❑ 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. ❑