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Finding Pathways to Prosperity in the Americas

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Beleagued supporters of economically open and market-oriented democracies can take some solace from the September 24 announcement by the Bush Administration of a new initiative: “Pathways to Prosperity in the Americas” (PPA). The PPA is an attempt to re-energize U.S. government and regional efforts to enlarge a free trade area in the Western Hemisphere and create positive momentum for open-market policies that will carry over into the next Administration.

Heritage Foundation Vice President for Foreign Policy Kim Holmes noted recently that “international forums created to foster trade and open markets are struggling to advance free-market principles.”¹ Too often officials at multilateral organizations such as the World Bank, the IMF, and the United Nations are sympathetic to socialism and recommend statist policies to redistribute income rather than liberalizing and opening private trade and investment. Unfortunately, attempts by high performing free market democracies to resist such centralized planning policies often result in international policy gridlock.

Dr. Holmes and others at Heritage advocate the creation of new, post-Bretton Woods structures to advance the interests of the United States and other free economies throughout the world. In fact, Dr. Holmes has called for the U.S. to take the lead in establishing a Global Economic Freedom Forum (GEFF) where the heads of state from 20–25 nations sharing America’s commitment to open markets and democracy could seek “common solutions to such problems as international debt, weak

financial institutions, and poverty in developing nations.”² Like the GEFF, the PPA would be designed to support and enhance governing arrangements that emphasize the basic principles of economic freedom and market-led economic policies, buttressed with intelligently crafted government regulations that are imposed sparingly and only as required.

Enhancing International Trade and Investment. The PPA initiative is calculated to enhance the flow of international trade and investment between and among the U.S. and 11 of America’s free trade partners in the region. However, any nation in the Western Hemisphere embracing open markets would be welcome to join in the future.³ By using the PPA as a platform to expand trade capacity; improve the coherence, consistency, and effectiveness of trade-related policies; develop stronger regional economic links; and discuss and promote competitiveness, members of the PPA hope to increase the gains from freer trade and investment over those already occurring under the trade agreements alone.

Given the growing importance of regional trade to the economies of both the U.S. and the rest of the Americas, any enhancements to the trading frame-

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work that reduce the cost and complexity of international trade should result in tangible economic benefits for all PPA member countries. For the U.S. in particular, international trade has played an important part in America's struggle to stay above water during the current economic turmoil: Between the second quarter of 2007 and second quarter of 2008, trade has accounted for almost 60 percent of U.S. GDP growth.⁴ Additionally, more than one-third of all U.S. merchandise exports are sold to PPA member countries. America's free trade partners in the hemisphere play a clear role in bolstering U.S. prosperity.⁵

A Hemisphere-Wide Trade Pact. Styled in part after other current efforts to improve economic relations with key trade and investment partners—such as the Security and Prosperity Partnership of North America (U.S., Canada, and Mexico) and the Transatlantic Economic Council (U.S. and European Union)—the PPA would provide a forum for not only finding avenues to improve the flow of commerce but also promoting greater coherence and consistency in the rules specified under the five separate free trade agreements (FTAs) that currently define trade between PPA members. With the basic trade agreements already in place, members of the PPA can focus on dismantling remaining barriers to trade and ensuring that business is able to take advantage of new opportunities brought by lower trade and investment barriers.

Ultimately, by building on the foundation of cooperation established under the auspices of the FTAs, the PPA could provide the impetus for merging the individual agreements into a single, repre-

sentative accord. On a grander scale, success under the PPA could result in new momentum for concluding a broader Free Trade Agreement of the Americas (FTAA). Past attempts at negotiating a FTAA have stumbled as potential members failed to overcome divergent attitudes and approaches to economic policy. A recent Heritage study of the “Summit of the Americas”—the institution originally charged with completing the FTAA—found that the organization has morphed into an inert, self-serving, and impotent entity, ensnared in bureaucratic stalemates and irretrievably broken.⁶

Rather than trying to build an FTAA incorporating all nations in the Western Hemisphere, the incremental approach adopted under the PPA—involving only the most willing of countries—could be the means to forming a trade pact that eventually attracts all to participate.

Such an approach would help advance trade globally as well, especially with multilateral trade negotiations in the World Trade Organization (WTO) currently on life support. With a small number of willing countries coming together to solve a defined problem—how to enhance trade and investment across the region—the chance to avoid political posturing and resolve the economic concerns that have plagued larger FTAA or WTO talks can be realized. The chance the PPA could be the seed for greater prosperity across the Americas and around the world is one that should not be ignored.

Even if the realization of an FTAA fails to materialize, the benefits of the PPA should be tangible to all of the countries joining the initiative. Although U.S. free trade agreements lower the barriers to trade and

1. Kim R. Holmes, Ph.D., “Economic Freedom on a Global Scale,” Heritage Foundation Commentary, September 26, 2008, at <http://www.heritage.org/Press/Commentary/ed0926508a.cfm> (October 15, 2008).
2. *Ibid.*
3. PPA countries include the U.S., Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Panama, and Peru. Free trade agreements with Colombia and Panama are still pending congressional approval. Agreements with Peru and Costa Rica are still not fully implemented.
4. Calculated from U.S. Department of Commerce, Bureau of Economic Analysis, *National Economic Accounts*, Friday, September 26, 2008, at <http://www.bea.gov/national/index.htm#gdp> (October 9, 2008).
5. Calculated from U.S. Department of Commerce, National Trade Data, Office of Trade and Industry Information (OTII), at <http://tse.export.gov> (October 9, 2008).
6. James M. Roberts, “Rethinking the Summit of the Americas and Advancing Free Trade in Latin America,” Heritage Foundation *Background* No. 2170, August 8, 2008, at <http://www.heritage.org/Research/LatinAmerica/bg2170.cfm> (October 15, 2008).

investment, they result only in “freer” trade, rather than completely unfettered access between markets. The PPA would provide a forum for working toward an even more open trade regime.

The Next Administration Should Actively Support the PPA. Leaders in PPA countries, while underscoring that “macro-economic stability and trade liberalization are important tools in the fight against poverty,”⁷ realize that in the current political and economic environment they must continue to push for innovative trade and investment arrangements to provide “opportunities for citizens, particularly small businesses and farmers, to take advantage of trade through trade capacity building and other initiatives.”⁸

PPA provides the Western Hemisphere with a platform for a coalition of willing countries to advance freer trade, open investment markets, effect more efficient and less costly regulation, enhance regional competitiveness, and promote greater economic opportunity. With its potentially positive economic impact, the PPA should be actively supported by the next Administration—regardless of who wins the White House this November.

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7. Press release, “Pathways to Prosperity in the Americas,” Office of the Press Secretary, September 24, 2008, at <http://www.whitehouse.gov/news/releases/2008/09/20080924.html> (October 15, 2008).

8. *Ibid.*