

Free trade of americas case

Business



There has been a drastic increase in terms of establishment of the Free Trade of Americas (FTAA) between developed and developing countries over the past decade. However, there are no numinous qualities in geographical propinquity that make neighboring nations a “ unit” in cultural, political or economical grounds.

It is worth noting that the Inter-American Development Bank has catalogued more than twenty partisan arrangements with Latin American countries (Hurrell, 2004). These agreements vary from straightforward reduction of tariff pacts to comprehensive and free trade agreements as well as custom unions. The basis of this paper is to answer the question whether the establishment of the Free Trade of Americas (FTAA) with Latin America, Central America and the Caribbean, would be beneficial for advancing the economy of the United States. Also, given the challenges that America is currently experiencing, to find out what impact it would have on North American firms. Proliferation of Free Trade Pacts Firstly, it is essential to understand whether Free Trade Pacts are proliferating or not.

Given the foundation laid in the introduction above, various countries are signing agreements with both developing and developed countries. The forthcoming Free Trade of the Americans (FTAA) is the best example of such an inclination. Differentiation between FTAs and other types of trade agreements remains essential between developed and developing countries. Undeniably, various pacts concentrate on incremental strategies over granting of one-way trade attachments to mutual free trade conformity. The United States, for instance, has comprehensive unilateral trade inclination that they use to negotiate reciprocal trade pacts with other countries

(Hurrell, 2004). Currently, the United States is operating in two FTAs, namely North American Free Trade Agreement and the US-Israel FTAs and is still committed to negotiating further trade agreements with other countries.

Secondly, the European Union has also initiated talks with neighboring countries. The EU has completed a comprehensive FTA with Mexico that is currently conducting talks with Chile and Mercosur countries (Tussie, 2003). These talks can take too long to initialize but currently, the recent partnership between European Union and the developing countries in the Caribbean are aiming at developing a more reciprocal relationship. In essence, the EU focuses on establishing new trade initiatives with trading partners in Latin America and the Caribbean Basin directed at establishing a free trade zone similar to FTAA. Unlike the United States, the EU is aiming at creating a free trade zone that is super-regional. The strategies employed by the EU are more diversified and are moving at exceptionally fast pace to various states in the US.

Negotiations on reciprocal trade agreement with Central America, the Caribbean, and Andean community are extremely vital. In short, the EU has already worked hard to ensure that they establish blocks for free trade with both the Caribbean and Latin America (Hurrell, 2004). Impacts of FTAA to United States of America The question that everyone would ask is, why do we need to bother about FTAA? Answering this question in regard to the already abovementioned basis about America and FTAA, it is clear that FTAA is likely to generate both foreign policy and economic benefits. First, the FTAA is likely to generate benefits on economic grounds and economic

policies in America and the participating countries. This is likely to be achieved through improving economic relations.

Secondly, in the free trade matrix, the FTAA covers a tremendously enormous gap in the Western Hemisphere, which links North and South America, whose bilateral trade is likely to expand two or three-fold in regards to FTA reforms (Tussie, 2003). At some point, the hemisphere FTA would help in synchronization of separate, free trade regimes that have already been negotiated amongst the trading partners. Thirdly, and most significantly, the FTAA acts as an economic engine that drives cooperation among more than twenty initiatives around the globe. This is achievable because following the undertaking by leaders at the Summit of the Americas, it became clear that leaders focus on addressing such issues as political, socioeconomic as well as cultural. Also, this could be done by promoting education, strengthening guiding principles and rules, and through the protection of indigenous people's rights (Tussie, 2003).

According to Tussie (2003), many Latin American and Caribbean Countries (LAC) currently can access the US market at ease for most merchandise because of the Caribbean Basin Initiatives (CBI) and Andean Trade Preference Act (ATPA) preferences. This is because most of the US favored nations pay zero or exceptionally low tariffs. For most countries, the value of bilateral FTAs and FTAA is more likely to secure access to the US markets because trade pacts turn their unilateral preferences into contractual obligations. This move also helps in reducing uncertainty concerning the future course of trade and regulatory policies. Certainty is used as a tool to facilitate business planning and investments.

<https://assignbuster.com/free-trade-of-americas-case/>

For developing countries, “locking in” benefit is likely to aid in success of their investment-led developmental opportunities. Feinberg (2003) asserts that nations with small economies such as the Caribbean unlike the States that are far greater, do not concern whether to initiate integration or not. It is extremely beneficial for such nations to integrate themselves in the major markets because they have limited human and technological resources, underdeveloped infrastructure, and they heavily rely on the manufactures of a single commodity as well as services. However, the challenge for such countries is threefold: encouraging development of trade and inward investment from FTAA partners, restructuring their economies to diversify, and seek or expand employment opportunities and management of political backlash. This backlash is usually as a result of considerable adjustments that are essential to implement the goals of FTAA.

Overall, FTAs linking US trading partners, but not the United States can also affect the US in numerous ways. These integrations can serve the US interest through the promotion of a broader base of economic and political reforms. This is likely to contribute to sustainable growth of the developing countries. At the same time, they are also likely to discriminate against the US exporters thus complicating the achievements of the US trade agreement objectives. For instance, the US exporters are likely to experience discrimination from foreign markets as compared to participating nations. Export contracts are lost, and this is likely to affect the US-based manufacturers unconstructively.

Conversely, when the US is not participating in the agreement, they cannot influence the outcome. Trade rules set under this circumstance can,
<https://assignbuster.com/free-trade-of-americas-case/>

therefore, augment the costs of the transaction and create precedents that are different from the US practices. Conclusions The appropriate way of neutralizing the diverse effect caused by the US trading interests of FTAs that the United States is non-signatory is to engage comprehensively in multilateral, regional, and bilateral negotiations. The FTAA is particularly crucial in ensuring that they level the trading grounds to all participants by deepening the economic partnership with neighboring nations. They can also strengthen efforts of cooperation with the US foreign and political policies thus improving environmental, education, and labour sector through initiating reforms. The best way to improve the abovementioned areas is to encourage the trade officials to develop stronger domestic-based support with a defined objective.

Feinberg (2003) affirms that approving trade promotion and reasserting the US leadership in the world trading system is the only and the best way to address problems facing the US today.