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

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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

negotiation 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. □