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ESSAY ON THE FREE TRADE AREA OF THE AMERICAS

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The formation of the Free Trade Area of the Americas (FTAA) was the primary initiative to emerge from the 1994 Summit of the Americas. Consequently, the United States and thirty-three other nations affirmed their commitment to promoting prosperity through economic integration and free trade in the hemisphere. This commitment—to create the FTAA and to take action in such areas as eradicating poverty and discrimination and conserving the natural environment—drives the regional strategy of the U.S. Agency for International Development (USAID).

USAID's primary role in supporting the creation of the FTAA is to assist smaller-economy countries to make progress toward resolving critical market issues which impedes environmentally sound and equitable free trade in the hemisphere. Eliminating impediments to market access for goods and services among the countries will enable smaller-economy countries to participate fully and successfully in the FTAA and will also foster economic integration in the hemisphere. Free trade and economic integration are critical factors for supporting economic growth, raising living standards, improving working conditions, and protecting the environment.

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In an effort to promote free trade and economic integration, USAID has been programming technical assistance to expand hemispheric trade and export-led growth for many years, and the Hemispheric Free Trade Expansion (HFTE) project builds on that experience. To achieve this strategic objective, the USAID Latin America Bureau's Office of Regional Sustainable Development is collaborating closely with the Office of the U.S. Trade Representative (USTR) and with U.S. and Latin American partners to identify trade-related market issues that support the creation of the FTAA. HFTE activities, which are designed to have substantial catalytic impact in the hemisphere focus on four key-issue areas. These key-issue areas/intermediate results are:

1. Trade Liberalization
2. Trade and Labor/Management Relations
3. Trade and Market Access
4. Trade and the Environment

Several conditions must be met in order to successfully implement the FTAA. First, it is a *sine qua non* that the trading partners have harmonized trade policies. Here, it is the objective of the first intermediate result, trade liberalization, to bring the smaller countries into compliance with the trading regimes of their larger potential partners. Equally important to the long-term viability of the FTAA is the perceived benefit to all parties in all participating countries. The perception that free trade only benefits the more prosperous members of the society may undermine broad social and political support for the FTAA, particularly among the poorer population of large and small countries. Addressing this concern is the third intermediate result, trade and market access. Likewise, the second and fourth intermediate results, trade and labor/management relations and the environment, deal with the problematic perception among the more prosperous participants of the FTAA, such as the United States, that other participants in the FTAA can and will gain an unfair competitive advantage by lower labor and environmental standards. Such a perception may threaten support for the FTAA in the United States (witness the NAFTA debate). Therefore, it is critical to the ultimate success of the FTAA that these issues be addressed concurrently, systematically and comprehensively. Hence, a single, integrated strategic objective is

the appropriate vehicle to address these issues.

HFTE's primary focus will be to work with smaller countries to introduce the necessary trade-enhancing reforms for compliance with the World Trade Organization (WTO) standards that each country has agreed to meet. HFTE will pay particular attention to Caribbean and Central American countries that do not have the resources to draft and implement reforms and that also have difficulty attracting donor assistance due to their individual small size and relatively low level of economic importance. In addition to assisting smaller countries, USAID, in collaboration with the USTR, will identify other priority countries and trade areas requiring assistance and will contribute funding to other U.S. agencies to provide the technical assistance to undertake the necessary reforms. USAID will also support advisory assistance from the private sector, when appropriate, to introduce nongovernmental reforms.

Agricultural assistance is an important issue in Latin America where most small-sized economies remain heavily dependent upon agriculture. Because of the important role that agriculture plays in their economies, some of these countries will undoubtedly face serious sectoral adjustment problems that could threaten their continued participation in the FTAA process if these problems are not promptly addressed. Through HFTE, USAID is focusing on clarifying the role the agricultural sector will play in the construction of the FTAA, identifying food and agricultural trade issues, analyzing policy alternatives, and raising the level of public understanding about the issues.

Furthermore, USAID is playing an important role in the advancement of workers' rights in developing countries. While trade ministers have agreed that each country must abide by the recognized standards of workers' rights in their own country, the capacity of many developing countries is inadequate to regulate and to implement such standards. Hence, the problem is worsening. By proceeding on these trade-related labor matters on a parallel, but separate, track to the construction of the FTAA, USAID is in a unique position to identify and to begin to resolve critical issues in these countries.

Market performance equity issues, as they relate to agricultural export markets, agricultural technology markets, capital markets, and land markets, are another distinct focus of HFTE.

Since these principal markets will undergo major structural changes with the reduction of tariffs and investment barriers under the FTAA, USAID is concerned with ensuring that small- and medium-sized businesses are able to participate fully in these markets. By supporting continued access to the input markets of land, labor, and technology to maximize participation by small- and medium-sized businesses, USAID seeks to obtain broad-based economic growth, but to avoid widespread labor displacement that could result in substantial increases in destabilizing rural-to-urban migration and increased migration to the United States.

Trade and the environment are sensitive issues which must be addressed in order to minimize the risk of trade-related environmental policy issues compromising progress in the construction of the FTAA. In the past decade, USAID has significantly assisted developing countries to introduce environmentally sound policies and to adopt environmentally sound technologies. USAID provides this assistance through its support to the non-governmental organization community and its collaboration with the U.S. Environmental Protection Agency. By proceeding with these trade-related environmental matters, USAID is in a unique position to support the identification of the key environmental issues and to begin to work on the solutions immediately. In fact, USAID has already begun this effort to clarify specific trade related environment issues.

USAID's role through HFTE is a catalytic one, and the success of the HFTE program relies heavily on the successful replication of its activities. USAID and its partners will identify the important trade issues in selected countries and trade subregions and appropriate solutions will be developed for demonstration. The completion of a successful demonstration, which is then replicated on a wider scale by market forces, public sector intervention, or other donors, denotes evidence of progress toward issue resolution. Thus, the fundamental performance indicator is the number of trade-related equity and environmental issues advanced toward resolution in at least one-third of the countries within a targeted subregion.

The dissemination of results and information from HFTE activities throughout the hemisphere is essential to achieve broad impact and to ensure that progress is made toward resolving key market issues in the hemisphere. To address the need

for far-reaching information dissemination and to ensure that all programmatic information will remain available long after USAID-funded activities have ceased, USAID is linking its development partners through a Lotus Notes information system, which contains all relevant program documentation. In addition, this information system will be accessible to all partners, customers, and stakeholders through the World Wide Web.