❑ WHY THE FTAA MAKES SENSE FOR BUSINESS IN THE AMERICAS

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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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