

“Free Trade and the Hemispheric Hope”

Prepared Remarks of Robert B. Zoellick

U.S. Trade Representative

Council of the Americas

Washington, DC

May 7, 2001

It is a pleasure to be back at the State Department, to speak to the Council of the Americas. Since David Rockefeller founded the Council in 1965, it has been an influential advocate for free markets and private enterprise throughout the Americas.

Indeed, look at the Americas today – democracy in every nation but one, a hemispheric free trade agreement on its way, and the triumph of open markets in the battle of ideas. Few individuals and organizations have been as successful in turning their founding ideals into a living reality as David Rockefeller and the Council of the Americas.

On a personal note, David has given much to his country – and to others as well – with his hallmarks of decency, generosity, and persistence. I am proud to have served with him on a board and only regret that it was a non-profit!

I would also like to thank some other good friends for their work on behalf of the United States and the Americas: Bill Rhodes, the chairman of the Council of the Americas; Ambassador Ted McNamara, the president, and Ambassador Bill Pryce, the vice president and head of the Washington office. I salute you for your efforts and look forward to working with you in the months and years ahead.

In years past, a select company of far-sighted leaders have recognized the causes and common interests that should unite the Americas. But time and again, the vision faded, interests diverged, or the obstacles seemed too high. One hundred and seventy five years ago, Simon Bolivar convened a Congress in Panama of the new American republics. But the experience of the U.S. mission to that Congress offered a prophetic warning about the U.S. capability to miss the moment with Latin America. The two delegates from Washington never arrived: One died enroute and the other only reached Mexico City by the time the Panamanian Congress had adjourned. Too little, too late.

One hundred and thirteen years ago this very month, Secretary of State James Blaine tried to recover the lost opportunities: Secretary Blaine won the approval of the U.S. Congress to convene the first International American Conference. His diplomacy incorporated a novel but appealing method: The day

after Blaine opened the conference in 1889, he took the 73 delegates on a 42 day, 5,000 mile railroad tour of the United States. Imagine Secretary Powell explaining that expense to the Appropriations Committee today!

The idea animating Blaine's conference was a new "Pan Americanism," a vision reflecting the aspirations of the late 19th century to facilitate political cooperation, regional commerce, and peace throughout the hemisphere. It was a bold proposal for the time. The United States was still struggling to unite its North and South following the Civil War and Reconstruction. And the U.S. Congress was on the verge of raising tariffs to unprecedented levels.

The conference lasted six months, and when it ended in April 1890 the delegates agreed to expand commercial cooperation. But when they returned to their homes, they could not maintain the momentum. As the Cuban writer Jose Marti sadly observed, "Barriers of ideas are stronger than barricades of stone."

The Americas were not the only region to fail to fulfill the liberal expectations of a century ago. As Federal Reserve Chairman Alan Greenspan has pointed out, trade as a percentage of the global economy has only recently returned to the level of the late 19th century. The dangerous ideas of the early 20th century – imperialism, fascism, authoritarianism, communism, corporatism, isolationism, protectionism – led to cruelties and tragedies: wars, depression, and economic decline. It took the second half of the 20th century to recover the degree of economic openness the world had lost in the first half of that century.

So today, at the dawn of a new century, we have a fresh opportunity – for the United States, the Americas, and the world. It is up to us to champion the values of openness and freedom, to honor the vital linkages among economic liberty, free trade, open societies, successful democracies, individual opportunity, and peaceful security. By recapturing the original hopeful vision – and by modernizing it based on hard-learned lessons – we can set a course of peace and prosperity for the Americas and the global system – not just for a year or two, but for decades to come.

Some still want to look at Latin America through stereotypes, seeing only crises, cocaine, colonels, and coups. President Bush sees a hemisphere of 800 million people striving to take part in a larger American dream. Just as we ended the great divide between East and West by waging and winning the long twilight struggle for freedom that defined the Cold War, we hope to overcome the North-South divide by connecting our two continents through freedom and prosperity.

Free Trade in the Americas

Last August, the President said, “Our goal will be trade agreements with all the nations of Latin America.” Like the promoters of the Pan-American ideas a century ago, the President recognizes that free trade is an idea that is bound to other beliefs. As he has explained, “Economic freedom creates habits of liberty. And habits of liberty create expectations of democracy.”

The Free Trade Area of the Americas provides a framework for the Administration’s hemispheric strategy. This area, once completed, will be the largest free market in the world.

In the first 100 days of the administration, we have made progress in turning the idea of an FTAA into a reality. At a meeting in Buenos Aires last month, we transformed talk about trade into a clear mandate to bridge the differences in a negotiating text that covers nine chapters and some 250 pages. We agreed to release the full draft text to the public. And we established a detailed negotiating schedule that begins this week and leads up to another ministerial review within 18 months.

At the Summit of the Americas in Quebec City, all 34 heads of state signed a declaration pledging to conclude negotiations on the FTAA no later than January 2005. The United States is committed to working with others to beat that deadline.

The focus on free trade was made in tandem with an unambiguous pledge to support democracy. For a region that was home to the strict Calvo doctrine on non-interference by others in states’ internal affairs, this democracy clause is a striking sign of a new political outlook for the hemisphere.

While pursuing regional free trade through the FTAA, the Bush Administration is also negotiating a free trade agreement with Chile. While in Santiago last month, I met with President Lagos and other senior government and legislative officials, as well as representatives of business, labor, and environmental groups. I wanted Chile to know that the Bush Administration is serious about the free trade agreement – a point that President Bush and President Lagos stressed when they announced their goal of completing the negotiations no later than the end of this year.

The U.S.-Chilean free trade agreement will also send a signal to the nations of Latin America and the rest of the world: The United States will reward good performers. Chile, for example, has been at the forefront of Latin American nations in liberalizing trade, while setting an example to the world of a free people reclaiming their democracy and making the transition to a mature, developed economy.

Leaders from many other nations have now told us they want to pursue free trade agreements with the United States. We will consider each of these offers seriously, while focusing on the FTAA. By moving

on multiple fronts, we can create a competition in liberalization that will promote open markets in our hemisphere and around the world.

The NAFTA Example

Hemispheric free trade will build on NAFTA's striking success. For seven years, only the critics of NAFTA have been arguing their mistaken case. That time is over. NAFTA has helped create a new North American community of prosperity, democracy, and hope.

Let's start with what NAFTA and open trade have meant for the average U.S. family. These are conservative estimates: NAFTA and the Uruguay Round have resulted in higher incomes and lower prices for goods, with benefits amounting to \$1300 to \$2000 a year for a family of four. That is real money for farmers, nurses, teachers, police officers, and office workers, not bonuses for corporate executives. Trade barriers hurt families. When trade is restricted, hard-working fathers and mothers pay the biggest portions of their paychecks for the higher cost food, clothing, and appliances imposed through taxes on trade.

These facts for families are also reflected in benefits for nations. When the Congress approved NAFTA in 1993, trade between the United States and Mexico totaled \$81 billion. Last year, our trade hit \$247 billion – nearly half a million dollars per minute. U.S. exports to our NAFTA partners increased 104 percent between 1993 and 2000; U.S. trade with the rest of the world grew only half as fast. The United States now exports nearly the same value of goods and services to Canada (\$179 billion) as it does to Europe (\$187 billion).

In the five years following the implementation of NAFTA, employment grew 22 percent in Mexico, and generated 2.2 million jobs. In Canada, employment grew 10 percent, and generated 1.3 million jobs. And in the United States, employment grew more than 7 percent, and generated about 13 million jobs.

NAFTA also helped minimize the long-term damage from Mexico's peso crisis of 1994-95. Following the 1982 peso crisis, it took Mexico seven years to be able to borrow again in international financial markets; with NAFTA, it took just seven months. This accelerated recovery also benefited the United States. After the 1982 crisis, it took seven years for U.S. exports to Mexico to reach their pre-crisis levels. Following the 94-95 crisis, it took 17 months. Even with the financial crisis, Mexico's per capita GDP increased 8.3 percent between 1993 and 1999.

Moreover, NAFTA was always about much more than trade. It was a key to the political transformation

of a modernizing Mexico. It is not a coincidence that after NAFTA's implementation, Mexico elected its first president from the opposition since that nation's revolution. NGOs and a truly independent press have sprouted in Mexico over the past five years.

Economic growth and political openness will also be the precursors of environmental improvements. The Institute for International Economics has found that without NAFTA the Mexican government would have had less incentive to pass environmental legislation or to improve enforcement efforts. Far from spurring a "race-to-the-bottom," NAFTA has caused environmental standards in Mexico to rise, and given new powers to institutions that have mandates to monitor and enforce environmental protection.

Hemispheric Aims & U.S. Interests

The success of NAFTA underscores the importance of expanding free trade throughout the hemisphere. Today we export more to Mexico than to Britain, France, Germany, and Italy combined. As Latin America grows, the United States benefits.

There is a broader strategic logic behind my belief that continued U.S. vitality is linked to the success of its hemispheric neighbors. In the 19th century, many strong countries wanted weak neighbors that they could dominate. In the 21st century, strong countries will benefit from healthy, prosperous, and confident democratic neighbors. Troubled neighbors export problems like illegal immigration, environmental damage, crime, narcotics, and violence. Healthy neighbors create stronger regions through economic integration and political cooperation.

If the Americas are strong, the United States will be better positioned to pursue its aims around the world. But if our hemisphere is troubled, we will be preoccupied at home and handicapped abroad.

For all the progress in Latin America over the past decade, many elected governments throughout the region are still struggling to show results for their citizens. Too many are not meeting basic needs for health and safety. Only one in three Latin American children attends secondary school. And in some countries, corruption erodes the civic trust and undermines confidence in the economic system.

Trade liberalization offers tangible economic benefits and equally important political assistance. It provides incentives and rewards for governments pursuing difficult economic reforms. It also sends a valuable signal – a signal of confidence – to potential investors that Latin American nations have agreed to abide by common rules governing trade, to create a truly hemispheric marketplace. Trade agreements such as NAFTA and the FTAA promote good governance by creating obligations for transparency in

government and adherence to the rule of law.

There is a security component to trade. President Pastrana of Colombia has said that one way to counter the drug traffickers in his country would be for the U.S. Congress to renew the Andean Trade Preference Act, which expires in December. Renewal, he says, would stimulate job creation and diminish the appeal of the drug trade.

Similarly, trade fosters political cooperation. In the 1980s, Brazil and Argentina were developing nuclear capabilities. Both countries dropped those ambitions as they developed closer economic ties to the United States and Europe. Indeed, we have seen throughout Latin America that growing economic integration has led to a lessening of old regional suspicions and tensions, whether between Chile and Argentina or between Peru and Ecuador.

Trade also spurs improvements in education. As people start businesses, and foreign companies invest their capital, standards for education rise to meet the demands of the new economy. That economy demands literacy, skilled labor, and expertise in accounting, engineering, and technology. Growth, in turn, gives societies the means to help the next generation achieve even greater prosperity.

There are steps we can take to demonstrate that trade supports labor standards and environmental protection. But the key, particularly in developing countries, is economic growth. And the best way to build lasting support for the environment and improved labor standards is to enable supportive groups to plant local roots. If these issues are perceived by developing nations as a price, imposed by wealthy countries, the causes will not gain widespread appeal.

All of these issues have particular relevance to the biggest country in Latin America: Brazil. It has shown extraordinary progress over the past 10-15 years, moving from a debt crisis, hyperinflation, and an insular economy to a growing, more open market system with inflation under control. President Cardoso and Minister Lafer have shown great courage in leading Brazil to these new economic realities.

It is of course for Brazil to decide whether it wants to act on the global stage as a leader in shaping the new global political and economic realities of the 21st century or whether it prefers to concentrate on remaining the largest force in a regional marketplace. The signs I see indicate that Brazil wants to be a global player. A recent survey of the 1,000 biggest companies in the world by the consulting firm AT Kearney found Brazil to be the third most attractive destination in the world for direct investment. Beginning in the fall of 2002, Brazil and the United States will be leading the negotiating process for the FTAA, and we will soon be launching a bilateral consultative process on trade and investment.

But the challenge for Brazil is a challenge each of our nations faces: To wage the battle of ideas, to make the case for why expanded trade benefits all our citizens, and to seize this opportunity.

The Challenges within the United States

The United States has work to do at home to open the way for a new era of hemispheric liberty, prosperity, and security. In particular, the President needs the Congress to enact U.S. Trade Promotion Authority by the end of the year so we can move forward with our trade negotiations. Without that authority, other countries will be reluctant to close out complex and politically sensitive agreements.

Through the Trade Promotion Authority process, the executive branch would be bound by law to consult regularly and in detail with members of Congress at every step of the way as an agreement is being negotiated. We intend to treat this consultative process with the highest respect. But once that long and exhaustive process of consultations is completed, and the painstaking negotiations with our trading partners have ended in an agreement, our trading partners have the right to know that Congress will vote on the agreement up or down – not that an entirely new negotiating process will begin undoing all of the commitments and tradeoffs that have been negotiated.

In the absence of Trade Promotion Authority, other countries have been moving forward with trade agreements while the United States has stalled. The European Union has free trade or special customs agreements with 27 countries, and 20 of these agreements have been signed since 1990. Moreover, the EU is proceeding with 15 more. Of the 130 free trade agreements in force globally, the United States is a party to only two.

While U.S. trade policy has drifted, our NAFTA partners have been moving ahead. We have no one to blame for this but ourselves. And there is a price to pay for our delay. For example, Chile now has free trade agreements with Canada, Mexico, Ecuador, and the countries of the Central American Common Market. As a result of this trade activity, U.S. businesses are losing marketshare. U.S. wheat and potato farmers, for example, are now losing markets in Chile to Canadian exports.

The United States needs to get back into the trading game. Under President Bush's leadership, the United States is returning to where it belongs – at the center of the trading game, not on the sidelines.

Conclusion

Today, as I look at the Americas, I see a driving purpose: a belief in democracy and freedom, and a rediscovery of the vision that motivated those who called for the first Pan-American Congress over 100

years ago.

Our goal should be to create a Hemispheric community from the bottom up, fitting the decentralized but globalized and wired world. This new community of democracies would emphasize the private sector, non-governmental organizations, markets, and the ability of private groups to organize and overcome problems. It would be anchored in a shared set of core values.

We are all part of the new, inclusive Americas. This hemispheric hope will create a second American Century – but this time a Century for all of the Americas.

END