



SUMMITS OF THE AMERICAS BULLETIN

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The FTAA and the Summit Process

Introduction

Jane L. Barber Thery

A major accomplishment of the Summits of the Americas is the launching and continued political support for the establishment of a Free Trade Area of the Americas (FTAA) embracing the thirty-four democratic countries of the Western Hemisphere, a \$13 trillion market of 800 million people. The FTAA will be the largest free trade area in the world. The agreement is scheduled for completion in January 2005 and entry into force in December 2005.

The FTAA negotiations include the full range of issues in a modern trade agreement, from the traditional area of tariffs to new areas such as intellectual property rights and competition policies. Negotiations are structured around regular meetings of negotiating groups in each issue area, meetings of the trade vice ministers to coordinate the work of the negotiating groups and, finally,

meetings of trade ministers to receive progress reports and provide instructions for the next phase of negotiations. The work of these committees is supported with significant technical and financial resources from the Organization of American States, the Inter-American Development Bank and the UN Economic Commission for Latin America and the Caribbean.

The FTAA negotiations are entering into their final stage. Ecuador directed the penultimate stage of negotiations through the ministerial meeting they hosted and chaired on November 1, 2002. The final phase of negotiations will be directed jointly by the United States and Brazil and take place in Puebla, Mexico.

Under Ecuadorian leadership, the methods and modalities for the market access negotiations were agreed upon. These "rules of the game" will guide the negotiations on market access issues beginning in December. In addition, during this phase, discussion of other issues such as dispute resolution mechanisms and harmonization of standards has progressed.

Transparency and consultations with civil society were significantly improved through publication of the draft text of the FTAA and establishment of a mechanism to receive civil society comments and distribute them to the appropriate negotiating group for consideration (see www.ftaa-alca.org).

The final phase of the negotiations will be difficult as the FTAA is conceived as a comprehensive, modern trade agreement that goes beyond the World Trade Organization agreements and encompasses very developed and very undeveloped economies. As with all trade issues now, there is also significant public skepticism about the benefits of

trade and equally significant hard bargaining by the governments in the region to achieve their goals within the FTAA.

It is important to recall that the FTAA is only one objective among many within the Summits of the Americas process. The Summit's Action Plan is a comprehensive agenda for the Americas with eighteen areas covering the strengthening of democratic institutions, a full social package to improve health, education, human rights and labor conditions as well as twenty-first century issues such as telecommunications, disaster mitigation and connectivity.

The Summit process can provide a political support system to the FTAA negotiations by bringing presidential leadership to bear. Complementary provisions of the Summit agenda, such as strengthening of the judicial system, providing physical and telecommunications infrastructure and improving the health and education of the labor force, will provide a foundation for countries to successfully take advantage of the trade and investment opportunities within the FTAA. Trade agreements can improve the conditions for conducting business among countries but without good infrastructure, a quality workforce, the rule of law and competitive products trade agreements themselves will not be able to deliver the anticipated benefits from trade.

The Summits of the Americas Secretariat is pleased to present this Bulletin which is designed to give readers a view of the state of the FTAA negotiations and a flavor of the range of opinions on the value and nature of the FTAA. An economic overview and the status of trade in the hemisphere is presented by Enrique García, president

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of the Andean Development Bank. Ambassador Hurst of Antigua and Barbuda provides a small economy perspective on the FTAA and Paulo Sotero of O Estado de Sao Paulo a Brazilian perspective. Finally, Maria Amparo Albán of the Ecuadorian Center for Environment Law, an organization that directed a civil society forum during the FTAA ministerial meeting in Quito, presents a viewpoint of the process from the NGO community.

We hope you find this Summit Bulletin useful and look forward to your comments and reactions.

- *Jane L. Barber* *Thery is Deputy Executive Secretary of the Summits of the Americas Secretariat*

The Small Caribbean States and the FTAA

Lionel A. Hurst

For many, the Caribbean is seen as a homogeneous group of small states with identical interests. There are, however, gaping differences among the fourteen states which form the Caribbean Community and Common Market (CARICOM). Those differences, in economic priorities and interests, are subordinated among the CARICOM states for the good of the wider region, especially in multilateral negotiations intended to confer benefits and responsibilities on the conjoined small island- and coastal-states.

The negotiations for a Free Trade Agreement of the Americas (FTAA) provide a classic example of our subordination of individual interests for the good of the whole. The FTAA is primarily an attempt to eliminate the duties and tariffs which impede the flow of goods between the 33 states and the USA. The dominant development paradigm requires each developing state to enlarge its industrial/manufacturing sector, and to export ever increasing quantities of manufactured goods to a lucrative market in order to earn foreign exchange. The tax base is sure to expand, according to the model, and increased revenues will allow the government to invest in a modern infrastructure thus enabling even more manufacturing exports. That paradigm does not fit small East Caribbean island-states at all.

Antigua and Barbuda and the six other East Caribbean island-states' economies are not especially reliant upon the export of manufactured goods. That is far less true of our seven other CARICOM partner states. The East Caribbean island-states cannot ever hope to become significant industrial goods exporters; although our governments have offered generous incentives to attract manufacturing enterprises, several factors inhibit significant growth in this sector.

First, the implementation of the North American Free Trade Agreement and the competitive advantages enjoyed by the parties thereunder have led to a decline in the manufacturing sector in the East Caribbean. Wage rates are superior in the Caribbean –or less competitive, in the language of economists- and many of the factors of production are imports that increase the cost of production. Second, the success of tourism and the services sector has made other sectors less competitive. The financial services sector also offers very attractive opportunities, both for employment and foreign exchange earnings far greater than manufacturing. A third factor is small population size. A country's population determines the size of manufacturing firms, and size in turn dictates production and output, which influence profitability.

In the negotiations for the FTAA, therefore, we argue for special and differential treatment for the small island- and coastal-states of the Caribbean based on these inherent disadvantages which will never go away. We have also pointed out that, historically, Caribbean governments' revenue collection is largely determined by duties on imports. Restructuring our economies to enable government revenues to come from another source by 2004 is an impossible task. The effort must be slowly and painstakingly undertaken. While the large states of South America can maneuver their revenue-collection machinery away from import duties with barely a ripple, the same undertaking would be disastrous for the CARICOM states. We need more time to effectuate a smooth transition to a new revenue collection system.

If the FTAA is to be a success it must include the countries of the Caribbean. In order to include the Caribbean, special arrangements which take into account the nuanced

circumstances of these very small economies must be considered.

- *His Excellency Lionel A. Hurst is Ambassador of Antigua and Barbuda to the Organization of American States*

The FTAA: an Opportunity

Enrique García

On November 1, 2002, the countries participating in the FTAA process will enter the fourth and final round of hemispheric free trade negotiations. In addition to a difficult economic environment derived from regional and international realities, they will also confront numerous challenges in negotiations and political considerations that result from them.

The year 2003 will be very intense in dealing with the most sensitive and delicate issues, on which countries will need to undertake intense, joint consultations with the private sector and civil society.

On the negotiations front, it is important to note that the joint chairmanship of the United States and Brazil is without precedent. As co-Chairs they must succeed in the negotiations, reflect the position of all countries and avoid the temptation of an exclusive bilateral agreement between each other. Each country has objectives, interests and sensitive issues, which must be approached carefully, without losing sight of the great benefits to all.

In a world of global capital flow, commercial and investment links through trade agreements can be beneficial, as demonstrated by the Andean Trade Preference Act (ATPA), which bolstered trade, investment and employment in Andean countries. Since ATPA entered into force in 1991, bilateral trade grew from US\$5 billion that year to US\$ 11 billion in the year 2000, generating nearly 140,000 new jobs in the Andean region. Two thirds of exports from the Andean countries to the United States in 2000 were free of tariffs, and the amount of American investment in the four countries benefiting from ATPA grew from US \$ 7 billion in 1996 to US \$ 8.7 billion in 2000.

The challenge is to achieve a balanced FTAA that takes into account the wide range of differences in the level of development and the size of the

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The FTAA: A Brazilian Perspective

Paulo Sotero

Statements made by president-elect Luiz Inacio Lula da Silva during the recent election campaign, portraying the Free Trade Area of the Americas as a project of “annexation” rather than “integration”, have led many in the international community to the erroneous conclusion that Brazil will reject the FTAA negotiations, which are about to enter their final stage. In fact, in his first formal speech after his landslide victory on October 27th, Lula reaffirmed the position of the Cardoso administration vis-a-vis the hemispheric trade deal.

He stated that Brazil will sit at the negotiations table as a member of Mercosur and will approach the negotiations with Brazil’s interests in mind. The co-chairmanship of the negotiations process with the U.S. gives Brazil a key role to play. The signing of the final agreement will depend on the commercial concessions that Brazil will be able to negotiate, particularly with the U.S., for the period of implementation and thereafter. Assuming that a final agreement will be reached by the January 2005 deadline and that it will be ratified by the legislative bodies of the 34 member-countries in the following twelve months, this period, which will last no less than ten years, is scheduled to begin in 2006.

In a recent newspaper article, senator-elect Aloizio Mercadante, an influential voice in the Workers Party, stated that the FTAA “should not be viewed as an ideological question or in terms of a pro-US or anti-US stance, but rather as an instrument that may or may not serve the strategic Brazilian interests.” One such interest is an aggressive increase in exports, the only way the country will reduce the vulnerability of its external financial position and re-embark on the path to higher and sustained economic growth.

The Brazilian attitude towards the FTAA would have remained much the same had Senator José Serra won the presidential race. It could be argued, however, that the pro-trade interests will be better represented in Lula’s administration than they would have been in Mr. Serra’s. The new vice-president of Brazil, José Alencar, for instance, is a successful businessman who understands trade and owns Brazil’s most modern and efficient textile company. His firm, Coteminas,

The FTAA, the OAS and the New Pact of the Americas

José M. Salazar-Xirinachs

Inter-American Summitry –which began in Miami in 1994 and then continued in Santiago in 1998 and more recently in Quebec in 2001- has established a truly historic platform for launching cooperative initiatives to tackle common problems. Those initiatives are drawing upon the collective strengths of the Americas and include the existing standards and instruments within the inter-American system. The OAS is part of this and will move forward more effectively if matched by parallel progress on the inter-American system’s other initiatives

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is an aggressive multi-million dollar exporter and represents the cutting edge in a sector of the Brazilian economy that welcomes the FTAA. In addition, the FTAA negotiations could provide leverage for the overhaul of the cumbersome Brazilian tax structure, which contributes to the country’s economic inefficiency. Lula has discussed this problem in the presidential campaign. In his first speech as president-elect, he confirmed that tax reform will be a top priority during the first year of his administration.

U.S. activities will be crucial, however, in convincing Brazilians that the FTAA is in Brazil’s best interest and that it will promote growth in South America and in the region as a whole. The main question is: will the Bush administration and the pro-trade forces in the U.S. face the powerful protectionist lobbies instead of caving to them as they did in the steel restrictions decision, the Farm Bill and, to an extent, in the negotiations of the Trade Promotion Authority? Will Brazil’s most competitive sectors be granted the market access concessions in FTAA that will be necessary to justify further liberalization of the Brazilian economy and mobilize domestic political support for that purpose? When will the U.S. be a free market for Brazilian orange juice and put an end to tariffs that affect a number of the country’s exports? Will American importers be allowed to buy high quality Brazilian steel products without fear of having their supply lines interrupted by constant anti-dumping and other protectionist actions? Will the U.S., Europe and Japan agree to reduce and eliminate trade distorting subsidies

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Civil Society: The Right to Participate in the FTAA

María Amparo Albán

It is generally known that governments in all countries have always legitimized their actions by belatedly divulging information on their negotiations to civil society, while providing few or no controversial details. Once the inevitable results became evident, they were met with public resignation, tolerance and de facto acquiescence to government policies.

The continental democracies working within the framework of the FTAA should be vigilant in securing an agreement satisfactory to all, including civil society. An unsatisfactory agreement would not be sustainable with time and would risk an eventual legitimacy crisis, which could threaten its governance and consequently threaten the agreement itself.

In a society where the State has allowed the free market to generate wealth in the absence of social equality or environmental efficiency, civil society fills the void to compensate for this imbalance until the State allocates significant portions of its budget to social and environmental issues, which to date has not occurred in the majority of Latin American countries.

The participation of civil society is necessary to democratically sustain the trade negotiation process. The ranks of “informed civil society” are growing and demand government transparency in the interest of legitimate public representation, public support for government initiatives and consequently the necessary momentum to create favorable expectations in the different countries of the region.

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(The FTAA: a Brazilian Perspective):

to agriculture by January 2005 in the World Trade Organization's Doha Round?

In the absence of a positive response to such questions, it is highly doubtful that there will be an FTAA with Brazil on board. Other countries in the hemisphere, such as the Caribbean, the Andean and the Central American nations, have already received unilateral preferential access to the U.S. markets. For them, the FTAA is about negotiating concessions to the U.S. in exchange for low or non-existent tariffs on some of their main exports.

In the case of Brazil, mutual concessions will have to be made in order to produce the "balanced result" for all countries involved, the condition for the country's participation in the FTAA as expressed in President Cardoso's speech at the Québec Summit of April 2001. Trying to steamroll Brazil into accepting anything less will not produce a tangible result. There is little disagreement in the country on this point, even among those who clearly understand the importance of trade liberalization and support greater hemispheric economic integration. This broadly shared view is clearly reflected in the current tone, breadth and depth of the coverage on the FTAA process in the Brazilian media, which will continue to play a central role in the shaping of perceptions that will influence the domestic debate on trade.

Efforts to convince Brazilians of the virtues of freer trade will produce the desired effect only when accompanied by real, concrete offers to open areas of the U.S. and other markets that are currently closed to Brazilian exports, as well as a change

in trade distorting policies. In the absence of such offers, talk about free trade may produce the adverse effect of reinforcing an already widespread perception about the hypocrisy of rich countries' policies, and in turn strengthen Brazilian protectionist interests.

- *Paulo Sotero is Washington Correspondent for O Estado*

(The FTAA: An Opportunity):

economies in the hemisphere, with a view to becoming an important instrument in increasing reciprocal trade between Latin American and Caribbean states, as well as access to North American markets.

If Latin America and the Caribbean continue to follow a pattern of exporting goods that are produced uncompetitively, they will not achieve the adequate benefits that will transform into sustained growth with social equity, and will keep on exporting vulnerable products without value added. It is important for the region to take into account that if benefits derived from a hemispheric market such as the FTAA are to be maximized, it is vital to prepare adequately for the challenge ahead.

- *Enrique García is the President of the Andean Development Corporation*

(The FTAA and Civil Society):

The participation of civil society is an exercise in participatory democracy, which modern states are striving to achieve, and which should be self-regulating in order to provide conditions

for universal participation for all interest groups.

The question that highlights the right of civil society to self-determination is whether it is possible for civil society to stand in unison. The answer seems simple. Civil society can organize people in pursuit of a common good, and consequently there will be as many options as there are groups of individuals who, in an organized and peaceful manner, attempt to contribute and interact socially in order to clearly state their positions vis-à-vis governments.

By definition, participation should be varied, multidisciplinary and multisectoral. Unified participation en masse that is personified by determined leaders takes place at the voting booth. We should not confuse participation with popular representation, as the latter is managed through votes. Participation is independent and autonomous, and above all should not respond to any political interests.

Based on the success of the Quebec City Summit in 2001 and the Ministerial Meeting in Quito, we can categorically say that civil society has been able to draw the attention of governments. The various civil society groups following this topic have seen an evolution on the part of governments, from intolerance and underestimation of civil society to an invitation to take part and express ideas. An interesting example of this was during the Quito Ministerial Meeting, where an opportunity existed for direct interaction between Trade Ministers and various representatives of civil society from throughout the Americas.

Nevertheless, it has been demonstrated that developing more adequate mechanisms is indispensable to improving informed participation between different interest groups who, while respecting the right to dissent, can jointly express their opinions. It remains to be seen whether submitted recommendations and declarations will have the desired effect, and whether the negotiations process is capable of carefully analyzing and answering on a regional and local level the important questions put to the Trade Ministers on this occasion.

- *María Amparo Albán is Executive Director of the Ecuadorian Center for Environmental Law*

For more information on the three issues discussed in this edition of the Bulletin, please see the following Web sites:

The Official FTAA Web site: - <http://www.ftaa-alca.org>

The OAS Trade Unit - <http://www.sice.oas.org/default.asp>

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