Trade Facts

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November, 2003

Free Trade Area of the Americas (FTAA)

Table of Contents

Trade Facts

Office of the United States Trade Representative ***www.ustr.gov***
November, 2003

FTAA: The Opportunity for A Hemispheric Marketplace

"We have a great vision before us: a fully democratic hemisphere,
bound together by good will and free trade."

President George W. Bush
3rd Summit of the Americas
Quebec, April 21, 2001

- The Free Trade Area of the Americas (FTAA) is the cornerstone of President Bush's vision for free trade in the Western Hemisphere – a plan that would foster economic growth and opportunity, promote regional integration and strengthen democracies.

- The FTAA would be the world's largest free market, with a combined GDP of nearly $13 trillion in 34 countries, and nearly 800 million consumers from Alaska to Tierra del Fuego, the tip of South America.

- The FTAA was promoted by Presidents Reagan and George H.W. Bush through the Enterprise for the Americas Initiative, and was formally launched by President Clinton at the 1994 Summit of the Americas in Miami.

- At the 3rd Summit of the Americas in Quebec in 2001, the United States led hemisphere into detailed, substantive and concrete negotiations on FTAA.

- In February 2003, the U.S. put forward bold and ambitious offers in five key areas of the negotiations: consumer and industrial goods, agriculture, services, investment, and government procurement.

- The FTAA would expand U.S. access to Western Hemisphere markets. U.S. tariffs average only 2-3%, while tariffs and other trade barriers in Latin America are typically much higher.

- Latin America is a region of great promise: U.S. goods exports to Latin America grew 137% from 1990-2000, compared with 99% growth to the world.

- In addition to increasing opportunities for U.S. workers and companies, the FTAA will benefit U.S. consumers. It is estimated that an average family of four would see an income gain (through greater purchasing power and higher income) of more than $800 per year from goods and services liberalization in the FTAA.

Trade Facts

Office of the United States Trade Representative ***www.ustr.gov***
November, 2003

Myth: NAFTA was a failure for the U.S.

- NAFTA has been a huge success for the U.S. and its NAFTA partners. It has helped Americans work smarter, earn more and increase purchasing power. It has contributed to more trade, higher productivity, better jobs, and higher wages.

- In ten years of NAFTA, total trade among the three countries has more than doubled, from $306 billion to $621 billion in 2003. That's $1.7 billion in trade every day.

- U.S. exports to Canada and Mexico grew from $142 billion to $263 billion in NAFTA's first ten years. And Mexican exports to the U.S. grew 242 percent, improving lives and reducing poverty in Mexico.

- Some claimed NAFTA would contribute to U.S. industrial decline and a "giant sucking sound." But after NAFTA was passed in 1993:

    - U.S. manufacturing output soared in the 1990s, up 44% in real terms.

    - U.S. employment grew over 20 million between 1993 and 2000.

    - U.S. manufacturing wages increased dramatically, with real hourly compensation up by 14.4% in the 10 years since NAFTA, more than double the 6.5% increase in the 10 years preceding NAFTA.

    - Income gains and tax cuts from NAFTA were worth up to $930 each year for the average U.S. household of four.

- More recent problems for manufacturers and their employees came long after NAFTA. These problems are due to a recent recession from which the U.S. is now recovering strongly. Much is blamed on imports, but in fact 80% of the increase in the U.S. manufactures trade deficit in the last three years is attributable to reduced exports and weak demand overseas, not increased imports.

- Some blame NAFTA for recent economic problems. But in fact, during the recent U.S. economic downturn, U.S. imports from Mexico were up less than 2 percent (last three years). By contrast, the U.S. economy added more than 20 million jobs during a time when imports from Mexico were booming in 1993-2000 (up 241 percent).

- Clearly U.S. employment trends reflect the health of the U.S. economy far more than the negotiation of trade agreements like NAFTA.

Trade Facts

Office of the United States Trade Representative *www.ustr.gov*
November, 2003

Myth: NAFTA was a failure for Mexico

- NAFTA has resulted in expanded Mexican exports, higher wages for Mexican workers, less poverty, more foreign investment, and a stronger agriculture sector.
- Mexico exported $143 billion to its NAFTA partners in 2001, an increase of 232 percent from 1993… twice as fast as export growth to the rest of the world.
- Growth in Mexican exports accounted for more than half of the increase in Mexico's real national income during the period from 1993 to 2001.
- One of every five people in Mexico is employed in export-oriented jobs, and fully half of the 3.5 million new jobs generated in Mexico in 1995-2000 were a result of NAFTA and export growth.
- Employment in Mexico's export sector pays 37 percent more than jobs in the rest of the Mexican manufacturing sector.
- And Mexico has benefited from increased foreign investment: for 1994 to 2000, Mexico's annual average capital inflow reached $11.7 billion, three times higher than in the same period before NAFTA.
- While NAFTA is criticized for "hurting Mexican farmers", in fact Mexican farm production increased by 50 percent from 1993 to 2001. Growth sectors in Mexico include:
    - Pork (up 24 percent); Beef (up 13 percent); Chicken (up 80 percent); Fruit (up 27 percent); and Vegetables (up 36 percent)
- Mexican farm exports to the U.S. have increased by 103 percent from 1993-2000, and are growing twice as fast as they did before NAFTA. Mexico used to run an agricultural trade deficit with the U.S. It now runs a small surplus.
- Much has been written about the problems of Mexican corn growers. But most U.S. corn sold to Mexico is yellow corn used as livestock feed. Mexican farmers mostly grow white corn for human consumption.
- Many of the product sectors in Latin America worried about U.S. competition are in sectors that do NOT receive direct benefits from recent U.S. farm legislation, such as beef, pork, poultry and fruit.

Trade Facts

Office of the United States Trade Representative *www.ustr.gov*
November, 2003

Myth: Trade and the FTAA will spread poverty

- Free trade and open markets are among the most powerful tools available to fight poverty. The World Bank estimates that free trade and open markets lifted 200 million people out of poverty in the last decade. That's the largest and fastest reduction of poverty ever recorded in human history.

- If we complete our work of eliminating the world's remaining trade barriers on goods and services, we could lift another 300 million people out of poverty, according to the World Bank. Free trade in goods would mean a $500 billion worldwide income gain to poor countries. The FTAA would be a significant step toward this goal.

- Countries that have open markets do better in reducing poverty and raising incomes. The World Bank has shown that per-person incomes in developing countries that were open to trade and investment grew five times faster in the 1990s than incomes of isolated and protected economies.

- Isolation from the global economy is a recipe for poverty and desperation. Closing off trade would condemn millions in this hemisphere to crushing poverty and no hope of a better life.

- Latin economies more open to trade, like Chile, have cut poverty dramatically in recent years. Between 1987 and 2000, Chile cut poverty from 17 percent to 6 percent by opening its economy to trade and investment.

- The policies of isolation would return Latin America to the bad old days of the 1980s, when state control of economies led to inflation and poverty. In the 1990s, as Latin economies began opening up to trade, they saw real results:

    - Inflation cut from an average of 500 percent in 1990 to 7 percent in 2000.

    - Poverty cut from 41 percent in 1990 to 35 percent by 2000.

    - Real personal incomes grew at an average annual rate of 1.5 percent, against a decline of almost 1 percent in the 1980s.

    - Private investment surged from $9 billion in 1990 to $76 billion in 2000.

- The choice presented is stark: will Latin America continue on the path toward free markets and free trade, or turn back the clock to the failed and disastrous policies of twenty years ago? The FTAA offers a chance of a brighter future.

Trade Facts

Office of the United States Trade Representative [***www.ustr.gov***](http://www.ustr.gov)
November, 2003

Myth: FTAA will cost jobs and lower labor standards

- If it were true that jobs automatically migrate to low-wage countries, then Haiti, where wages are relatively low, would be the employment center of this Hemisphere. You often hear the bad news: about a factory closing and some workers losing jobs. You rarely hear the good news: about the millions of jobs (12 million in the U.S. alone) that are supported by trade.

- The U.S. market is already largely open to imports from the Hemisphere: the vast majority of products from Central America, the Caribbean, and the Andean region <u>already</u> enter the U.S. duty-free.

- FTAA is about opening foreign markets to U.S. products and services. It will level the playing field… Americans can compete with anyone when we all play by the rules. Our products and services face many barriers in Latin markets.

- But some advocate putting up walls around America. They would stop the free flow of goods, capital, people, and ideas in this Hemisphere. They would adopt policies that might save jobs in one sector, only to cost *many more* jobs in other parts of the economy.

- And these policies would raise prices for consumers, especially working families that can least afford it. Trade barriers hurt poor Americans the most. According to the Progressive Policy Institute, low-income, single-parent families pay a higher percentage of their income on import taxes (tariffs) than all other American families. Some of the highest U.S. import taxes are charged on everyday items: clothes, shoes, food and everyday household items. The FTAA would lower prices and cut taxes for everyone, and low-income American families would benefit the most.

- There is no "race to the bottom." In fact, there is a race to the top: a recent study by the Progressive Policy Institute showed that wealthier nations with higher worker protections tend to attract much higher levels of U.S. investment and jobs than poor countries.

- Chile—where wages are high and child labor is very rare—attracts 10 times as much investment and jobs as its closest neighbors. In Central America, Costa Rica, which has relatively high wages and little child labor, attracts 5 times more investment than the regional average.

- The United States seeks language in all its trade agreements to protect worker rights. These provisions, first used in the Chile and Singapore FTAs, require countries to effectively enforce their own labor laws. Such provisions are in the core text of the Chile and Singapore FTAs and are fully enforceable by monetary fines and ultimately by withdrawal of trade benefits. The United States seeks similar provisions for FTAA.

Trade Facts

Office of the United States Trade Representative ***www.ustr.gov***
November, 2003

Myth: Trade hurts the environment and weakens environmental laws

- Exactly the opposite is true. Free trade promotes free markets, economic growth, and higher living standards. As countries grow wealthier they show greater sensitivity to environmental protection – citizens tend to be more supportive of environmental regulation and governments have more resources to devote to such regulation.

- The countries that are most open to trade in the Hemisphere tend to have higher levels of environmental protection and better laws and enforcement. Countries like Costa Rica, Chile, and Mexico have improved environmental protection and cut down on harmful practices such as illegal logging.

- And U.S. trade agreements now contain provisions requiring countries to effectively enforce their environmental laws. The United States has proposed such provisions for FTAA.

- The US-Chile FTA, for example, contains a number of innovative environmental cooperation projects. And NAFTA has created a tri-partite commission that has worked on biodiversity, sound management of chemicals, and "green purchasing" by governments.

Trade Facts

Office of the United States Trade Representative [***www.ustr.gov***](http://www.ustr.gov)
November, 2003

Myth: FTAA allows corporations to "sue" governments to overturn laws

- This is simply not true. U.S. free trade agreements contain provisions to protect the rights of U.S. investors in foreign countries. These provisions also protect the rights of foreign investors in the United States, while ensuring that they are not accorded any greater substantive rights than U.S. investors in the United States.

- These investment provisions give investors the right to be compensated promptly, adequately, and effectively if governments expropriate their property. This is not a new concept: the right to be justly compensated if the government "takes" private property (like your house) is protected by the U.S. Constitution.

- Our trade agreements also recognize that in some cases governments may take property indirectly (e.g., through actions which render a property economically worthless). Consistent with long-standing U.S case law, our agreements provide for compensation to the property owner in such cases.

- Importantly, however, our trade agreements do <u>not</u> empower foreign investors to force governments to change any laws. In ten years of experience with such provisions under NAFTA, not a single U.S. law, at any level of government, has ever been changed as a result of arbitration under these provisions.

- In fact, no foreign investor has ever prevailed against the United States in an investment dispute.

Trade Facts

Office of the United States Trade Representative www.ustr.gov
November, 2003

Myth: FTAA will privatize public services and overturn preference programs

- Some claim FTAA will "force" privatization of schools, water systems, and healthcare. This is simply false. The draft text of the FTAA is available to the public on the Internet, and so are the final texts of recent US free-trade agreements like the Chile FTA. There are no such provisions.

- The United States does not seek to privatize any essential public service in the FTAA. This includes things like municipal water systems, primary or secondary education, or healthcare.

- Some claim FTAA will "overrule" local laws like zoning rules or minority preference programs. This is false. The FTAA recognizes and preserves a government's right to regulate. In addition, the United States seeks provisions in the FTAA similar to those contained in all U.S. FTAs which would "grandfather" all existing state/local measures so there will be no obligation to remove any state and local measures that might be inconsistent with the agreement.

- In cases where foreign governments request access to particular state or local procurement markets, or complain about certain discriminatory laws, the federal government consults with states, but cannot force them to change laws.

- The FTAA is about opening markets, not dictating national economic or regulatory policy. All countries will continue to be able to make economic and regulatory policy decisions for themselves.

- What the FTAA does seek are rules that create a fair and level playing field for everyone, so if a country decided on its own to privatize a state-owned business, like an airline or a telephone company, it should give foreign bidders an equal chance to compete.

- And the FTAA seeks regulatory systems and rules that are transparent, non-corrupt, and open to public participation.

Trade Facts

Office of the United States Trade Representative **www.ustr.gov**
November, 2003

Myth: The U.S. refuses to discuss agriculture in FTAA

- This is not correct. The United States does not seek to exclude agriculture from the FTAA. In fact, we have put forward very aggressive offers to liberalize our agricultural tariffs with significant percentages of trade subject to immediate duty-free treatment.
    - Unlike most other FTAA countries, the United States' agricultural goods market access offers did not exclude any products.
    - We are putting all agricultural tariffs on the table and ready to move forward with others willing to do the same.
    - Also, through our differentiated offers, we provided more forward-leaning tariff treatment for the smaller economies.
- We have proposed both the elimination of agricultural export subsidies on trade in the Hemisphere, and a means to deter the use of such subsidies by third countries trading with those in the FTAA.
- We made it clear in our July 2002 proposals in the WTO, in the lead-up to Cancun, and at Cancun that we were prepared to take ambitious steps to liberalize agricultural trade globally. These proposals included the substantial reduction and then elimination of domestic supports and the development of additional rules on export credits/guarantees, and food aid.
- But, this has to be done in the WTO, where all the major players are involved, not in the FTAA.
    - The biggest farm subsidizers – Europe and Japan -- are outside the Hemisphere.
    - Europe's allowed level of trade-distorting domestic support is 3 times higher than the United States', and Japan's roughly twice as high.
    - The United States and our trading partners cannot unilaterally disarm while leaving Europe and Japan free to subsidize their farmers.
- Finally, in the FTAA, we have proposed an agricultural safeguard aimed at helping countries address sensitivities cause by low-priced imports, regardless of the reason for the low prices.
- Overall, our approach on agriculture in the FTAA is a combination of ambition and flexibility, and reflects FTAA countries' shared goal of global agricultural trade reform.

Myth: The FTAA is anti-democratic

- We understand some groups plan to deliver "ballots" to protest against the FTAA. People are free to voice their opinions, but the ballots that count are the ballots of the 800 million citizens of this hemisphere who freely elected the 34 governments that are negotiating the FTAA.

- It's the Ministers in the room who legitimately represent democratically elected governments, and each of those governments has freely chosen to participate in the FTAA process.

- But that's not the only reflection of democracy in these talks: once Ministers reach an agreement, the elected legislatures in each country will have to review and approve it, including the U.S. Congress.

- Those who oppose trade have a democratic right to express their opinions. But there is nothing *more* democratic than the representatives of freely elected governments meeting to discuss how best to improve the lives the citizens that elected them.

Trade Facts

Office of the United States Trade Representative ***www.ustr.gov***
November, 2003

Myth: The negotiations are not open; people are not being consulted

- These are the most open and transparent trade negotiations in history.

- If you want to read the text of what's being negotiated, you can find it on the FTAA or USTR website.

- We've held open public hearings in the United States and had open periods for public comment, but most of the groups claiming they're shut out of the process have not come to public hearings or submitted written comments.

- USTR's 31 official trade advisory committees, with more than 700 advisors from labor, environment, agriculture, consumer groups and industry discuss the details of FTAA at nearly every meeting.

- The chief U.S. FTAA negotiator held a briefing for members of labor and environment advisory committees recently, to provide an up-to-the-minute status on the FTAA talks.

- And the FTAA governments have created a special committee of government officials from each country in the Hemisphere to hold public meetings and gather input. Recent sessions were held in Brazil on agriculture, and in Chile on services. Next year open public sessions will be held in the US on market access, and in the Dominican Republic on IPR.

- Some groups may disagree with what's being negotiated, but they cannot legitimately claim that they have had no opportunity to be heard or consulted.

Trade Facts

Office of the United States Trade Representative ***www.ustr.gov***
November, 2003

Myth: Ministers are behind "closed doors"

- The United States worked hard to provide an unprecedented opportunity for civil society groups to meet inside the security perimeter, with the same access business has to Ministers and trade negotiators. But while we opened the door, some protest groups refused to walk through it, and are boycotting the civil society forum.

- Ministers will hold roundtable meetings with business groups and with non-government organizations, to hear their views even before official sessions begin. These forums were open to public registration. Nearly 1,000 people are expected to participate. We're making unprecedented use of technologies like webcasting and closed-circuit TV to make these negotiations as accessible as possible.

- Not only Ministers, but also working-level trade negotiators, will meet civil society to discuss their concerns. The agenda of the civil society forum was given to each government delegate on arrival, and delegates were strongly encouraged to go to the civil society forum. USTR assigned a facilitator to make this happen.

- The $80 registration fee for the civil society event was nominal, enough only to cover costs for conference rooms and administration. The U.S. and Canadian governments provided grants to assist in organizing this forum.

- The City of Miami has worked closely with the protest organizers to allow peaceful protests to occur in a safe and secure environment. Protesters will stage a major rally in a public amphitheater less than 500 yards from the site of the Ministerial.

- Unfortunately, however, a small minority of protesters have publicly announced their intent to use violence and other tactics to "shut down" a meeting of democratically elected governments. The security measures in place are necessary to protect the delegates and to protect the protesters, while allowing free speech and free protest.