INTER-AMERICAN DEVELOPMENT BANK

Integration and Regional Programs Department

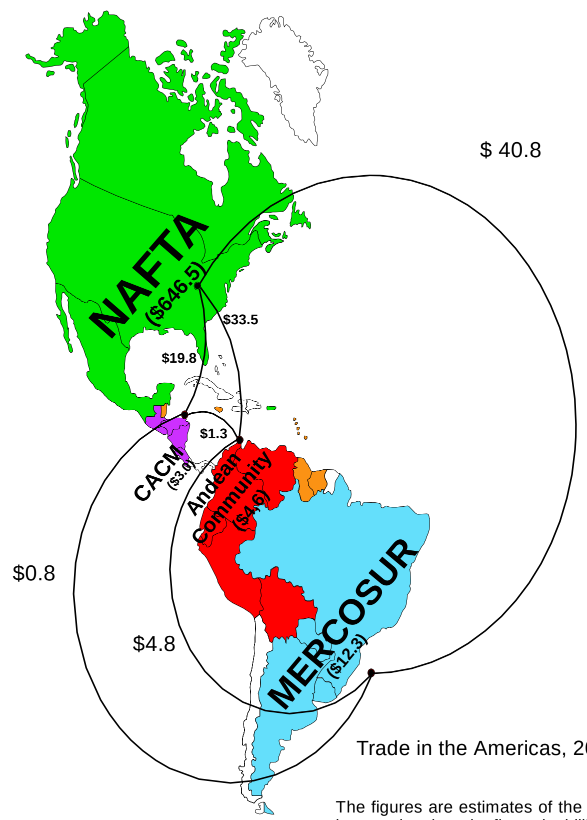
Integration, Trade and Hemispheric Issues Division

Institute for the Integration of Latin America and the Caribbean

Original: English

INTEGRATION AND TRADE IN THE AMERICAS

A Preliminary Estimate of 2003 Trade



Trade in the Americas, 2003

The figures are estimates of the sum of inter-regional trade flows in billions of US$. The numbers in parentheses show intra-regional trade. Figures for Caricom are not available.

Periodic Note

December 2003

PERIODIC NOTE ON INTEGRATION AND TRADE IN THE AMERICAS

Integration and Regional Programs Department

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The purpose of this document is to inform Bank staff and other interested parties about recent developments in integration and trade among the countries of the Western Hemisphere and between these and other countries and world regions.

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Nohra Rey de Marulanda and Robert Devlin were responsible for the supervision of the document.

Note: The map displayed on the cover is included for illustrative purposes only. It does not constitute an official representation of the area covered.

ABBREVIATIONS

ALADI	Latin American Integration Association
CACM	Central American Common Market
CARICOM	Caribbean Community
FTAA	Free Trade Area of the Americas
IDB	Inter-American Development Bank
MERCOSUR	Southern Common Market
NAFTA	North American Free Trade Agreement

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PREFACE

The first part of this Periodic Note presents preliminary estimates of Western Hemisphere exports for 2003. A short overview of major developments for the year is followed by three tables detailing total and intra-regional export flows for the various sub-regions of the hemisphere in 2003, and for the period 1992-2002.

The second part of the Periodic Note contains three documents related to the Free Trade Area of the Americas (FTAA) process. The first is the Ministerial Declaration of the Eighth FTAA Ministerial Meeting, held in Miami on 20 November 2003. The other two documents are speeches given by IDB President Enrique V. Iglesias at the Eighth Americas Business Forum, held in Miami on 16-21 November 2003, and at the subsequent Ministerial Meeting.

I. RENEWED GROWTH IN WESTERN HEMISPHERE EXPORTS IN 2003: PRELIMINARY ESTIMATES

Total Western Hemisphere exports to the world increased by 5 percent in 2003, according to preliminary estimates by the IDB's Integration, Trade and Hemispheric Issues Division. This marks a reversal of a two-year trend that saw exports from the hemisphere decline by more than 9 percent between 2000-2002.

The return to growth in 2003, facilitated by a modest recovery in world demand, was led by Latin American exports, which increased by an estimated 8 percent during 2003, while US exports grew at a much slower rate of 3 percent. Export growth was positive for all but one Latin American country and was particularly strong in Brazil, where a competitive *Real* and strong growth in sales to Argentina and China – Brazil's second and third largest export markets – combined to produce a 21 percent increase in exports.

Brazil's strong export performance is the main reason behind the impressive 19 percent growth in exports from the Southern Common Market, Mercosur[1]. Argentina, however, also recorded double-digit export growth, as did the other Southern Cone countries, including Chile. Exports of basic commodities – mining products and agricultural goods – appear to have contributed quite significantly to this growth, with demand up for several of Latin America's traditional exports, including iron ore, copper, soy beans and other food crops. Particularly noteworthy is China's growing demand for Latin American commodities, which – along with a general recovery in world demand – has had a positive effect on international commodity prices.

Exports from the Central American Common Market (CACM)[2] also witnessed strong growth of around 12 percent in 2003, with all five members of the group contributing to that growth. Andean Community[3] exports grew at a much slower rate of just 3 percent during the year. This, however, was mainly a result of a sharp decline in Venezuelan exports, offsetting strong performances by Bolivia, Ecuador and Peru. The interruption of oil exports from Venezuela, which lasted more than a month, explains the almost 5 percent drop in that country's exports in 2003. The decline would have been even sharper in the absence of increases in oil prices during the year.

The countries of the North American Free Trade Agreement (NAFTA)[4] increased their combined exports by 4 percent during the year. Among the three NAFTA partners, Mexico witnessed the smallest increase in sales, mainly as a result of sluggish demand in the United States, which absorbs almost 90 percent of the country's exports. Exporters of manufactured products, in Mexico and elsewhere in the region, are moreover experiencing growing competitive pressure from Asian exporters in hemispheric markets.

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[1] Argentina, Brazil, Paraguay and Uruguay
[2] Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua
[3] Bolivia, Colombia, Ecuador, Peru and Venezuela
[4] Canada, Mexico and the United States

For the Western Hemisphere as a whole, and for most sub-regions, growth of sales to extra-regional markets was higher than growth in intra-regional trade, in contrast to the trend prevailing throughout most of the 1990s. Exports among Latin American countries grew by 5 percent (compared to an 8 percent increase in the region's total exports). Similarly, intra-CACM exports expanded by 7 percent, compared to the group's 12 percent growth in exports to the world.

The difference is most striking in the Andean Community, where intra-Andean exports declined by 11 percent, while the group's total exports showed modest growth. Both Colombia and Venezuela, which have traditionally dominated intra-Andean trade, saw steep declines in their exports to Andean partners. In both cases, difficulties in Venezuela were the main reason behind this development. In NAFTA, too, intra-group exports grew at a somewhat slower pace than exports to the world. The one exception to the above trend was Mercosur, where growth in intra-group exports exceeded that in total sales by two percentage points, reflecting signs of economic recovery in the sub-regional market and, particularly, Argentina's emergence from its deep recession in 2002.

TABLE 1. INTRA-HEMISPHERE EXPORTS BY INTEGRATION GROUP, 2003
(% change from 2002 to 2003)

Exporting Region	DESTINATION									
	Mercosur	Mercosur+ Chile+Bolivia	Andean Community	G3[1]	ALADI[2]	CACM	Latin America[3]	NAFTA	Hemisphere	Total World
Mercosur	21	18	(12)	7	14	41	15	13	14	19
Andean Community	(12)	(0)	(12)	(15)	(6)	(1)	(10)	3	(2)	3
Group of Three[1]	(29)	(20)	(25)	(25)	(20)	(0)	(18)	1	0	1
ALADI[2]	16	15	(13)	(7)	6	10	5	3	3	8
CACM	(35)	(32)	(22)	10	1	7	7	9	8	12
Latin America[3]	15	15	(14)	(6)	6	8	5	3	3	8
NAFTA	(3)	(2)	(19)	(4)	(4)	12	(2)	3	3	4
Total Hemisphere	6	7	(16)	(4)	(1)	11	0	4	4	5

INTRA-HEMISPHERE EXPORTS BY INTEGRATION GROUP, 2003
(millions US$)

Exporting Region	DESTINATION									
	Mercosur	Mercosur+ Chile+Bolivia	Andean Community	G3[1]	ALADI[2]	CACM	Latin America[3]	NAFTA	Hemisphere	Total World
Mercosur	12,296	18,217	3,543	5,213	24,882	734	26,252	25,430	48,672	105,888
Andean Community	1,210	2,161	4,639	3,122	7,604	1,199	9,754	22,500	31,529	50,571
Group of Three[1]	1,052	1,671	3,822	2,740	6,224	2,374	10,020	164,582	175,247	198,323
ALADI[2]	15,317	22,642	10,485	10,371	37,773	3,675	43,964	199,685	240,286	339,872
CACM	17	29	96	382	429	3,004	3,915	6,965	10,722	13,349
Latin America[3]	15,335	22,671	10,596	10,778	38,232	6,773	48,017	207,052	251,537	353,982
NAFTA	15,394	18,763	11,015	104,453	126,857	12,821	147,364	646,491	703,139	1,145,940
Total Hemisphere	30,072	40,467	20,554	114,480	163,087	18,122	191,117	706,573	802,205	1,336,370

STRUCTURE OF EXPORTS BY INTEGRATION GROUP, 2003
(% Distribution)

Exporting Region	DESTINATION									
	Mercosur	Mercosur+ Chile+Bolivia	Andean Community	G3[1]	ALADI[2]	CACM	Latin America[3]	NAFTA	Hemisphere	Total World
Mercosur	12	17	3	5	23	1	25	24	46	100
Andean Community	2	4	9	6	15	2	19	44	62	100
Group of Three[1]	1	1	2	1	3	1	5	83	88	100
ALADI[2]	5	7	3	3	11	1	13	59	71	100
CACM	0	0	1	3	3	23	29	52	80	100
Latin America[3]	4	6	3	3	11	2	14	58	71	100
NAFTA	1	2	1	9	11	1	13	56	61	100
Total Hemisphere	2	3	2	9	12	1	14	53	60	100

Source: IDB, Integration and Regional Programs Department, based on official data from each country.

[1] Group of Three: Colombia, Mexico and Venezuela.

[2] Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. Cuba is not included.

[3] Including Panama and the countries of ALADI and the CACM.

TABLE 2

EXPORT GROWTH BY WESTERN HEMISPHERE TRADE GROUPS, 2003

Exporting Group/Member	Export Growth to Group	Export Growth to World
Mercosur	**21.0**	**19.1**
Argentina	-4.0	14.2
Brazil	64.8	21.3
Paraguay	38.0	29.9
Uruguay	0.3	11.4
Chile (Mercosur)	16.3	14.0
Andean Community	**-11.8**	**3.3**
Bolivia	2.9	16.7
Colombia	-26.2	5.6
Ecuador	21.4	15.8
Peru	6.4	13.7
Venezuela	-17.4	-4.6
NAFTA	**3.3**	**3.6**
Mexico	0.8	1.8
Canada	6.2	7.4
United States	2.2	2.6
CACM	**6.7**	**11.7**
Costa Rica	11.4	17.2
El Salvador	2.2	5.7
Guatemala	5.8	7.8
Honduras	10.1	10.6
Nicaragua	6.9	11.9

Source: Integration and Regional Programs Department, IDB

Note: Estimates are based on January - October data for Argentina, Paraguay, Bolivia, and El Salvador; January - September for Brazil, Chile, Colombia, Ecuador, Peru, Canada, United States and Costa Rica; January - August for the remaining countries.

TABLE 3

WESTERN HEMISPHERE: TOTAL AND INTRA-REGIONAL EXPORTS, 1992-2002

(Millions of US dollars and percentages)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	AAGR 1992-2002[4]
Western Hemisphere [1,2,3]												
Total Exports	698,047	727,050	858,456	994,328	1,071,955	1,179,833	1,161,673	1,216,398	1,308,489	1,234,953	1,191,144	
% growth	6.1	4.2	18.1	15.8	7.8	10.1	-1.5	4.7	7.6	-5.6	-3.5	5.5
Extra-hemispheric exports	346,544	340,002	392,278	471,910	496,479	521,552	484,536	488,397	508,778	478,327	458,495	
% growth	0.4	-1.9	15.4	20.3	5.2	5.1	-7.1	0.8	4.2	-6.0	-4.1	2.8
Intra-hemispheric exports	351,504	387,048	466,178	522,419	575,475	658,280	677,138	728,001	799,711	756,626	732,649	
% growth	12.4	10.1	20.4	12.1	10.2	14.4	2.9	7.5	9.9	-5.4	-3.2	7.6
Intra/Total	50.4	53.2	54.3	52.5	53.7	55.8	58.3	59.8	61.1	61.3	61.5	
Latin America and the Caribbean (LAC) [2,3]												
Total Exports	145,173	154,529	182,545	220,411	249,332	276,962	268,849	287,680	346,324	334,441	326,702	
% growth	7.3	6.4	18.1	20.7	13.1	11.1	-2.9	7.0	20.4	-3.4	n.a	8.4
Extra-LAC exports	120,352	125,081	147,584	178,629	203,074	223,464	215,609	242,330	290,255	275,638	279,383	
% growth	4.0	3.9	18.0	21.0	13.7	10.0	-3.5	12.4	19.8	-5.0	n.a	8.8
Intra-LAC exports	24,821	29,448	34,961	41,782	46,257	53,498	53,240	45,349	56,069	58,803	47,320	
% growth	26.7	18.6	18.7	19.5	10.7	15.7	-0.5	-14.8	23.6	4.9	n.a	6.7
Intra/Total	17.1	19.1	19.2	19.0	18.6	19.3	19.8	15.8	16.2	17.6	14.5	
Andean Community												
Total Exports	28,107	29,137	34,243	38,259	45,687	47,655	38,742	43,207	57,236	50,837	48,955	
% growth	-3.8	3.7	17.5	11.7	19.4	4.3	-18.7	11.5	32.5	-11.2	-3.7	5.7
Extra-Andean exports	25,888	26,276	30,816	33,524	40,996	42,028	33,402	39,268	52,045	45,181	43,766	
% growth	-5.7	1.5	17.3	8.8	22.3	2.5	-20.5	17.6	32.5	-13.2	-3.1	5.4
Intra-Andean exports	2,219	2,861	3,427	4,735	4,691	5,627	5,341	3,939	5,191	5,656	5,189	
% growth	25.6	28.9	19.8	38.2	-0.9	19.9	-5.1	-26.2	31.8	9.0	-8.3	8.9
Intra/Total	7.9	9.8	10.0	12.4	10.3	11.8	13.8	9.1	9.1	11.1	10.6	
Caricom [3]												
Total Exports	3,970	3,215	5,069	5,531	5,439	6,008	5,543	5,933	7,754	8,393	---	
% growth	-4.1	-19.0	57.7	9.1	-1.7	10.4	-7.7	7.0	30.7	8.3	---	8.7
Extra-Caricom exports	3,537	2,665	4,376	4,649	4,568	5,082	4,473	4,871	6,349	6,929	---	
% growth	-4.2	-24.7	64.2	6.2	-1.8	11.3	-12.0	8.9	30.3	9.1	---	7.8
Intra-Caricom exports	433	550	693	882	872	925	1,070	1,062	1,404	1,464	---	
% growth	-3.2	26.9	26.0	27.2	-1.1	6.1	15.6	-0.7	32.2	4.3	---	14.5
Intra/Total	10.9	17.1	13.7	15.9	16.0	15.4	19.3	17.9	18.1	17.4	---	
CACM												
Total Exports	4,674	4,899	5,509	6,864	7,778	8,242	10,313	11,175	12,765	10,510	10,008	
% growth	9.2	4.8	12.4	24.6	13.3	6.0	25.1	8.4	14.2	-17.7	-4.8	7.9
Extra-CACM exports	3,615	3,797	4,280	5,408	6,192	6,417	8,125	8,886	10,194	7,693	7,198	
% growth	3.5	5.0	12.7	26.4	14.5	3.6	26.6	9.4	14.7	-24.5	-6.4	7.1
Intra-CACM exports	1,059	1,102	1,229	1,456	1,586	1,826	2,188	2,289	2,571	2,817	2,810	
% growth	34.7	4.1	11.5	18.5	8.9	15.1	19.9	4.6	12.3	9.6	-0.2	10.3
Intra/Total	22.7	22.5	22.3	21.2	20.4	22.1	21.2	20.5	20.1	26.8	28.1	
Mercosur												
Total Exports	50,463	54,122	62,113	70,402	74,998	82,342	81,323	74,320	84,659	87,876	88,880	
% growth	10.0	7.3	14.8	13.3	6.5	9.8	-1.2	-8.6	13.9	3.8	1.1	5.8
Extra-Mercosur exports	43,246	44,095	50,157	56,019	57,960	62,289	60,972	59,158	66,961	72,725	78,714	
% growth	6.0	2.0	13.7	11.7	3.5	7.5	-2.1	-3.0	13.2	8.6	8.2	6.2
Intra-Mercosur exports	7,216	10,026	11,957	14,384	17,038	20,053	20,351	15,163	17,698	15,151	10,166	
% growth	41.4	38.9	19.3	20.3	18.5	17.7	1.5	-25.5	16.7	-14.4	-32.9	3.5
Intra/Total	14.3	18.5	19.2	20.4	22.7	24.4	25.0	20.4	20.9	17.2	11.4	
Mercosur+Chile+Bolivia (MCB)												
Total Exports	60,872	63,927	74,790	87,977	91,700	100,632	97,197	91,355	104,120	106,839	107,675	
% growth	10.0	5.0	17.0	17.6	4.2	9.7	-3.4	-6.0	14.0	2.6	0.8	5.9
Extra-MCB exports	50,231	50,056	58,333	67,903	68,732	73,874	70,615	70,664	79,581	84,668	90,720	
% growth	6.0	-0.3	16.5	16.4	1.2	7.5	-4.4	0.1	12.6	6.4	7.1	6.1
Intra-MCB exports	10,641	13,871	16,458	20,074	22,968	26,758	26,582	20,691	24,539	22,171	16,955	
% growth	33.6	30.4	18.6	22.0	14.4	16.5	-0.7	-22.2	18.6	-9.6	-23.5	4.8
Intra/Total	17.5	21.7	22.0	22.8	25.0	26.6	27.3	22.6	23.6	20.8	15.7	
NAFTA												
Total Exports	599,027	624,352	737,888	853,694	918,077	1,013,108	1,012,114	1,071,355	1,134,834	1,061,548	1,021,497	
% growth	6.0	4.2	18.2	15.7	7.5	10.4	-0.1	5.9	5.9	-6.5	-3.8	5.5
Extra-NAFTA exports	335,184	332,960	383,349	460,581	485,698	517,457	490,885	486,296	491,695	464,133	432,856	
% growth	2.1	-0.7	15.1	20.1	5.5	6.5	-5.1	-0.9	1.1	-5.6	-6.7	2.6
Intra-NAFTA exports	263,843	291,392	354,539	393,113	432,379	495,651	521,229	585,059	643,140	597,415	588,641	
% growth	11.3	10.4	21.7	10.9	10.0	14.6	5.2	12.2	9.9	-7.1	-1.5	8.4
Intra/Total	44.0	46.7	48.0	46.0	47.1	48.9	51.5	54.6	56.7	56.3	57.6	

Source, IDB, Integration and Regional Programs Department, based on data from DataIntal, Hemispheric Database, Comtrade and official country data.

[1] Western Hemisphere includes Latin America, Canada, and the United States. There are gaps in some years for some Caribbean countries.

[2] Latin America and the Caribbean includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic (except 1998-2002), Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama (except 1994), Paraguay, Peru, Uruguay, Venezuela and Caricom (see note 3 for exceptions). Caricom data for 2002 is not available, for which reason the growth rates for LAC exports where not calculated for this year.

[3] Caricom includes Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago, because of the unavailability of data for the other Caricom member states. Totals exclude Bahamas (1992-96), Dominica (1992), Grenada (1993), Guyana (1992-97), St Kitts and Nevis (1992, 1996), St Vincent and the Grenadines (1992) and Suriname (1993).

[4] AAGR: Average Annual Growth Rate. Calculated using the formula $[(Y(t)/Y(s))^{(1/n)}-1]*100$, where Y(t) and Y(s) are the values in years "t" and "s", respectively, where t >s and n = t-s. For Caricom the formula is based on the 1992-2001 period.

II. FTAA: Some Documents from Miami

MINISTERIAL DECLARATION
Free Trade Area of the Americas
Eighth Ministerial Meeting
Miami, USA
November 20, 2003

INTRODUCTION

1. We, the Ministers Responsible for Trade in the Hemisphere, representing the 34 countries participating in the negotiations of the Free Trade Area of the Americas (FTAA) held our Eighth Ministerial Meeting in Miami, United States of America, on November 20-21, 2003, in order to provide guidance for the final phase of the FTAA negotiations.

2. We recognize the significant contribution that economic integration, including the FTAA, will make to the attainment of the objectives established in the Summit of the Americas process: strengthening democracy, creating prosperity and realizing human potential. We reiterate that the negotiation of the FTAA will continue to take into account the broad social and economic agenda contained in the Miami, Santiago and Quebec City Declarations and Plans of Action with a view to contributing to raising living standards, increasing employment, improving the working conditions of all people in the Americas, strengthening social dialogue and social protection, improving the levels of health and education and better protecting the environment. We reaffirm the need to respect and value cultural diversity as set forth in the 2001 Summit of the Americas Declaration and Plan of Action.

3. We reiterate that the FTAA can co-exist with bilateral and sub-regional agreements, to the extent that the rights and obligations under these agreements are not covered by or go beyond the rights and obligations of the FTAA. We also reaffirm that the FTAA will be consistent with the rules and disciplines of the World Trade Organization (WTO).

4. Commitments assumed by the countries of the FTAA must be consistent with the principles of the sovereignty of States and the respective constitutional texts.

The Vision of the FTAA

5. We, the Ministers, reaffirm our commitment to the successful conclusion of the FTAA negotiations by January 2005*, with the ultimate goal of achieving an area of free trade and regional integration. The Ministers reaffirm their commitment to a comprehensive and balanced FTAA that will most effectively foster economic growth, the reduction of poverty, development, and integration through trade liberalization. Ministers also recognize the need for flexibility to take into account the needs and sensitivities of all FTAA partners.

* Venezuela reiterates its reservation expressed in the Quebec City Declaration, with respect to the entry into force of the FTAA in 2005.

6. We are mindful that negotiations must aim at a balanced agreement that addresses the issue of differences in the levels of development and size of economies of the hemisphere, through various provisions and mechanisms.

7. Taking into account and acknowledging existing mandates, Ministers recognize that countries may assume different levels of commitments. We will seek to develop a common and balanced set of rights and obligations applicable to all countries. In addition, negotiations should allow for countries that so choose, within the FTAA, to agree to additional obligations and benefits. One possible course of action would be for these countries to conduct plurilateral negotiations within the FTAA to define the obligations in the respective individual areas.

8. We fully expect that this endeavor will result in an appropriate balance of rights and obligations where countries reap the benefits of their respective commitments.

General Instructions

9. The Agreement will include measures in each negotiating discipline, and horizontal measures, as appropriate, that take into account the differences in the levels of development and the size of the economies, and are capable of implementation. Special attention will be given to the needs, economic conditions (including transition costs and possible internal dislocations) and opportunities of smaller economies, to ensure their full participation in the FTAA process.

10. We instruct the Trade Negotiations Committee (TNC) to develop a common and balanced set of rights and obligations applicable to all countries. The negotiations on the common set of rights and obligations will include provisions in each of the following negotiating areas: market access; agriculture; services; investment; government procurement; intellectual property; competition policy; subsidies, antidumping, and countervailing duties; and dispute settlement. On a plurilateral basis, interested parties may choose to develop additional liberalization and disciplines. The TNC shall establish procedures for these negotiations that shall, among other things, provide that: countries negotiating additional obligations and benefits within the FTAA shall notify the Co-Chairs of their intention to do so before the outset of the negotiations; and any country not choosing to do so may attend as an observer of those additional negotiations. Observers, by notifying the Co-Chairs, may become participants in these negotiations at any time thereafter. The results of the negotiations must be WTO compliant. These instructions are to be delivered by the TNC to the Negotiating Groups and the Technical Committee on Institutional Issues (TCI), no later than the seventeenth meeting of the TNC to enable the negotiations to proceed simultaneously and to be completed according to the schedule.

Guidance on text issues

11. We instruct the TCI to present to the eighteenth TNC meeting its draft text as well as its recommendations on the institutions required to implement the FTAA Agreement, including proposals on the funding mechanisms, the administrative rules and the implications for human resources for the functioning of the institutional structure of the FTAA Agreement.

12. We direct the TCI with due regard to the provisions contained in this Declaration to provide to the TNC, as soon as possible, a proposal on the process for finalizing the agreement. This proposal shall contain, *inter alia*, specific steps, including legal review, translation, verification and authentication, necessary to finalize the text of the agreement, as well as the process and timetable for the completion of those steps.

Guidance on market access negotiations

13. We instruct that the negotiations on market access be conducted at a pace that will lead to the conclusion of those negotiations by September 30, 2004.

Differences in levels of development and size of economies

14. We acknowledge the differences in the levels of development and size of economies in the hemisphere and the importance of all the countries participating in the FTAA to attain economic growth, improved quality of life for their people, and balanced and sustained social and economic development for all its participants. We therefore reaffirm our commitment to take into account in designing the FTAA, the differences in levels of development and size of economies in the hemisphere to create opportunities for their full participation and increase their level of development. We will establish mechanisms that complement and enhance the measures that address differences in the level of development and size of economies, in particular smaller economies, in order to facilitate the implementation of the Agreement and to maximize the benefits that can be derived from the FTAA. Such measures shall include but not be limited to technical assistance and transitional measures including longer adjustment periods.

15. We take note of the TNC Report on the results of the progress achieved in relation to the treatment of differences in the levels of development and the size of economies in each of the Negotiating Groups, and we instruct these entities to continue their work on this issue. We have made this report available to the public on the official FTAA website. We note with concern that while text negotiations have progressed, proposals aimed at giving expression to treatment of the differences in levels of development and size of economies are bracketed across all the negotiating disciplines. We therefore reiterate our instruction to the TNC and to all the negotiating groups, in particular those undertaking market access negotiations, to translate this principle into specific measures so that they are reflected in the results of the negotiations. We instruct the Consultative Group on Smaller Economies (CGSE) to keep this report up to date, with the support of the Tripartite Committee, and to submit it to us at our next meeting.

16. With a view to providing appropriate follow-up of the activities underway within the CGSE and in order to achieve the full participation of all countries in the FTAA, we instruct the CGSE to make recommendations to the TNC, at its next meeting and in coordination with the TCI, on the characteristics of a Permanent Committee on the application of the treatment of differences in the level of development and size of economies so that it forms part of the institutional framework of the FTAA.

Hemispheric Cooperation Program

17. We recognize that trade can play a major role in the promotion of economic development and the reduction of poverty. Therefore, we underscore that the commitment of countries to integrate trade into their national development plans, such as Poverty Reduction Strategies, is central to ensuring the role of trade in development and securing increased trade-related assistance in the region.

18. We recognize that smaller and less developed economies will require financial support to assist in the process of adjustment resulting from hemispheric integration. We therefore instruct the CGSE, based on its current work on the subject and with the support of the Tripartite Committee, to present recommendations to the TNC at its eighteenth meeting on financing methods and facilities to address the adjustment needs resulting from the differences in the levels of development and size of the economies of the hemisphere.

19. We welcome the efforts of the CGSE, with the assistance of the Tripartite Committee, to implement the Hemispheric Cooperation Program (HCP). Important steps took place at the Washington, D.C. meeting on

October 14 and 15, hosted by the Inter-American Development Bank (IDB), with relevant donor institutions and in the preparation of trade capacity building strategies (TCB) by governments, which were the focus of discussion at the donors' roundtable. These strategies are critical to identifying effective programs and appropriate funding sources. These steps constitute a beginning to the process of enhancing the capacity of the countries that are seeking assistance to complete negotiation of the FTAA Agreement, prepare to implement its terms, and to enhance their capacity to trade, and successfully adapt to integration.

20. Based on the discussions and the TNC Report on progress in the implementation of the HCP and the initial meeting with donors, we encourage the countries with the help of the Tripartite Committee to finalize the TCB strategies as appropriate and to organize sub-regional meetings with donors to continue discussions on the TCB strategies. The first sub-regional meetings with donors should be held within four to six months.

21. We reiterate our agreement at Quito that the HCP will respond to the immediate assistance needs for the purpose of strengthening the participation of countries in the negotiations. We note with concern the slow progress in addressing these immediate needs and call on the donor community to urgently provide predictable and multifaceted financial and non-financial support, in particular non-reimbursable financing, for meeting the objectives and capacity-building priorities set out in the national and sub-regional capacity building strategies and action plans under the HCP. In this connection, we welcome the contributions, including non-reimbursable financing, already made.

22. We also instruct the TNC with the support of the CGSE to further develop the HCP by identifying the modalities and procedures for the management and implementation of the HCP once the FTAA negotiations are completed. We instruct the CGSE to report to the TNC throughout the year on progress under the HCP. We have made the TNC Report on the Implementation of the HCP available to the public on the official FTAA website.

Transparency and the Participation of Civil Society

23. In accordance with our commitment to transparency assumed at the Santiago and Quebec City Summits, we have made the third draft of the chapters of the FTAA Agreement available to the public on the official FTAA website in the four official languages today.

24. We also welcome receipt of the report on Best Practices and Illustrative Examples of Consultations with Civil Society at the National/Regional Level that was prepared by the Committee of Government Representatives on the Participation of Civil Society (SOC) and that highlights best practices for disseminating information to civil society and to increase their participation in the FTAA process. We note the breadth and diversity of the measures and activities that have been undertaken by our various national governments in order to enhance communication with our respective civil societies. In addition, we note that this document is available to the public on the official FTAA Website. Furthermore, we instruct the SOC to make recommendations to the TNC on the means to broaden the mechanisms for disseminating information on the discussions, drawing upon the experiences of countries for distributing information to their civil societies.

25. In regard to this enhanced participation of different sectors of civil society in the hemispheric initiative and increased and sustained two-way communication with civil society, we take particular note of the decision to hold meetings with civil society, in conjunction with the regular meetings of the SOC, focusing on issues that are topics of discussion in these negotiations. In the past year, two such meetings have been held, one in Sao Paulo, Brazil on agriculture and the other in Santiago, Chile on services. We note that these meetings included a broad representation of FTAA government officials and civil society including business, labor, agricultural producers, NGOs, academics, rural and indigenous groups. Reports of the meetings from

the SOC, including the statements of civil society, were made available to the public on the official FTAA website. We are pleased that at least two such meetings are planned in 2004, one in the Dominican Republic on the topic of intellectual property rights and one in the United States on the topic of market access, including small business issues.

26. We appreciate the views that various sectors of civil society have provided us in the last year and a half and especially in parallel to the Mexico and San Salvador Vice Ministerial meetings. We appreciate the recommendations made by the Eighth Americas Business Forum and the First Americas Trade and Sustainable Development Forum, organized with a broad representation of civil society, and with whom we met here in Miami, Florida. We encourage the holding of similar events organized parallel to all Ministerial and Vice Ministerial meetings and recommend that they include broad representation from civil society. We also take note of the regional seminar on the FTAA held by the Andean Community in Lima, Peru. The views expressed at these events constitute a valuable contribution to the negotiations, and we urge civil society to continue to make contributions in a constructive manner.

27. We welcome the Fourth Report of the SOC, which describes the activities of the SOC as well as the range of contributions received during this phase. We have made this report available to the public on the official FTAA website. We further instruct the SOC to continue to forward contributions to FTAA entities as well as to submit a new report for our next meeting outlining its activities and the range of views it has received from individuals and organizations in the hemisphere, as well as the manner in which these have been considered in the FTAA negotiations.

28. We express our interest in creating a civil society consultative committee within the institutional framework of the FTAA upon the Agreement's entry into force. Such a committee could contribute to transparency and the participation of civil society on an on-going basis as the FTAA is being implemented. We instruct the Committee on Government Representatives on the Participation of Civil Society, in coordination with the TCI, to continue to study the issue and make recommendations to the TNC concerning it. We ask the TNC to review these recommendations and make a proposal concerning this matter for our future consideration.

Working Languages

29. We reiterate our current operating procedure, which is to conduct Ministerial level meetings with interpretation in English, Spanish, French, and Portuguese, and to release to the public the Ministerial Declaration and the texts of the Draft FTAA Agreement in these four languages. We agree that TNC meetings will be conducted with interpretation in English, Spanish, French, and Portuguese, and reiterate the existing procedure that meetings of the other Committees and the Negotiating Groups will be conducted with interpretation in the working languages of English and Spanish and that documents in these meetings and the TNC will be translated into the two working languages.

Appointment of entity chairs

30. We recognize the work completed by the Chairs and Vice Chairs of the different Negotiating Groups and other FTAA entities during this phase of the negotiations, whose support has been crucial to the advances made in the process. In accordance with the terms agreed at the San Jose Meeting, we approve the new roster of Chairs and Vice Chairs for the various FTAA entities who will serve during the next phase of negotiations, which is submitted as the Annex to this Declaration. In the case of the resignation or permanent absence of a Chair of an FTAA entity, the Vice Chair will act as Chair.

Schedule of Meetings

31. We instruct the TNC to convene at least 3 meetings before the next Ministerial Meeting; the meetings shall be held in the cities of Puebla and Panama City, and in Trinidad and Tobago, respectively.

Candidate cities for the FTAA Secretariat Site

32. We note that the following cities have asked to be considered for the permanent site of the FTAA Secretariat and have so notified the TNC Co-Chairs: Atlanta, USA; Cancun, Mexico; Chicago, USA; Colorado Springs, USA; Galveston, USA; Houston, USA; Miami, USA; Panama City, Panama; Port of Spain, Trinidad and Tobago; and Puebla, Mexico. This is the final list of candidate cities. In order to facilitate our decision-making on this matter, we request that these cities provide to the FTAA Secretariat the information described in document TNC/26. Elements for the Evaluation of the Candidate Sites for the FTAA Secretariat by March 1, 2004, for dissemination to all delegations.

33. We agree that the elements developed by the Sub-Committee on Budget and Administration (ADM) for evaluating candidate sites for the FTAA Secretariat are for information only to serve as a guide, and which may be used by countries in the selection process.

34. We agree that the decision on the site of the FTAA Secretariat will be taken at our ninth meeting.

Tripartite Committee

35. Once again, we express our appreciation for the support provided by the Tripartite Committee (the Inter-American Development Bank (IDB), the Organization of American States (OAS), and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC)) to the FTAA negotiations and their technical, analytical, and financial contribution to the hemispheric integration process. We also thank the IDB, ECLAC, and the OAS for the support provided to the Hemispheric Cooperation Program, and to the issue meetings of civil society, and for redesigning and maintaining the official FTAA website. We encourage the Tripartite Committee to continue to support the negotiations and the HCP, and reiterate the need for their continued collaboration during this final stage of the negotiations.

FTAA Administrative Secretariat

36. We appreciate the invaluable and substantial support provided by the Administrative Secretariat to these negotiations. We also convey our appreciation to the Government of Mexico and the Tripartite Committee for the steps taken to cover the costs of the transfer of the Administrative Secretariat from Panama City to Mexico, and the costs of the operation of the Administrative Secretariat in the city of Puebla during the final stage of the negotiations. Finally, we thank the Government of Mexico for providing the facilities within which the negotiations are held and the Administrative Secretariat is functioning during this final phase.

Acknowledgments

37. We express our appreciation to the Ministers of Labor from Brazil, Canada and Mexico for providing their views on the work of the Inter-American Conference of Ministers of Labor, and for providing for our consideration the Report from the Working Group on Labor Dimensions of the Summit of the Americas Process established by the Inter-American Conference of Ministers of Labor (IACML) on the results of its examinations of, inter alia, questions of globalization related to employment and labor. We note that the IACML will deepen its enquiry into key aspects of the labor dimensions of economic integration, and request

that the IACML Ministers keep us informed of the results through the FTAA Co-Chairs. We share their views, as expressed in the Salvador Declaration.

38. We thank the Governments of Mexico, El Salvador, Trinidad and Tobago, and the United States for organizing the meetings of the TNC during this period and the Government of the United States for the organization of this Eighth Ministerial Meeting. We also express thanks to the United States and Brazil for serving as the co-chairs of the FTAA during this final phase of the negotiations.

Future Meetings

39. We shall hold our next meeting in Brazil in 2004.

ANNEX

APPOINTMENT OF CHAIRS AND VICE-CHAIRS OF THE FTAA NEGOTIATING GROUPS, COMMITTEES, AND THE CONSULTATIVE GROUP

FTAA NEGOTIATING GROUPS	CHAIR	VICE CHAIR
• NEGOTIATING GROUP ON MARKET ACCESS	COLOMBIA Felipe Jaramillo	DOMINICAN REPUBLIC Manuel Díaz Franjul
• NEGOTIATING GROUP ON AGRICULTURE	URUGUAY William Ehlers	MEXICO J. Trujillo
• NEGOTIATING GROUP ON GOVERNMENT PROCUREMENT	COSTA RICA Fernando Ocampo	PARAGUAY Juan Delgadillo
• NEGOTIATING GROUP ON INVESTMENT	PANAMA Norman Harris	NICARAGUA Humberto Arguello
• NEGOTIATING GROUP ON COMPETITION POLICY	PERU Mercedes Araoz	CARICOM Taimoon Stewart
• NEGOTIATING GROUP ON INTELLECTUAL PROPERTY RIGHTS	DOMINICAN REPUBLIC Orlando Jorge Mera	VENEZUELA Aura Ocando
• NEGOTIATING GROUP ON SERVICES	CARICOM Hillary Deveaux	ECUADOR Juan Falconi
• NEGOTIATING GROUP ON DISPUTE SETTLEMENT	CANADA Meg Kinnear	CHILE Federico Gajardo
• NEGOTIATING GROUP ON SUBSIDIES, ANTIDUMPING AND COUNTERVAILING DUTIES	ARGENTINA Adrián Makuc	MEXICO José Manuel Vargas

OTHER FTAA ENTITIES	CHAIR	VICE CHAIR
• CONSULTATIVE GROUP ON SMALLER ECONOMIES	CARICOM Ronald Ramkissoon	NICARAGUA Alvaro Porta
• COMMITTEE OF GOVERNMENT REPRESENTATIVES ON THE PARTICIPATION OF CIVIL SOCIETY	CHILE Pablo Lazo	PERU Liliana Honorio
• TECHNICAL COMMITTEE ON INSTITUTIONAL ISSUES	MEXICO Ricardo Ramirez	USA/BRAZIL* Karen M. Lezny Tovar da Silva Nunes

* According to the terms of reference for the Technical Committee on Institutional Issues agreed by the Ministers at their Buenos Aires meeting, FTAA.tncmin/2001/02, "The Trade Negotiations Committee Chair will be the Vice-Chair of this Committee."

VIII Americas Business Forum

November 19, 2003
Miami, FL

Creating The Free Trade Area of the Americas: Pragmatic Engagement for 2005

Enrique V. Iglesias
President
Inter-American Development Bank
Washington D.C.

I. Why could an FTAA be important for Latin America and the Caribbean?

The vision of hemispheric integration and cooperation has emerged in different forms and occasions over the last two centuries. But it was in the 1990s when such a heroic idea became a working venture with serious possibilities of becoming reality. Of course I am referring to the Hemispheric Summit process launched nine years ago by 34 democratically elected Heads of State of the hemisphere right here in Miami and where the objective of creating a Free Trade Area of the Americas (FTAA) became a central pillar of the Summit process.

The FTAA is a bold idea; joining 34 heterogeneous economies with very different sizes and levels of development into a comprehensive, balanced, and development-oriented "second generation" free trade area, i.e., one that goes beyond the traditional trade in goods to include services and other disciplines now quite common in modern trade agreements.

The FTAA, moreover, forms part of the multi-layered trade strategy that Latin America has been pursuing in support of structural reforms. That strategy has combined unilateral trade opening with liberalization in the GATT/WTO and preferential opening through regional agreements. The parallel tracks to liberalization have generated positive synergies between them. For instance, by paralleling regional integration agreements with unilateral and multilateral opening, the traditional risks of trade and investment diversion were mitigated. Meanwhile, regional agreements allowed countries to lower their average levels of protection while creating an enabling environment for new exports and a laboratory for practicing the art of cutting-edge trade disciplines, all while establishing a geopolitical vehicle to deal with neighborhood issues and broader cooperation. The link between the WTO and regionalism has also been extremely important because of the latter's ability to address systemic trade issues, including domestic support for agriculture and rules for regional integration agreements.

Since 1990, regionalism has been exceptionally dynamic, with Latin American and Caribbean countries launching more than 30 agreements ranging from simple free trade areas to comprehensive second generation FTAs, and to customs unions with objectives of becoming a common market. What is most interesting is the growing intersection of "South-South" agreements with "North-South" agreements. The latter —politically inconceivable before the region set out the priority of structural reforms— began with NAFTA but now includes a number of other agreements such as Canada- Costa Rica, U.S.-Chile, and Mexico and Chile with the EU. Moreover, a significant number of other North-South negotiations are in progress involving bilateral negotiations with the US, Canada, the EU and Japan as well as the plurilateral FTAA.

The logic of pursuing North-South agreements for development is clear and is increasingly recognized in development circles.

- More secure access to major export markets and improvement of that access through the opportunity to negotiate elimination of lingering tariff peaks and other serious barriers in sectors where the region has a strong comparative advantage, e.g., agriculture. Indeed, agricultural-related tariffs in the OECD are still approximately four times higher than industrial tariffs.
- Given that regional agreements with industrialized countries incorporate a spectrum of comparative advantage that reflects the world economy, they help to reduce the threats of trade and investment diversion in South-South integration, which can be exceptionally costly for the smaller member economies. Overall, North-South agreements can enhance welfare through improving the efficiency of patterns of consumption and production.
- Empirical studies by the IDB have shown that North-South FTAs are an important magnet for attracting foreign direct investment, especially from the industrialized member of a new agreement.
- North-South agreements are more than trade. They can serve as an anchor for structural reforms by adding credibility and locking in policy commitments as well as directly and indirectly promoting institutional modernizations such as transparent dispute settlement, more efficient regulatory frameworks, business facilitation and effective customs procedures, etc.
- North-South trade agreements can also be the handmaiden of broader cooperation between Latin America and an industrialized country as trade and investment dynamics reveal other opportunities where commercial, cultural and political relations can be strengthened.

Within the context of North-South agreements the FTAA is conceptually very relevant for Latin America. It would intersect with Latin America's subregional agreements in ways described above and serve as an instrument for deepening rules-based commerce and institutional modernization. It could also absorb many simpler bilateral free trade agreements, eliminating less efficient hub and spoke FTA arrangements in the hemisphere and ameliorating the so-called "Spaghetti Bowl" of norms and regulations emerging from the myriad of regional agreements now in place in the hemisphere and those being contemplated. Furthermore, the potential for an FTAA to create an enabling environment to help our countries to compete in a globalizing world economy should not be overlooked in light of increasing competition from Asia and elsewhere.

The FTAA would moreover facilitate trends already underway. Parallel to the forces of globalization we are observing increasing regionalization of world trade, investment and even migration. The Western Hemisphere is no exception. The percentage of exports of FTAA countries that stays within the hemisphere has grown from 48% at the beginning of the 1990s to over 60% as we enter the 21st century. Since the early 1990s, the highest annual average rate of hemispheric export growth for Latin America has been with the North American market and secondly in the respective subregions. An FTAA, in conjunction with the recovery of the US economy already under way and signs of better growth performance in Latin America and the Caribbean, may be a powerful tool of export expansion and stimulus for investment. Indeed, most economic models of the FTAA suggest that it would be a very important catalyst for exports, a significant part of which would be intra- Latin American and Caribbean trade since there are still high commercial barriers between the subregions.

While the FTAA offers a potential platform for structural reform, growth and poverty reduction through new exports, investment, institutional modernization and cooperation, as I will discuss later, it is by no means a "silver bullet" for development; our countries must proactively pursue other structural policies that will allow them to capture the full potential benefits of an FTAA and distribute them equitably among their citizens.

II. The FTAA's Difficult Road Ahead

The FTAA process launched in December 1994 has been remarkably successful in both its preparatory stage and in the launch of formal negotiations in 1998. The process has progressed at a steady pace with active participation of 34 country delegations, meeting nearly every day in the FTAA Secretariat. Meanwhile, the FTAA process has been combined with relatively energetic subregional integration initiatives, a growing array of bilateral negotiations and was joined two years ago by the launch of the WTO's Doha Development Agenda. This multi-layered setting for trade and integration, while clearly burdensome on the capacity of many countries, offered all the positive synergies referred to earlier and the promise of a more open and dynamic world trading system for the development of the region.

However, the trade picture today is more complex than it was a few years ago. We observe some of the subregions facing difficulties in advancing their internal deepening and the setback of the failed Cancun WTO Ministerial. At the same time, some questioning has emerged about the viability of the FTAA, at least as originally envisioned by Heads of State in the Summit of December 1994. We hear ideas of an FTAA "light" an FTAA that excludes some countries that opt out, or even no FTAA at all, at least by 2005. Meanwhile, many countries are giving increasing attention to bilateral deals. Without an FTAA there would be an emerging hub and spoke trade system in the Americas centered around the countries that have most bilateral FTAs. While probably better than the status quo for participating countries, a bilateral hub and spoke system is clearly inferior to the FTAA from the standpoint of hemispheric welfare.

Is the FTAA in jeopardy? I hope not. An FTAA as originally envisioned by the Heads of State—a comprehensive, balanced, development-oriented agreement with special attention to the problems of countries of different levels of development and size—is an initiative that, if negotiated within the original principles that inspired it, may become an instrument for the prosperity of the region and for fostering closer hemispheric cooperation. In the difficult waters that Latin America must navigate both at home and in the international economy, a WTO-consistent FTAA with balanced concessions and attention to varying capacities would clearly serve as a valuable anchor for the structural reform process in the region that is needed for growth and poverty reduction. It would also provide a helpful test of the political commitment of the countries to realize their objectives of deep integration in the subregions.

Moreover, the road to the FTAA has, as I have mentioned on other occasions, already generated many positive externalities for development, e.g.:

- An unprecedented *esprit de corps* among the trade delegations of the Americas;
- Publicly available compendia and databases on trade-related issues heretofore difficult or impossible to obtain;
- A learning laboratory for understanding WTO disciplines and improving negotiating skills;
- Eight hemispheric customs facilitation measures;
- Improved techniques for civil society consultation;
- A pioneering FTAA Hemispheric Cooperation Program designed to systematically identify, set priorities and finance trade-related capacity building;
- Creation of a hemispheric business forum which has brought you all together here today to discuss the FTAA and other issues of interest to the private sector; and
- Mobilization of our civil societies more generally to actively discuss, raise awareness of, and debate, the effects of trade, the FTAA and globalization on their daily lives and societies they live in.

But of course the final test for our FTAA process is the achievement of a welfare —enhancing FTAA agreement. The FTAA has been a long maturing process. However, the easiest stages are over. When the FTAA process was launched in December 1994 there were 10 years before the moment of truth; now there is slightly more than one year. The enlighted general principles and objectives set out in the first Heads of State Summit and subsequent Ministerials should soon be translated from formal words to practical and operational deeds. As liberalization offers are exchanged, countries confront the reality of their politically sensitive domestic sectors and the costs of implementation. Liberalization offers must also accommodate promised special consideration for the vulnerabilities of smaller economies, a relatively new concept in trade agreements.

As if all this were not enough, the general context has also changed between December 1994 and now. Democratic governments have changed parties and leadership. There are important new electoral cycles emerging over the next year. There have been serious political and economic difficulties in a number of countries all while a certain political fatigue has emerged regarding the so-called "Washington Consensus" and structural reforms. The synergies of a successful Uruguay Round have dissipated into the uncertainty arising from events in Cancun. In sum, it is not surprising that the earlier pristine concept of the FTAA—difficult to achieve under the best of circumstances—has been challenged by realities.

Nevertheless, not achieving an inclusive, comprehensive, balanced WTO-consistent FTAA by 2005 would risk signaling failure of an extraordinary 10-year hemispheric effort to cooperate in trade and would abort the birth of an endogenous engine for promoting broader hemispheric solidarity.

III. Making the FTAA a Reality: the Central Message is Engagement

My message today is Engagement with a "capital E". We need an FTAA agreement for **all** 34 countries. We need an agreement that is WTO consistent, comprehensive in scope and with special attention to market access, including important agricultural liberalization. We need an agreement with balanced concessions, but coupled with instruments and modalities to level the playing field among countries that range from the richest to some of the poorest in the world. This would include weighing the benefits and costs of adopted trade disciplines in light of the level of development and the stage of structural reform of the participants.

I think that many of those interested in freer trade, especially those in the business community, would like to achieve the pristine ideal of the FTAA. However, perfection can be the enemy of progress. Engagement in 2005 may require adjustments to immediate ambitions, as the political and economic realities of today must ultimately shape any FTAA agreement -but engage we must. After all, the FTAA is much more than business. Rather it is a grand regional public good that will contribute to binding our hemisphere together in a venture that can make our neighborhood more stable and prosperous and contribute the same to the world economy.

How to engage? Rather than talk about an "ambitious" or "light" FTAA we should focus on a "pragmatic" FTAA, remembering that such an agreement among so many heterogeneous countries will likely be a living process of intra-hemispheric relations rather than a one-off event. A pragmatic FTAA would involve a "variable geometry" that incorporates core obligations for all with a scope that allows for some critical tradeoffs: the possibility to engage bilaterally or plurilaterally beyond the core elements of an FTAA. This could be accompanied by a post-2005 "built-in agenda" to provide opportunities to expand the core obligations of the FTAA as advances are made in the Doha Round and some of our economies and subregional agreements recover from several difficult years.

Another component of a pragmatic FTAA is to combine the proven technical prowess of our delegations with more direct political leadership in the process at the highest levels. As mentioned, the FTAA is much more than business; it is ultimately a grand political decision that will affect our countries' articulation with the hemisphere and world economy for decades to come.

We must also better engage the political sensibilities of our civil societies and legislatures. Moreover, you, the hemispheric business community will have a strong influence in the configuration of an FTAA. A spirit of pragmatism and engagement on your part would certainly contribute to the prospects of achieving an FTAA by 2005.

In sum, a pragmatic WTO-consistent FTAA among 34 countries that preserves the basic spirit of the Miami Summit is by no means a small achievement; indeed it would be an institutional beachhead of historic proportions that would engage the hemisphere in a venture that could bear much fruit and that contributes to strengthening democracy, poverty reduction and prosperity.

IV. Other Requirements for a Successful FTAA

I mentioned earlier that the FTAA would not be a silver bullet for development and poverty reduction. Indeed, it is best to view the FTAA for what it really is: a window of opportunity. In the first instance its effects on development and poverty reduction will depend, of course, on intelligent negotiation and balanced content. The agreement's configuration must take into account the capacities of countries; incorporate disciplines that support, not undermine, national public policy making for development, and should construct an institutional architecture appropriate to support an agreement whose members are overwhelmingly developing countries.

But a good agreement is only a starting point. The FTAA and its trade and investment flows will permeate each of our countries' national policy matrix, which ultimately will be the determinant of the effects of an FTAA on growth, development and poverty reduction. Hence, of paramount importance is a proactive national policy to implement the agreement efficiently and undertake the adjustments in the transition to free trade in a way that maximizes social benefits and provides social protection to sectors that may lose in the inevitable reallocation of resources. In broad terms, this encompasses, among other things, macro, fiscal, monetary and exchange rate policy, sectoral competitiveness programs, education and training for human capital, infrastructure development and social support networks to protect vulnerable groups, including those producing domestic staples in rural agriculture. In essence, these latter policies will be decisive in the success of the FTAA for individual countries and their development.

Collective initiatives are also important. It is important to point out, as I always try to do, that the FTAA is not a substitute for deepening subregional agreements. Deep subregional agreements in the context of open regionalism will strengthen the FTAA because it will improve the competitiveness of the partners, enhance bargaining power in a probably dynamically evolving post-FTAA scenario and serve to manage the many local neighborhood issues that escape the reach of hemispheric cooperation. In that regard, the realization of an agreement between the Andean Community and MERCOSUR would be an important step.

Other important collective vehicles are the Plan Puebla Panama (PPP) and the Initiative for Integration of Regional Infrastructure in South America (IIRSA). These regional initiatives, among other things, promise to deliver the infrastructure and regulatory frameworks needed to enhance trade, investment and competition in our region. The participation of the private sector and its financing is a key factor in the success of these two ventures. Of course, there is Hemispheric Summit Cooperation that has displayed concrete advances and probably would thrive with the emergence of the FTAA.

As for the Doha Round, its successful continuation is exceptionally important because it represents the world market, can deal with systemic issues that are not easily treated in regional agreements, and sets the floor and rules for regional integration. Indeed, a Doha Round that accomplishes its goals is a major catalyst for a deeper FTAA. I think the setback in Cancun is temporary and the Doha Round, after a healing process, will move forward. We all know that the multilateral trading system is a critical global public good that must be preserved for the health of our world economy.

V. The Bank Can Help

Aside from its direct support of the FTAA deliberations since 1995 in the context of the Tripartite Committee, the Inter-American Development Bank (IDB) has recently formulated a number of programs especially designed to help our borrowing countries navigate these challenging times. Some of these are:

- In 2001, the IDB established a special Trade Facility which provides fast-track approval for loans up to a maximum of $ 5 million to provide support in virtually all areas related to strengthening a country's institutional capacity regarding trade negotiations and implementation of the disciplines emerging from agreements. To date, the Bank has approved seven national loans and four more are being considered under this Facility.

- In July 2003, the IDB launched the new "Lending Program for Trade, Integration and Competitiveness." The Program can combine, under a single integrated operation, policy-based and investment loan components with technical assistance to help countries finance the transition to freer trade. Eligible activities for the Program include economic reconversion; assistance for displaced labor; customs facilitation; promotion of exports and FDI; infrastructure; tax policy reforms and programs to enhance the domestic business environment. Costa Rica is our first client for this new initiative and I hope other countries will join it in accessing this new program.

- Our Multilateral Investment Fund provides grants (with counterpart funding) to assist the private sector, including labor markets, in accommodating the demands of modern trade agreements.

- The Bank, in the context of the OAS/IDB/ECLAC Tripartite Committee, is supporting the pioneering Hemispheric Cooperation Program, which is assisting countries in systematically identifying and setting priorities for their trade-related capacity building needs in negotiation, implementation of agreements and the transition to free trade as well as coordinating meetings with the donor community.

- Drawing from the experience of the CAFTA negotiations, there may be a potential role for the private sector in the FTAA Hemispheric Cooperation Program (HCP). In the CAFTA, one observes the private sector taking its first steps to becoming an integral partner in financing the initiative's official trade capacity building exercise, which mirrors procedures in the HCP.

In conclusion, the IDB has been and will be accompanying its borrowing member countries in all the facets of achieving a successful FTAA as well as other objectives in the region's multi-layered trade strategy and structural reform. The Bank believes in the vision of the FTAA as a major potential instrument that countries can access to support growth, development and poverty reduction. The Bank has invested heavily in the many dimensions of the FTAA process. With the support of civil society and those of you here participating in the ABF, we now hope that governments will make the necessary advances in the Ministerial tomorrow to raise optimism about the engagement of our 34 democratic countries in a historic FTAA by 2005.

Thank you.

VIII FTAA MINISTERIAL
Miami, Florida
20 November 2003

Statement

Enrique V. Iglesias
President
Inter-American Development Bank

It is a privilege for the Bank and for me to have been accompanying you with our Tripartite Committee partners since the launch of the FTAA process nearly nine years ago right here in this great city of Miami. I think it is very appropriate to be meeting here again now at such a critical juncture when the decisions you will make over the next two days will be critical in defining the real prospects of achieving the vision of our Heads of State for a balanced, comprehensive and development-oriented FTAA by 2005.

I have always been encouraged by that vision because, from the perspective of development banking, an FTAA would not only improve welfare through opening new trade and investment opportunities, but could also contribute to anchoring our structural reforms for consolidation of democracy, growth and poverty reduction. I know that we are at the difficult last stage of the negotiations and there have been voices of frustration in different circles. An important dose of pragmatism will be needed to bridge differences and accommodate the changes in our economic and political realities between December 1994 and now.

As I said yesterday at the Americas Business Forum, we need an FTAA agreement for **all** 34 countries. We need an agreement that is WTO consistent, comprehensive in scope and with special attention to market access, including important agricultural liberalization. We need an agreement with balanced concessions, but coupled with instruments and modalities to level the playing field among countries that range from the richest to some of the poorest in the world. This would include weighing the benefits and costs of adopted trade disciplines in light of the level of development and the stage of structural reform of the participants.

I think that many of those interested in freer trade would like to achieve the pristine ideal of the FTAA. However, perfection can be the enemy of progress. Engagement in 2005 may require adjustments to immediate ambitions, as the political and economic realities of today must ultimately shape any FTAA agreement. But the founding principles must prevail. Rather than talk about an "ambitious" or "light" FTAA we should focus on a "pragmatic" FTAA, remembering that such an agreement among so many heterogeneous countries will likely be a living process of intra-hemispheric relations rather than a one-off event.

Since the Miami Summit you have steadily advanced the process and I remain optimistic that a definitive impulse to the FTAA negotiating process will successfully emerge out of this distinguished forum. Indeed, I trust you will overcome the post-Cancun anxieties by leaving here with a positive message of engagement that will signal to our private sectors and civil society that a hemispheric trade agreement is on track. It is worth remembering that the FTAA is much more than trade. It would be a grand unprecedented regional public good. An FTAA negotiated under the principles from which it was inspired –balanced, comprehensive and development oriented- would support democracy, economic growth, reduction of poverty and, more broadly, hemispheric Summit cooperation for 34 countries that share geography, history and a common challenge of managing the forces of globalization for a better society and world. To not achieve a development-oriented FTAA would be a lost opportunity of historic proportions for our hemisphere.

We are today only a little more than a year away from the deadline for finishing the negotiations. The IDB has been intensively focused on providing technical support to the negotiations and promoting trade-related capacity building in our borrowing member countries. The Bank has also worked with our Tripartite Committee colleagues in support of the FTAA Hemispheric Cooperation Program. The Bank's initial attention was on strengthening negotiating capacity since intelligent negotiations are the first step to a sustainable FTAA agreement. My impression is that the Bank's work in this area, as well as that of other donors, has borne fruit in this and other trade negotiations. I think we all could agree that the level of preparation of our region is much improved compared to nine years ago.

As we approach the closing date of 2005 it is important to begin preparing for the implementation of the agreement and the economic adaptations needed for the transition to free trade. The latter is especially challenging given its broad scope and the complexity of the policy- making it demands. Moreover, the FTAA agreement only sets the stage; how the agreement will play out in terms of growth, development and poverty reduction depends decisively on its intersection with a much broader array of national policies. In other words, the FTAA is only a window of opportunity, not a "silver bullet" for development. The formula for success will lie in other national structural reforms to accommodate the opportunities that the FTAA generates.

Macroeconomics

- The FTAA will open markets for trade and investment. A stable national macroeconomic environment is a *sine qua non* to exploit the opportunities of an FTAA. Proactive macro policies to preserve stability will be required in the transition as prices and quantities in our economies will undergo important transformations due to the reallocation of resources to the most competitive activities.
- Control of inflation is a fundamental requisite since severe alterations of domestic prices distort the price signals that must guide production and investment.
- The real exchange rate is without a doubt a key relative price that provides incentives to exports, production of import substitutes and investment in both. It is important to avoid overvaluations. One potential challenge in this regard is effective management of sudden and unsustainable surges in short term capital inflows that could arise in international markets, especially in the initial phases of hemispheric integration. These surges can contribute to loss of competitiveness, extreme volatility of the exchange rate and even crisis.
- Stable rates of growth are also necessary to promote investment and exports. Countries need to improve their ability to implement counter-cyclical policies that partially compensate fluctuations in the terms of trade, capital inflows and world economic activity. To do this there is a need to substantially increase public savings during the "good years" and manage sustainable levels of foreign debt.
- In the face of reduced trade revenues there will be need in many countries for fundamental fiscal reform to maintain fiscal balances and generate the public resources required to assist in the social transitions to free trade.
- Subregional economic integration with deep objectives can explore possibilities for cooperation in certain dimensions of policies designed to foster macroeconomic stability.

Sectoral Adjustments

- The move towards integration in the hemisphere must bring sectoral restructuring to the top of Latin America's economic and social agenda. More pressures will be placed on local firms to reallocate and improve their use of resources. Decisions on streamlining, cuttings costs, refocusing of product lines and exploiting market niches, greater horizontal and vertical specialization, higher investment in technological capabilities and merger and acquisitions will be more than ever the order of day for companies in the region. The future of the economies in the region hinges very much on macro and microeconomic restructuring decisions that enhance productivity and boost the region's competitiveness.

- Successful restructuring decisions depend not only on the incentives of competition but also on a set of supportive policies and institutions, especially where market failures are prevalent. Restructuring requires factor mobility, coordination, information, skills and finance on reliable terms, conditions that are not always provided satisfactorily by autonomous market forces and whose supply is often hampered by unnecessary obstacles arising from ill-conceived public policy. Governments that do not address these issues risk facing stalled restructuring processes, which might result in the unwanted survival of inefficient activities or in the elimination of potentially viable firms and activities.
- Specific actions should arise out of a private-public sector alliance which departs from the old public-private sector divide that so characterized our domestic economic relations in the past. In designing strategies some attention might be given to programs that have been successfully deployed in North America, Europe and the region, but with due care for adjusting to the national institutional and financial realities. One also should not overlook the possibilities for exploiting synergies among sectors joined together in deep sub-regional integration initiatives. Moreover, perfecting and deepening these common market initiatives can be a major platform for enhancing national competitiveness in the FTAA. And, of course, agreements among regional groups, as aspired to by the Andean Community and MERCOSUR, would strengthen competitive capacity even more.

Poverty and Equity

- The FTAA is a means not an end. The ultimate goal is to raise the standard of living of our societies in the hemisphere. Experience shows that North-South agreements can generate net social welfare gains, but inevitably also create losers as well as winners. Part of the net gains must be used to compensate vulnerable groups, especially those who are already poor. This is based on equity considerations but also political economy as losing sectors will be more disposed to oppose the FTAA if they anticipate that they will be left unprotected.

- If workers cannot readily move to industries with comparative advantage because they lack the new skills demanded by markets, because of advanced age, or because job opportunities are concentrated in different regions within the country, trade liberalization could make them worse off. Rural sectors producing domestic stables may be especially vulnerable.

- Trade agreements include arrangements, such as extra long transition periods, that can assuage some of these adverse distributional outcomes. But this type of assistance has its limitations. There is no substitute for active involvement by national governments to ensure that the FTAA benefits everyone.

- Ultimately, each national government is responsible for choosing those policies that it considers most appropriate given its own needs and taking into account the political realities they face. We need to seriously think now about how other policy realms, beyond trade and foreign direct investment promotion, should face up to the challenge of balancing economic integration and social inclusion. Some of the policies that we may start discussing include:

    - Bringing the benefits of economic integration to all regions within the country by improving roads, railroads and ports, and, in general, by improving infrastructure and local institutions to raise competitiveness and attract national and foreign capital.

    - Breaking the vicious cycle of poverty with increases in expenditure in education and health.

Fortunately, recent poverty alleviation programs in the region —such as Brazil's *Bolsa Escola* and Mexico's *Opportunities* — indicate that this is a feasible goal.

- Removing distortions in the agricultural sector created by incentives that induce farmers to produce crops where a comparative advantage does not exist, and moving toward support schemes that give farmers, especially in rural areas, the means to choose more profitable production.

- Updating curricula and modernizing existing education systems so as to compete in the global economy.

- Support workers that are displaced by trade liberalization and offer them re-training.

This is, of course, a partial list of topics that could serve as a basis for thinking about how to make economic integration compatible with welfare improvements. Most likely there are alternatives that we have not thought about yet, but that could emerge in an active debate. Inaction, however, would clearly be the worst-case scenario in view of the goal of creating an inclusive welfare-enhancing FTAA.

The Bank Can Help

I know that you are already aware of these issues. I stress them here only as a lead in to my central point: the Bank wants to accompany you in this transition.

Over the last few years, the Bank has proactively rolled out special trade-related capacity building initiatives to complement our regular support programs. With regard to the issues I just raised here I want to alert Ministers to one of them just authorized this summer: our new *Lending Program for Trade, Integration and Competitiveness*. The Program allows countries to combine the Bank's investment loans, policy-based loans and technical cooperation into a single package for Board approval to tackle in an integral way any and all of the issues raised above for a socially inclusive transition to free trade. Our first client is Costa Rica. The Bank with the government is preparing a loan from this new Lending Program to support multisectoral adjustment. I invite you all to explore this new Program, information on which is attached to the printed version of my presentation. Drawing on this lending program is an investment in your future. This is because what you do now to prepare for the FTAA will for many be decisive in defining for decades to come the net benefits you will derive from participating in globalization.

Finally, I want to mention our Mutilateral Investment Fund (MIF), which supports the private sector. It was created in the early 1990s to help the private sector accommodate the launch of important structural reforms in Latin America and the Caribbean.

The FTAA will be a catalyst for a bold new round of structural reforms. The MIF can be an important partner for our business community; particularly small and medium size enterprises, which are important sources of employment and may be more vulnerable to change.

Thank you and my best wishes for a successful FTAA Ministerial.

Lending Program for Trade, Integration and Competitiveness

A. Background

Countries underwent a wave of unilateral trade opening in the late 1980s and early 1990s which were reinforced through numerous regional integration initiatives. However, the Region is now embarking on a second major wave of trade negotiations at the regional, hemispheric, inter-regional and multilateral levels. Countries see their trade agreements (and unilateral opening) as a vehicle to enhance development in an era of increasing globalization. Moreover, since many of these initiatives involve major trading partners and markets, the results of these agreements will decisively regulate the countries' access to world markets over the coming decades.

Notwithstanding the expected benefits of trade liberalization on growth and employment, transition processes towards a freer external market may entail temporary adjustment costs due to a variety of reasons such as fiscal revenue shortfalls and reallocation of factors of production, including labor. Nonetheless, these costs associated with the opening- up process are expected to be outweighed by medium and long-term benefits including institutional modernization, market access and business opportunities generated by competition and greater participation in world markets.

B. Rationale

The Bank has several lending and non- lending instruments to support the processes of economic integration and trade liberalization underway in the Region. Nevertheless, when it comes to supporting an agenda of socially efficient "behind-the-border" adjustments, vital to making trade liberalization serve as an engine of growth and employment, countries need to rely on several instruments and to access different Bank windows, in a relatively complex and time consuming effort, both for the countries and the Bank. Moreover, in most countries multiple loans will require multiple and time-consuming congressional approvals. A single, comprehensive approach could expedite the Bank's support of the transition process and multiple adjustments that countries will undergo in their pursuit of increased trade and investment.

The Bank already has a number of special lending programs to address the challenges of trade. First it has established a Trade Sector Facility that attends to the need for support in the areas of (i) preparation for negotiations and (ii) implementation of trade-related disciplines in the agreements. More recently it has created the International Trade Finance Reactivation Program to support export financing. But neither of these lending instruments addresses the broader range of sectoral adjustments that countries must take more or less simultaneously as they embark on freer reciprocal or unilateral trade arrangements.

Establishing a new special lending program also has the rationale of marketing. The Bank has learned through the experience of the Trade Facility that a special financial product "with a name" also signals to its clients the Bank's special interest in supporting a particular activity. This helps raise the interest of ministries, mainstream the issue in the ministries' agenda, and encourage them to engage Bank services.

Another rationale underlying the proposal is that the creation of this new lending program would draw on existing lending instruments in the Bank, i.e. no new instruments need to be created.

In sum, the proposed program does not include any new instruments, requirements, or loan processing procedures. It would, however, provide a new approach which the Bank can offer countries in the programming process and which countries may wish to use, use partially, or not use at all. Ultimately, countries will propose whether to package loans together or approach them individually. In any event, the additional option of a comprehensive program can help countries mainstream and coordinate on many issues related to the transition to free trade and the activities the Bank can finance to address them.

C. Objective

The purpose of this new lending program is to help borrowing member countries to meet the challenges of the trade adjustment process. It will provide expeditious and comprehensive support so that countries can implement the reforms in a more comprehensive way and prepare themselves for the transition process that they will face.

D. Description

The proposed program loan uses the Bank's existing lending instruments. Under this program a combination of policy-based and investment components, and technical assistance, could be included into a single loan.

The PBL component of the program loan will follow all the requirements set for PBL operations. They will fall under the PBL ending limits and the 18 months disbursement restriction set forth in the New Lending Framework. In addition, it would require, among other things, a policy letter from the borrower setting out the country's trade transition plans, and a general commitment to maintain the appropriate macroeconomic environment. The desired policy changes could include, for example, making the tax system more trade and investment friendly, and improved and more homogeneous regulatory frameworks that enhance competitiveness (see examples in Annex).

As is the case with PBL, the investment component will follow the requirements set for investment loans, as well as the limits set forth in the New Lending Framework. The investment component could focus on restructuring economic activities or changing to new activities in order to adapt to new international or regional opening of economies, or to establish social safety nets to assist those that are beyond adaptation in the foreseeable future. This component may also include a variety of initiatives that otherwise support trade, such as credit, improvement of interconnecting infrastructure, enhancement of the business environment, and trade promotion (see examples in Annex).

The technical assistance component could focus on those activities normally addressed by TC, such as institutional strengthening, training, analytical and policy studies, seminars and workshops, and civil society outreach, all of which would help countries in the transition process.

E. Operational Aspects

1. Eligibility Criteria

All borrowing member countries are eligible for using this program loan.

2. Processing, Approval and Execution Procedures, Monitoring and Evaluation, and Financial Conditions

Programming, preparation and approval processes, project monitoring and evaluation, and financial conditions would be the same as for all other Bank operations. An evaluation of the lending program itself will take place after one year of operation.

3. Bank Lending Policies

All Bank lending policies would apply as with all other Bank operations.

ANNEX

EXAMPLES OF ACTIVITIES THAT COULD BE INCLUDED IN A LOAN FOR TRADE, INTEGRATION AND COMPETITIVENESS

Restructuring of economic activities. Increased integration has brought restructuring to the top of Latin America's economic and social agenda. Trade liberalization and heavy inflows of FDI have been placing great pressure on local firms to improve the use of resources. Decisions on streamlining, cutting costs, refocusing of product lines (or crops), greater horizontal and vertical specialization, higher investment in technological capabilities and mergers and acquisitions are the order of day for companies in the region in all sectors, including agriculture, industry and financial services. The future of the economies in the region hinges very much on business restructuring decisions that enhance efficiency, improve welfare and boost the region's competitiveness. Successful restructuring decisions depend not only on the discipline provided by a more open, competitive and integrated environment but also on a set of supportive policies and institutions. Restructuring requires factor mobility, coordination, information, skills and finance, resources that are not always provided satisfactorily by market forces and the supply of which is sometimes hampered by bad policies. There is a wide array of possible actions that the Bank can support, for example, financial and technical assistance to governments to reform institutions (e.g. capital markets deepening and regulation and bankruptcy laws); facilitate the exit or consolidation of firms in markets which can support only a limited number of players; trade-related R & D programs; and direct financial and technical assistance to firms (especially SMEs) to ease restructuring of viable enterprises through access to information, knowledge, training and finance.

Assistance for displaced labor. Economic integration requires adjustments in production and consumption levels to achieve better competitiveness and to maximize the benefits of more trade and investment. These adjustments could lead to quantitative and qualitative changes in required labor profiles. Some related effects at the country level could be employment reduction in some specific geographic areas and sectors. On the other hand, economic integration is more sustainable when associated with social cohesion. Many countries in LAC suffer increasing poverty levels that stimulate governments to keep or create commercial barriers in order to avoid unemployment. To assure social cohesion, to avoid income losses for the poor and to respond to the labor skill mix needed by the integration processes, the IDB could support unemployment insurance systems (and/or social safety nets for the poor) in regions or targeted social groups negatively affected by trade liberalization. Assistance to displaced workers could include training to reconvert the labor skills mix to meet new demands. Regional funds could be considered to address the asymmetrical geographical impacts of regional integration and trade.

Customs facilitation. Since customs have as their inherent function the control and inspection of foreign trade, they are an administration of cross-border transactions which if not designed efficiently will unduly hamper competitiveness and increased trade. These controls are necessary for, among others, tax, security, health and environmental reasons. Nevertheless, there must be an adequate balance that both preserves the mission of the customs institution and minimizes the impact on foreign trade. On the policy front, simplification and adoption of harmonized procedures can reduce time and costs to the private sector. But the customs institutions must be also modernized and strengthened in order to carry out their ever-increasing functions, as the growth of foreign trade introduces new challenges like the management of intricate rules of origin and transfer pricing.

Trade-Related Capacity Building. In the face of new North-South free trade areas and multilateral negotiations, countries will have to alter domestic policies and institutions to comply with the rights and obligations of new agreements. Some of these areas require retooling of existing institutional capacities while others are new pioneering trade-related issues. These include services, intellectual property rights, competition policy, technical barriers to trade, sanitary and phytosanitary standards, government procurement and transparency, among others. In the context of multilateral openings and regional integration, other issues that emerge are tariff reform, creation of common external tariffs and customs union formation.

Strengthening of export promotion and FDI attraction policies, instruments and institutions. The formulation and adoption of effective export promotion and investment attraction policies can produce tangible benefits for economic and social development, such as overcoming information asymmetries, job creation, generation of foreign exchange, increased competitiveness and the transfer of new knowledge and technologies. To be effective, these policies and instruments must be consistent with business strategies and the institutional framework adopted by other countries for those same purposes. They also must be focused on those sectors capable of presenting clear competitive advantages. The concrete actions that the Bank could support include, among others, studies on exportable supply, pre- investment studies, programs to develop and disseminate country image, strengthening of public and private institutions for export promotion and investment attraction, trade finance, and the use of information technology as well as the establishment of one-stop shopping to support exporters and investors.

Infrastructure. The growth of trade and the advances of regional integration may be hampered by infrastructure shortfalls that may not provide the adequate connections between the different national markets. Given the important externalities that this issue raises, it is also important that countries coordinate themselves in order to afford a regional view to the development of infrastructure. Special attention would be given by the Bank to national infrastructure projects that incorporate a regional dimension. Specific activities that would be supported include, for instance, port and airport infrastructure, export corridors, and connecting roads (including rural), communications and energy transmission lines as well as pipelines for oil or gas that would link isolated regions of a country to the regional markets. The Program would also support projects identified under specific infrastructure integration initiatives such as those contemplated in the Puebla Panama Plan (PPP) or the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

Tax policy reforms. Promoting trade requires looking carefully at the effects of tax policies, since tax systems can contain both hidden subsidies and barriers to trade in goods, services and capital. Integration and trade opening will often demand changes in internal taxes to compensate the losses of import duties revenue, and fiscal measures may be necessary to mitigate the impact of openness on sectors or regions considered strategic or of special interest. Due to the growing importance of trade, tax matters have become more relevant for competitiveness. And since markets are becoming broader and not limited to each country, there is a growing risk of tax competition in order to attract FDI or other harmful tax practices. Hence, some countries may seek some level of tax coordination. This leads to the need for appropriate tax policy changes in order to make tax regimes more trade and investment friendly and compatible with increased trade and market integration. This could include tax reforms to substitute customs duties by internal taxes, exempt exports from taxation to enhance competitiveness, revise fiscal incentives used to promote exports, mitigate “fiscal wars” within and between countries, as well as the adoption of tax coordination actions between integration partners, especially in the areas of transfer pricing, dispute settlement, exchange of information to combat fraud and money laundering, and convergence of indirect taxation to facilitate trade.

Enhancement of business environment. To attract FDI and foster local investments it is important to offer an enabling environment, which includes but is not limited to sound macroeconomic performance. From the standpoint of foreign investors, perhaps the most important of all is the elimination of discriminatory practices and the granting of national treatment. Sound and stable regulatory frameworks are also necessary, using generally accepted norms and institutional settings, especially in the areas of financial, and public services. Other business enhancing actions and policies that the Bank could support are the adoption and implementation of common competition policies, financial sector reform policies and adequate tax and business legislation. The Bank could also support an increased availability of credit for the private sector under market conditions. General observation of the rule of law is paramount for a good business environment. In some cases it may be useful and attractive to support the establishment of neutral fora to help in the resolution of disputes that may arise in non-trade related areas. Efforts in the area of computer literacy, e-commerce and foreign language proficiency should be supported, as well as the adoption of international standards to facilitate access to foreign markets. Particular support should be offered to labor and environment norms.

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