2003.

To be sure, Brazil is a big wild card in this forecast. If the new government can calm financial markets, interest rate spreads will narrow, the *real* will appreciate from its current depressed levels, and the economy could achieve growth of 4 percent or more. However, market participants are hedging their bets on the likelihood of such a benign result; indeed, Brazilian debt carries a risk premium of 1,700 basis points, indicating a strong fear of default in 2003. A new debt crisis would likely delay, though probably not derail, the FTAA and other economic initiatives in the hemisphere.

In addition to the small up-tick in growth, there are other positive economic developments in the LAC region that bode well for the FTAA:

• Despite populist rhetoric in a number of countries, the traditional political reaction to hard times in Latin America, lurching back to protectionism, has been limited. Argentina raised tariffs to counter its overvalued peso, but after the currency peg collapsed, so too did the need for the import barriers. Indeed, depreciating currencies throughout the region effectively protect many domestic industries by making imports more costly, thus obviating the need for import restrictions. The downside is that weaker currencies also hinder some local firms that require imported components to maintain their international competitiveness.

• Free trade continues to attract, not repel, Latin American governments. The continuing spread of free trade agreements in the region, especially those involving the industrial economies of North America, create important way stations on the road to the FTAA.

• The physical integration of the region continues to grow, admittedly slower than in the 1990s, as countries pursue regional infrastructure projects that link power grids and gas pipelines, and expand road and rail transport networks. Such investments in concrete and steel create durable examples of the benefits of regional integration.

Second, several LAC countries are plagued with ineffective governments and face populist opposition, but their governance problems seem unlikely to devolve into a crisis of "failed states." Political regimes may remain weak in several LAC countries, but left- or right-wing regimes have few viable alternatives to continuing to pursue trade and investment reforms if their industries and workers are to keep pace with global competitors. Import substitution policies failed in past decades and are even less viable in a world of increasingly globalized markets. Today, countries need to adapt more quickly to rapidly changing developments in global markets; standing pat means falling behind. Moreover, countries that have had relatively closed economies (in terms of the ratio of trade to gross domestic product), such as Brazil and Argentina, need to sharply expand their exports to meet their growth objectives — and the FTAA and WTO negotiations offer the prospect of increased access to the world's richest markets.

Third, liberalization of U.S. trade barriers in an FTAA is now more promising due to two important developments over the past year. At home, the U.S. Congress has finally provided, after a hiatus of eight years, a comprehensive negotiating mandate to pursue the FTAA. The passage of Trade Promotion Authority in 2002 empowers U.S. trade officials to put all U.S. barriers on the negotiating table without exception. To be sure, Congress has set onerous consultation and reporting requirements on reforms of the most politically sensitive issues, but such actions would have been necessary — even without the legislative mandate — to build domestic political support for the results of the trade negotiations.

The launch of new WTO negotiations at the Doha Ministerial in November 2001 is also crucial to the success of the FTAA. The two sets of talks are integrally linked, both by timetable and substance. Each targets completion of negotiations by January 2005 and phase-in of the agreed reforms over the following 5 to 10 years, plus trade officials confront similar broad-based agendas. In some areas such as reform of farm subsidies, progress in the WTO talks is necessary for the FTAA talks to succeed, since FTAA disciplines could be undercut unless European and other countries also adhere to the same obligations.

FRAGILE OPTIMISM

In sum, the FTAA talks are on track, though negotiators have not moved very far down the tracks. But the positive developments of the past year, and the emerging recovery of Latin American economies in 2003, provide grounds for fragile optimism. I say fragile because much depends on the health of the Brazilian economy and the political will of the leading trading nations of North and South America to build a free trade regime for their mutual benefit.

In November 2002, the United States and Brazil will assume the co-chairmanship of the FTAA talks for their duration. The two countries have worked well together over the past year to launch the Doha Round, minimize the impact of U.S. steel safeguards on Brazilian exports, and secure $30 billion in IMF financing for Brazil to help manage its debt problems. Hopefully, they will build on these precedents to lead the FTAA negotiations to a successful conclusion. ❏

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❑ WHY THE FTAA MAKES SENSE FOR BUSINESS IN THE AMERICAS

By Scott Otteman, Director, International Trade Policy, National Association of Manufacturers

Staying the course on trade liberalization is crucial to building prosperity in the Western Hemisphere, says Scott Otteman, international trade policy director for the National Association of Manufacturers. He outlines some of the trade and investment barriers that continue to impede the efficient conduct of business throughout the region and says that eliminating those barriers and locking in market-friendly policies via the Free Trade Area of the Americas (FTAA) can help the countries of the region "finish the job" of becoming viably competitive economies.

The lofty vision of a Free Trade Area of the Americas holds a logical appeal for many businesspeople throughout the Western Hemisphere. They recognize that the FTAA's ultimate goal — the uninhibited movement of goods and services throughout the region, combined with the highest standards for protecting investment and intellectual property rights — presages a much-enhanced hemispheric business climate. They are confident that the FTAA — combined with sustained regulatory and fiscal reform and sound macroeconomic policies — can help foster economic growth, entrepreneurial opportunity, and job creation, and can broaden prosperity among all 34 of the participating nations.

Over the last decade and a half, countries in the Western Hemisphere have been simultaneously embracing democratic politics and market economics. In the last few years, however, this fragile and still incomplete trend has come under increasing challenge. Besieged by complex financial and political difficulties and plagued by uneven economic results, governments have faced growing pressure to backslide toward the failed policies of the past. This temptation must be resisted.

Instead, the countries of the region must stick to the open market path, perfecting and deepening the reforms already taken while adopting additional reforms that are necessary to ensure that open market economics fully delivers all of its potential benefits. From business's point of view, this means not only sustaining the trade opening, but also securing improvements in areas such as fiscal reform, labor reform, and the rule of law.

TRADE AND INVESTMENT BARRIERS

Staying the course on trade liberalization is, of course, a vital component of any realistic route to a prosperous hemisphere. Despite past advances, a broad range of trade and investment barriers continue to impede the efficient conduct of business throughout the region. By eliminating these barriers and locking in market-friendly policies beginning in 2005, the FTAA can provide the policy framework through which the countries of the Americas can "finish the job" of becoming viably competitive economies that better serve the needs of their populations in the modern era of unrelenting globalization.

What are the principal regulatory and commercial barriers that continue to vex business? First and foremost are continuing high tariffs. U.S. manufacturers, especially, face prohibitively high duties on many of their exports into countries that are not parties to the North American Free Trade Agreement (NAFTA). And this is also the case for many Latin American and Caribbean producers, who often must pay high tariffs to enter each other's markets or to enter the few still highly protected market segments in the United States and Canada. Under an FTAA, virtually all of these tariffs will be eliminated — either immediately or over phase-out periods ranging up to 10 years from the agreement's projected entry into force in 2005.

Even where groups of neighbors have begun knocking down one another's tariffs through bilateral or sub-regional trade agreements, actual trade in the Americas continues to be unduly complex and hassle filled for the average business. One reason for this is the proliferation of "rules of origin" contained in the different free trade pacts. Rules of origin determine which products in a free trade agreement (FTA) qualify to receive duty preferences and other benefits under the FTA. But different free trade arrangements use different methods and types of calculations to determine origin, so businesspeople continue to face a heavy burden in trying to serve a hemisphere-wide marketplace. The FTAA offers the opportunity to meld all the rules of origin from the various sub-regional and bilateral agreements — be they NAFTA, MERCOSUR, the U.S.-Chile or Mexico-Bolivia FTAs, or others — into a single, uniform set of origin rules that can guide business decision-making throughout the Americas.

Similarly, businesses across the Americas continue to face a vast array of so-called nontariff measures that also limit trade and investment. These include overlapping, inconsistent product standards and regulatory requirements set by national governments that companies must identify and meet if they want to sell into one country as opposed to another. They also include customs regimes designed more to hold up trade and provide opportunities for graft than to facilitate commerce, as well as limits on transparency and access in competing for government contracts. The FTAA offers a not-to-be-missed opportunity to remedy shortcomings such as these in a supportive context that will provide the technical aid required to implement much-needed reforms.

BROAD BENEFITS

Meanwhile, let's not forget that private sector actors throughout the region have already benefited as barriers with immediate neighbors have come down via the various sub-regional trade initiatives of recent years. This is the case under the NAFTA, where trade between Mexico, Canada, and the United States has more than doubled since 1994, allowing the growth of Mexican exports to account for more than half of the increase in Mexico's real gross domestic production between 1993 and 2001. It also is the case under the Southern Cone Common Market (MERCOSUR), where intra-regional trade jumped sharply in the last decade, prior to the recent financial crisis. Local firms and consumers throughout the Americas were the ones that principally benefited from the wave of privatizations of state-owned industries that accompanied trade liberalization in the 1990s — in road-building, telecommunications, and other critical infrastructure. Looking to the future, Chile's foreign ministry estimates that the nearly completed U.S.-Chile free trade agreement — one of the stepping stones on the way to completing the broader FTAA — will boost Chilean exports to the United States by 18 percent over the medium term.

The FTAA can translate into even broader benefits. By making the entire hemisphere available for sourcing inputs and selling products without penalty, the region-wide trade area will help make companies based in the Americas more competitive than ever on a global scale. New economies of scale will be created, outside and internal investment will be generated, and just-in-time manufacturing will be facilitated. Actively enforced, world-class protection of intellectual property will attract technology and spur indigenous high-tech research and development capabilities.

THE GAINS FOR SMALLER FIRMS

Most of the businesses that export are small and medium-sized firms, and they stand to benefit greatly from the FTAA. In the United States, 91 percent of the 52,000 companies that already sell in Central and South America are medium and small-sized firms. A 1999 study by the U.S. Small Business Administration shows that the number of small U.S. businesses (having fewer than 500 employees) that export tripled between 1987 and 1997. Yet only 1 percent of all U.S. small businesses export, and of those that do, 63 percent sell only in one other country.

Likewise, Latin American and Caribbean small businesses have participated very little in expanding exports. By making it equally easy to market goods and services to any country in the Americas, the FTAA has tremendous potential to expand sales for both current small exporters and new entrants based throughout the region. For instance, the Brazilian cosmetics industry, 95 percent of whose companies are micro or small enterprises, projects 20 percent to 25 percent growth in exports over the next five years.

The National Association of Manufacturers estimates that the FTAA can triple U.S. exports of manufactured goods to Central and South America within 10 years of implementation. Needless to say, small and medium-sized companies will do much of the expanded business — but only if the region stays on track by using the FTAA process to steer toward a future that can provide growth and greater opportunity on a sustainable basis. ❑

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❑ THE PROMISE OF ECONOMIC PROSPERITY AND STRENGTHENED REGIONAL PARTNERSHIPS

By Philip M. Crane, Chairman, House Ways and Means Trade Subcommittee

The countries of the Western Hemisphere have been moving steadily toward freer trade on a number of fronts, signaling their deepening commitment to the successful completion of the Free Trade Area of the Americas (FTAA) negotiations, says Philip Crane, Republican chairman of the Ways and Means Trade Subcommittee of the U.S. House of Representatives. "The momentum is there to complete the FTAA by 2005, and there is too much to gain for the participating countries not to continue the pursuit of free trade," he says.

Crane says Congress is expecting real progress to come out of the November 1 FTAA ministers meeting in Quito, and predicts that controversy over labor and environmental issues will not derail the FTAA. "In fact," he says, "one of the goals during this process is to use trade and investment opportunities as an incentive for FTAA countries to strengthen their capacity to protect the environment."

Elsewhere in this journal, Congressman Sander Levin, the ranking Democrat on the House Ways and Means Trade Subcommittee, offers his perspective on the future of the FTAA talks.

During the Summit of the Americas meeting in Miami in 1994, I watched as the United States and the 34 democratic nations of North and South America reached a historic agreement to break down barriers and build the largest free trade area in the world.

The significance of completing this agreement, known as the Free Trade Area of the Americas, is astounding. If created, the FTAA would include 34 member countries with more than 800 million people, encompassing $800 billion in trade. In comparison, this trade agreement would include more than twice the 375 million people of the 15-nation European Union, giving U.S., Canadian, and Latin American companies access to larger markets and economies of scale similar to what their European competitors gain from trading in the European Common Market.

Completing an FTAA will also offer the United States an opportunity to lead the Americas toward stable and continuing economic growth, improved living standards, and higher paying jobs in all FTAA countries. The new FTAA trade disciplines will strengthen the rule of law, solidify economic reform throughout the hemisphere, and reinforce the democratic principles that unite FTAA countries.

As outlined by FTAA trade ministers, the reforms necessary to accomplish hemispheric free trade are detailed and far-reaching. Upon completion, the FTAA would eliminate existing tariff barriers and help prevent the establishment of new tariff barriers; remove restrictions on the trade of goods, services, and investment; harmonize technical product and food safety standards; provide safeguards against expropriation; establish a dispute settlement mechanism to resolve any differences among members; and improve intellectual property rights protection.

PROGRESS THUS FAR

FTAA countries have made progress constructing the structure necessary to organize negotiations to eliminate barriers in all these areas. Trade ministers established nine negotiating groups to examine issues related to market access, agriculture, intellectual property rights, services, investment, government procurement, competition policy, dispute settlement, and subsidies. Progress was made in addressing these issues when trade ministers released a draft text of the agreement — albeit a heavily bracketed text — following their meeting in 2001.

From the start, and exemplified by the early release of the negotiating text — which is unprecedented in a trade negotiation — the FTAA negotiating process was designed to be transparent, so that businesses, the agriculture community, labor organizations, nongovernmental organizations, state and local governments, and the public would be kept informed and would have ample opportunity to air their views. FTAA trade ministers have also set out to make sure the agreement supports and encourages successful completion of the multilateral Doha Development Round in the World Trade Organization (WTO).

As it stands, the FTAA is largely on schedule, but I am convinced momentum to conclude it has increased significantly with the passage of Trade Promotion Authority (TPA) and a renewed commitment by the U.S. Congress and President George W. Bush to the trade and foreign policy objectives embodied in the FTAA. In this legislation, Congress made it clear that all sectors of trade are on the negotiating table, while establishing added requirements for the president to communicate with Congress regarding the opportunities as well as the adjustments that will be necessary for the United States to follow through on its commitment to take a leadership role in the talks.

At the same time, Congress, in the new legislation, has pushed trade liberalization in the hemisphere forward on other fronts — in free trade agreement negotiations between the United States and Chile and the United States and Central American countries, and by enhancing trade benefits for Andean nations.

TOWARD STRONGER TRADE RELATIONS

One of the key areas outside of the formal FTAA negotiating process is the cementing of free trade relations between the United States and Chile, which are considered a model for other Latin American countries seeking to trade with the United States. While the U.S.-Chile talks started in 1995, they were stalled because the U.S. Congress had routinely failed for several years to renew a key presidential trade-negotiating tool known as Trade Promotion Authority (TPA). Without TPA, Chile was reluctant to move forward on the agreement for trade relations between the two countries.

As chairman of the Trade Subcommittee in the House of Representatives, I worked this year with the Bush administration to see that this critical negotiating tool was finally renewed. In fact, I introduced the original bill to renew TPA and served as a key conferee during negotiations with the Senate on the final version of the bill. Once the TPA was signed into law by President Bush in August 2002, the pace of negotiations with Chile increased significantly. A completed bilateral agreement with Chile is only a few months away.

There has also been progress on U.S. trade relations with other FTAA countries, including those in the Caribbean and Central America.

Following the implementation of the North American Free Trade Agreement (NAFTA), Caribbean countries expressed concern that Mexico's new partnership with the United States would diminish their own positions in the U.S. market over time. To address these concerns, Congress approved the Caribbean Basin Trade Partnership Act, which offers duty-free benefits to most Caribbean exports to the United States, including many sensitive apparel products that had formerly been excluded from all U.S. preferential trade programs. I am pleased that I introduced this legislation and helped shepherd it through the process until it was signed into law in 2002. In the Trade Act of 2002, this program, having demonstrated its success, was expanded further.

I was also proud to be a sponsor of the Andean Trade Preferences Act, which renewed and expanded duty-free tariff treatment to our Andean trading partners — Bolivia, Colombia, Ecuador, and Peru. President Bush has described the Andean Trade Preferences Act as helping Andean entrepreneurs find practical alternatives to cultivating crops for the production of illicit drugs.

Beyond expanded trade relations with the United States, some Latin American countries have also opened their markets to their neighbors at both the bilateral and sub-regional levels. This increase in trade has helped spur economic growth in these countries and has helped some of them move forward in trade talks with the United States.

A COMMITMENT TO PROGRESS

Some critics of the FTAA negotiation process have argued that only moderate progress has been made since the initial agreement in 1994. Others point to some U.S. trade policy actions that have set the negotiations back a few steps, such as the decision by the Bush administration to impose protective tariffs and quotas on imported steel. And finally, labor and environmentalist groups have been vocal in expressing their concerns that workforce protections and environmental standards are upheld through the negotiating process.

While I acknowledge that there have been some setbacks, I believe that FTAA negotiations overall are on the right track. These negotiations must be conducted in a thorough, thoughtful manner, and they will take time.

In terms of workforce and environmental standards, FTAA negotiators are conducting a comprehensive environmental review of the agreement and have sought public comments on all aspects of the negotiations. In fact, one of the goals during this process is to use trade and investment opportunities as an incentive for FTAA countries to strengthen their capacity to protect the environment.

The progress shown during the past several years only signals the deepening commitment of the FTAA countries involved in these negotiations. FTAA ministers will gather on November 1, in Quito, Ecuador, and Congress is looking forward to major progress. For example, I urge ministers at this meeting to adopt a standstill commitment not to raise duties during the last two years of the FTAA negotiations. Final agreement should be reached on the proposal that tariffs will be phased out from applied rates rather than the much higher tariff rates that are bound under the WTO. Manufacturing industries in the United States and agricultural groups are urging ministers to identify a package of sectors for immediate duty elimination upon the FTAA's entry into force. The United States is asking FTAA nations to join the Information Technology Agreement and the WTO's Basic Telecommunications Agreement, which would contribute to competitiveness and gains for consumers in the hemisphere. The momentum is there to complete the FTAA by 2005, and there is too much to gain for the participating countries not to continue the pursuit of free trade in the entire Western Hemisphere.

In the coming years, I look forward to working with my colleagues in Congress and the Bush Administration to do everything we can to strengthen our economic ties with our neighbors in South America and to reinforce their progress toward economic, political, and social reform. The United States has turned a corner in finally arming President Bush with the tools and flexibility he needs to participate effectively; the stage is set for great accomplishments. ❑

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Department of State.

❑ THE FTAA: A CHANCE TO SHAPE THE RULES OF INTERNATIONAL TRADE

By Sander M. Levin, Ranking Democrat, House Ways and Means Trade Subcommittee

A successful Free Trade Area of the Americas (FTAA) should shape the rules of international trade and globalization by addressing labor standards, environmental protection, and other key issues, says Sander Levin, the ranking Democrat on the Ways and Means Trade Subcommittee of the U.S. House of Representatives.

In this article, Levin outlines some of the competing views that came into play during congressional debate over granting trade promotion authority (TPA) to President George Bush in August 2002. Levin says that the controversy over the ultimately successful TPA bill sponsored by Representative Bill Thomas and Senator Max Baucus resulted from differences in view over how to shape the rules of globalization. He says that trade talks should seek to maximize the benefits of globalization to the greatest number of people and to minimize its downsides.

Elsewhere in this journal, Congressman Philip Crane, Republican Chairman of the Ways and Means Trade Subcommittee, offers his perspective on the FTAA.

With the enactment of fast track/TPA, it is important to understand its implications for pending trade negotiations. This is especially true of bilateral and regional negotiations, including the FTAA, because the authority under fast track/TPA is likely to be tested more quickly in those arenas than in the Doha Round. As a result, bilateral and FTAA trade negotiations present both an opportunity and a necessity to confront the burgeoning issues of international trade.

THE NEED TO SHAPE TRADE AND GLOBALIZATION

Indeed, it is in the context of the burgeoning, sometimes explosive issues of international trade and globalization that the contentious and close votes within the U.S. Congress on fast track/TPA must be glimpsed.

The fast track/TPA debate was not primarily between “free traders” and “protectionists,” but instead among groups that support more open and expanded trade. The Democrats who led the opposition to the Thomas/Baucus fast track bill were the same Democrats who had been pivotal in shaping major trade-expanding programs over the past few years, particularly as they relate to the needs of developing economies — the expanded Caribbean Basin Initiative (CBI), the expanded Andean Trade Preferences Act (ATPA), the African Growth and Opportunity Act (AGOA), the U.S.-Jordan free trade agreement, and permanent normal trade relations for China. Moreover, a strong majority of Democrats in the House of Representatives signaled their support for a fast track that addressed the issues in a responsible framework, as evidenced by the 161 Democrats who supported the alternative Rangel-Levin-Matsui-McDermott fast track bill.

Strong bipartisan majorities support expanded trade, including through the Free Trade Area of the Americas effort. The debate increasingly is about whether and how to shape the rules of international trade and globalization.

There has been a dramatic increase both in the volume and value of trade. The number of countries participating meaningfully in the world trading system has mushroomed, going from 23 in 1947 to 145 today. And many of the most significant players are developing countries that now trade in automobiles, electronics, and information technologies, and increasingly in service industries.

Very significantly, trade is also different in its policy dimensions. Trade negotiations are not only about tariffs; we are now in an era in which “trade policy” affects the full range of policies, laws, and regulations that used to be considered primarily “domestic policy” — including antitrust law, intellectual property rights, telecommunications and environmental regulation, labor standards, insurance regulation, and food safety laws.

Indeed, the FTAA negotiations — covering countries as different as the United States, Brazil, Honduras, and Antigua and Barbuda, and with negotiating groups touching on issues as diverse as competition, intellectual property, and regulation of services — provide a perfect illustration of the above-noted phenomena.

The fast track/TPA debate centered on competing visions of how to respond to these new phenomena, not on whether we can or should turn back the clock on globalization. On the one hand, some in Congress believe that expanded international trade will guarantee economic and social development and that the theoretical efficient market will resolve any problems that emerge. Therefore, in their view, there is little need to shape the rules of trade and globalization.

On the other hand, many of us in Congress believe that globalization — here to stay — needs to be shaped to maximize its benefits and minimize its downsides. For these members of Congress, the fast track/TPA bill that became law in August is deficient in a number of fundamental ways. Some of the key issues elaborated upon below must be addressed in trade negotiations if future agreements are to enjoy broad congressional support.

LABOR MARKET STANDARDS

History is replete with examples demonstrating that as economic integration accelerates, it requires basic floors for competition — including intellectual property rights, product regulations, investment rules, and labor market standards.

International trade rules already have absorbed the first three of these areas — for example, the World Trade Organization's (WTO) Agreements on Trade-Related Aspects of Intellectual Property Rights, Technical Barriers to Trade, Sanitary and Phytosanitary Measures, Trade in Services, and Trade-Related Investment Measures. And the FTAA envisions rules in these areas, as well. The treatment of the labor standards issue, to date, in international trade agreements stands in sharp contrast, however. There is no sound basis for this difference. As with the other issues, labor market standards are directly relevant to international trade and investment. In fact, there are numerous examples — including many in and between Latin American countries, for instance, in the banana and textiles industries — that demonstrate the important impact that labor market standards have on trade and investment flows.

Since the labor market issue has received so much attention, it is important to understand very clearly what many in the House and Senate have been seeking. Despite misstatements in the media and by opponents, the Rangel-Levin bill did <u>not</u> seek to have other countries adopt U.S. labor standards or a minimum wage. Rather, the Rangel-Levin bill called for provisions in free trade agreements — consistent with the high level of economic integration inherent in such agreements — requiring countries to adopt and enforce the five core, internationally recognized labor standards: the rights to associate and to bargain collectively, and prohibitions on child labor, discrimination, and forced labor. These standards have been accepted by most countries in the world as part of their membership in the International Labor Organization (ILO).

Some have argued that labor market provisions in trade agreements would be used for protectionist purposes, but this argument is contradicted by more than two decades of experience. The U.S. trade preferences programs like the Generalized System of Preferences (GSP), the ATPA, the CBI, and AGOA, as well as U.S. trade agreements with Cambodia and Jordan, include provisions dealing with labor market issues. Experience under these provisions demonstrates that they have not been used to shut down trade, but instead have been developed in the context of expanding trade with these countries and have been used to help the countries implement and improve their respect for core labor standards.

Some have also argued that developing countries would be hurt by trade rules relating to core labor standards. But it is difficult to understand how the abuse of core, internationally recognized labor standards could be viewed as a legitimate source of comparative advantage. In fact, developing countries have the most to gain from establishing a basic floor in this area. An article in the *New York Times* in April of 2001 discussing the state of labor standards in Central America quoted the president of a Central American country regarding the difficulty of enforcing labor standards in his country: "The difficulty in this region is that there is labor that is more competitively priced" nearby. In other words, if one country in a region enforces core labor standards, trade and investment will flow to neighboring countries that do not. If there were a common, enforceable floor of core labor standards, however, then workers in all countries could benefit.

Addressing the labor market standards issue in international trade agreements will help countries develop. When workers can organize and bargain collectively, they will be able to press for decent working conditions and for better wages; they will be able to garner a larger share of the fruits of globalization. This will give incentives for workers to invest more in their own skills and in the success of the companies for which they work. It will help build a middle class and will help the process of development.

The importance of addressing the impact of core labor standards on trade and competition is critical, and Congress should not and, I believe, will not allow it to be finessed.

ENVIRONMENTAL REGULATION

The trade and environment issue is both similar to and different from the trade and labor market standards issue. It is similar in that, to date, trade agreements have largely ignored the undeniable impact that environmental regulations may have on trade and investment, and vice versa. It is different, however, in that there is not a discrete, clearly defined set of core, internationally recognized environmental standards (like the five core ILO labor standards) that can be universally applied. Instead, there are evolving norms, often specific to a given environmental threat and sometimes reflected in multilateral environmental agreements.

For now, two basic principles are central: whether trade agreements should allow countries to gain trade or investment advantages by failing to enforce their own environmental laws, and whether we should ensure that international trade and investment obligations do not undermine a country's legitimate efforts to protect the domestic or global environment, including by enforcing multilateral environmental agreements. It is clear to many in Congress that the answer to the first question is "no," and the answer to the second question is "yes." And any future trade agreement will need to reflect these answers in a meaningful way.

INVESTMENT AGREEMENTS

Many of those in Congress who ultimately voted against the enacted fast track/TPA proposal did so at least in part because of concerns related to investment agreements like that found in Chapter 11 of the North American Free Trade Agreement (NAFTA), which sets out the NAFTA countries' obligations to each other's investors and allows investors who feel a NAFTA country has violated one of those obligations to bring a dispute directly against the country in binding arbitration. Most of those concerned about NAFTA's Chapter 11 and other investment agreements still believe strongly that the existing protections for investors included in these agreements are vitally important, and in fact benefit developing countries by helping them attract investment. Many believe, however, that the investment standards have been interpreted in overly broad ways by arbitration panels. If not corrected through careful clarifications, these overly broad interpretations could threaten legitimate domestic regulatory efforts. Additionally, many in Congress believe that investor-state arbitration must be opened to greater transparency.

This is an area where collaboration between FTAA countries and interested members of Congress throughout the negotiations could lead to lasting solutions.

TRADE REMEDY LAWS

The antidumping, countervailing duty, and safeguards rules (collectively, the "trade remedies") are fundamental pillars of the international trading system. They have been included in the GATT/WTO since the very inception of the system in 1947 and are available to all members of the WTO.

Strong majorities in Congress — bicameral and bipartisan — are not willing to accept a trade agreement that would weaken the trade remedies. The U.S. fair trade (antidumping and countervailing duty) laws ensure that U.S. firms, farmers, and workers are not injured by unfair government action and market situations abroad such as subsidies, closed markets, or toleration of anticompetitive activities. The safeguard law provides a temporary respite so that U.S. industries seriously injured by imports can restructure. These rules are necessary to ensure continued U.S. support for trade-liberalizing efforts.

It is important that U.S. negotiation partners understand this fact. Congress will not approve a trade agreement that weakens the U.S. trade remedy laws.

AN IMPORTANT OPPORTUNITY

Members of Congress look forward to working with the FTAA countries to address each of these issues. Realistically, an active role flows for those of us who believe in the necessity of shaping the rules of trade and confronting the tough issues. As in the investment area, there are many areas in which members of Congress and FTAA countries could work together to improve the ultimate agreement.

It is vital to remember that in many areas not discussed earlier — such as agriculture and textiles — major steps forward will need a broader coalition in Congress than the one that passed the fast track/TPA bill, and will particularly need active support from internationalist Democrats, many of whom opposed the shortcomings in the enacted bill.

In the end, we would hope the FTAA could be an important opportunity to restore a strong bipartisan coalition essential for sound trade policy, bringing about a mutually beneficial hemispheric free trade agreement that promotes stability and development and brings long-term benefits to the largest possible group of people in the hemisphere. ❏

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❑ WESTERN HEMISPHERE TRADE

Exports by Country Groupings, 2001
(Percent change from 2000 to 2001)

Exporting Region	MERCOSUR	Andean Community	G-3	ALADI	CACM	Latin America	NAFTA	Western Hemisphere
Destination								
MERCOSUR	-9.7	-22.2	-17.0	-9.5	7.3	-9.5	5.7	-2.6
MERCOSUR, Chile, Bolivia	-5.4	-16.6	-11.6	-5.9	-15.6	-6.0	3.6	-1.8
Andean Community	22.7	10.4	11.0	15.7	11.0	15.7	8.1	11.2
G-3	19.9	14.8	18.8	17.0	-9.5	16.1	-5.9	-4.2
ALADI	-1.1	0.8	3.0	0.7	-7.1	0.6	-3.7	-2.9
CACM	10.2	-7.5	2.0	2.5	7.9	5.4	1.4	2.5
Latin America	-0.4	-1.8	0.2	0.6	6.5	1.1	-3.2	-2.4
NAFTA	4.5	-14.4	-5.8	-4.5	-16.0	-4.9	-4.6	-4.7
Western Hemisphere	1.4	-9.7	-5.4	-3.5	-8.5	-3.6	-3.9	-3.8
Total World	5.4	-9.7	-5.7	-2.4	-11.3	-2.7	-3.4	-3.2

Exports by Country Groupings, 2001
(billions of dollars)

Exporting Region	MERCOSUR	Andean Community	G-3	ALADI	CACM	Latin America	NAFTA	Western Hemisphere
Destination								
MERCOSUR	16.0	1.8	2.1	20.5	.02	20.5	21.7	41.1
MERCOSUR, Chile, Bolivia	21.2	2.7	3.0	27.2	.03	27.2	25.6	51.3
Andean Community	3.9	5.7	5.6	12.6	.12	12 .8	14.5	25.7
G-3	4.5	4.3	4.3	11.4	0.3	11.8	100.9	111.5
ALADI	26.7	9.1	9.2	42.8	0.4	43.2	129.9	170.0
CACM	0.4	1.2	2.5	3.2	2.8	6.1	10.0	14.7
Latin America	27.7	11.9	13.6	49.0	3.5	52.7	147.0	194.4
NAFTA	20.6	24.2	164.8	193.8	5.7	199.9	613.6	669.0
Western Hemisphere	46.0	35.3	177.9	238.9	9.0	248.5	670.5	769.1
Total World	89.2	51.7	198.6	318.6	11.3	330.8	1095.8	1266.9

Percent Distribution of Exports by Country Groupings, 2001

Exporting Region	MERCOSUR	Andean Community	G-3	ALADI	CACM	Latin America	NAFTA	Western Hemisphere
Destination								
MERCOSUR	18	3	1	6	0	6	2	3
MERCOSUR, Chile, Bolivia	24	5	2	9	0	8	2	4
Andean Community	4	11	3	4	1	4	1	2
G-3	5	8	2	4	3	4	9	9
ALADI	30	18	5	13	3	13	12	13
CACM	0	2	1	1	24	2	1	1
Latin America	31	23	7	15	31	16	13	15
NAFTA	23	47	83	61	50	60	56	53
Western Hemisphere	52	68	90	75	79	75	61	61
Total World	100	100	100	100	100	100	100	100

Abbreviations

ALADI: Latin American Integration Association
CACM: Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua)
G-3: Group of Three (Columbia, Mexico, Venezuela)
MERCOSUR: Southern Common Market (Argentina, Brazil, Paraguay, Uruguay)
NAFTA: North American Free Trade Association

Source: Inter-American Development Bank.

Export Growth by Western Hemisphere Trade Groups, 2001

Exporting Group/Member	Export Growth to Group	Export Growth to World
MERCOSUR	-9.7	5.4
Argentina	-6.0	3.4
Brazil	-12.3	6.9
Paraguay	-18.0	5.9
Uruguay	-15.7	-9.5
Chile (**MERCOSUR**)	-4.6	-1.3
Andean Community	10.4	-9.7
Bolivia	10.9	5.1
Columbia	30.3	-3.9
Ecuador	14.1	-8.9
Peru	19.9	3.0
Venezuela	-21.2	-15.6
NAFTA	-4.6	-3.4
Mexico	-4.3	-4.0
Canada	-2.2	-3.1
United States	-7.2	-3.4
CACM	7.9	-11.3
Costa Rica	7.1	-17.7
El Salvador	1.2	2.0
Guatemala	14.3	-14.6
Honduras	--	--
Nicaragua	19.6	-7.2

Note: Estimates are based on January-September data for all countries except Peru and Costa Rica, January-October; El Salvador, January-June; and Guatemala, January-July.

Source: Inter-American Development Bank.

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Volume 7 — An Electronic Journal of the U.S. Department of State — Number 3

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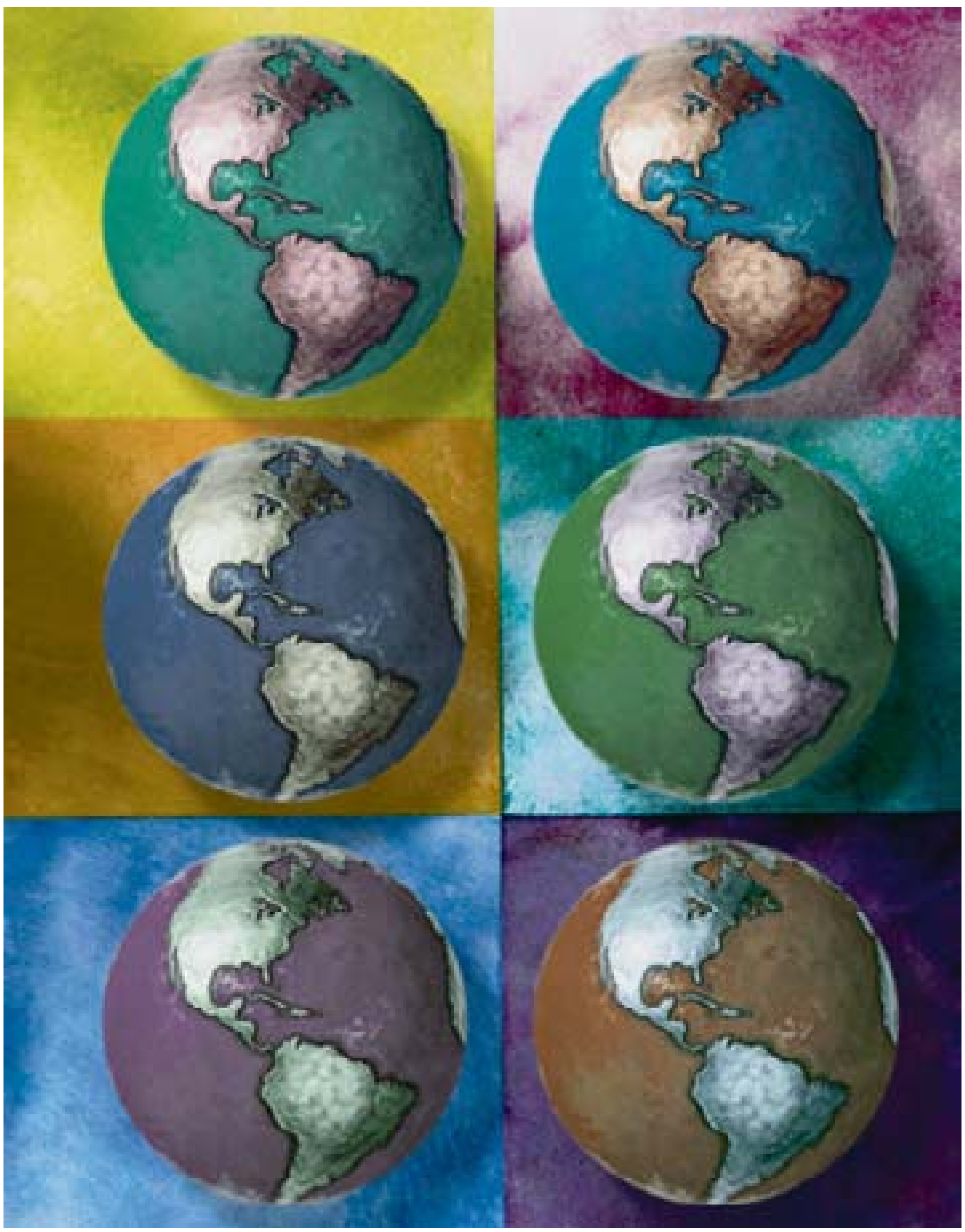

— October 2002 —