❑ 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 <u>favor</u> 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. ❑