

MULTISTAKEHOLDER CONSULTATION
CONSULTATIONS MULTISECTORIELLES

CANADA AND THE FREE TRADE AREA OF THE AMERICAS (FTAA)
LE CANADA ET LA ZONE DE LIBRE-ÉCHANGE DES AMÉRIQUES (ZLEA)

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Salle ♦ Alta Vista ♦ Room
Hôtel ♦ Marriott ♦ Hotel
100, rue Kent Street, Ottawa

Workshop # 4: Smaller Economies and Development

Chair

Keith A.J. Hay

Professor, Department of Economics, Carleton University

Background

The Free Trade Area of the Americas (FTAA) was conceived in principle in December 1994 at the inaugural Summit of the Americas held in Miami. At the second Summit, held in Santiago, Chile, in April 1998, the leaders of the 34 democratic countries in the Americas launched negotiations aimed at creating a hemisphere-wide free trade area by 2005.

Recent developments

The Seventh FTAA Ministerial Meeting was recently held in Quito, Ecuador, in November 2002. The FTAA Trade Ministers charted a course to complete talks by the January 2005 target date and agreed to release the second version of the consolidated draft negotiating texts of the FTAA agreement. In addition, a Hemispheric Cooperation Program (HCP) was announced with the objective of assisting smaller states to prepare for negotiations, implement trade commitments, and adjust to integration in order that they may take full advantage of the economic opportunities of what would be the world's largest free trade area. Both the Preamble of the second draft FTAA agreement and the Quito Ministerial Declaration recognise the broad differences in the levels of development and size of the economies of the region.

The HCP remains a work in progress. The Consultative Group on Smaller Economies (CGSE) is working to finalize and to help manage the HCP. To ensure that the HCP responds to the most urgent needs, smaller countries will be developing National Trade Capacity Building Strategies which describe their strengths and weaknesses in trade-related policy and implementation, and prioritize their needs for trade-related technical assistance and capacity building within the context of their national development objectives.

Questions

- The HCP will be the main mechanism through which smaller countries in the FTAA access trade-related technical assistance and capacity building to respond to their trade priorities. Are there specific issues/views which you feel Canada should raise or promote as the HCP is finalized and as assistance is provided to these countries?
- What are the other mechanisms that the Government of Canada should be using for assisting these smaller economies and for strengthening Canada's relationship with these countries?

Reference documents

(See the Appendix)

- Preamble of the Second Draft FTAA Agreement (excerpts)
- Quito Ministerial Declaration (Para. 6, 12, 17-18, 23, Annex 1:2, and Annex 3: Hemispheric Cooperation Program) -Nov. 2002-
http://www.ftaa-alca.org/ministerials/quito/minist_e.asp#ANNEX%20III
- Range of Civil Society views on the issue of smaller economies (Section 3 of the Report of the Committee of Government Representatives on the Participation of Civil Society, presented to FTAA Ministers –August 2002-).
- Government Response to the Report of the Standing Committee on Foreign Affairs and International Trade Strengthening Canada's Economic Links with the Americas: http://www.dfait-maeci.gc.ca/tna-nac/FTAA_rep-en.asp (Recommendations 15-17 on Small Economies) – October 2002 –

(Available on the web):

- Canada's Position (July 2001)
<http://www.dfait-maeci.gc.ca/tna-nac/e-comm-summ-en.asp>
- Quito Ministerial Declaration (Nov. 2002)
http://www.ftaa-alca.org/ministerials/quito/minist_e.asp

APPENDIX

PREAMBLE TO THE FTAA AGREEMENT

(excerpts)

[The Governments of...(insert full names of the 34 countries of the FTAA), hereinafter “the Parties,”]

[COMMITTED to advancing towards economic prosperity, strengthening ties of friendship [and cooperation] and democratic values and institutions, [and] protecting fundamental human rights and the security of persons, and promoting social development among the Parties, within a framework of equity, [and][consistent with the underlying principles [of the Summit of the Americas] and overall objectives of the Summit of the Americas process;]]

[RECOGNIZING the **broad differences in the levels of development and size of the economies of the region** and the resulting need to create opportunities for all Parties,[and especially the smaller economies], to participate in taking advantage jointly and fully in the benefits deriving from hemispheric integration;]

[Enter into this Free Trade Agreement of the Americas (hereinafter the “Agreement”):]



MINISTERIAL DECLARATION OF QUITO

**Seventh Meeting of Ministers of Trade of the Hemisphere
Quito, Ecuador
1 November 2002**

(Para. 6, 12, 17-18, 23, Annex 1:2)

6. We reaffirm our commitment to take into account in designing the FTAA, the differences in levels of development and size of economies in the Hemisphere, in order to ensure that these economies participate fully in the building of, and benefits resulting from, the Agreement and to create opportunities for these countries. We therefore welcome the incorporation of this commitment in document FTAA.TNC/20/Rev.1 as one of the general principles of the methods and modalities for the negotiations in the areas of market access, agriculture, investment, services, and government procurement.

12. We consider that the establishment of the FTAA, through increased trade flows, trade liberalization and investment in the Hemisphere, shall contribute to growth, job creation, higher standards of living, greater opportunities, and poverty reduction in the Hemisphere. For this to be possible, the establishment of the FTAA shall promote the application of policies oriented to economic development, promoting the generation of employment and the effective operation of labor markets in the Hemisphere.

17. We welcome the guidelines and directives for the treatment of the differences in the levels of development and size of economies.² We instruct the TNC to ensure that all the negotiating groups, in particular those undertaking market access negotiations, translate these guidelines into specific measures so that they are reflected in the results of the negotiations.

Furthermore, we instruct the TNC, with the support of the Consultative Group on Smaller Economies (CGSE) and the Tripartite Committee, to report to us at our next meeting on the results of the progress achieved in relation to the treatment of differences in the levels of development and size of economies in each of the Negotiating Groups.

18. In support of the FTAA, we approve the **Hemispheric Cooperation Program** as a priority of all our governments. The Program is intended to strengthen the capacities of those countries seeking assistance to participate in the negotiations, implement their trade commitments, and address the challenges and maximize the benefits of hemispheric integration, including productive capacity and competitiveness in the region. We note that the Program includes a mechanism to assist these countries to develop national and/or sub-regional trade capacity building strategies that define, prioritize and articulate their needs and programs pursuant to those strategies, and to identify sources of financial and non-financial support. We instruct the TNC, with the support of the CGSE, to supervise the HCP. We commit to complete national and/or sub-regional trade capacity building strategies and the related programs in order to make expeditious progress under the HCP, and to assist in the identification of predictable and multifaceted sources of financial and non-financial support for meeting the objectives of the HCP. While these strategies are being prepared, the HCP will also respond to immediate assistance needs for the purpose of strengthening the participation of countries in the negotiations. We further instruct the TNC, with the support of the Tripartite Committee, to facilitate meetings of the CGSE, inviting appropriate development and financial officials, international financial institutions, international agencies, and interested private entities, to discuss financing and implementation of the HCP and to report to us at our next meeting.

23. We reaffirm the role of the TNC as the executive body of the negotiating process and direct it to intensify its efforts to guide the overall negotiating process. The overall management of the process includes, *inter alia*, (...) continuing to analyze the treatment of differences in the level of development and size of the economies of the Hemisphere; ensuring the successful implementation of the Hemispheric Cooperation Program; and facilitating a meeting of appropriate development and financial institutions and agencies to discuss the financing and implementation of the HCP.

ANNEX I

GENERAL INSTRUCTIONS

2 We instruct all the Negotiating Groups to collaborate with the Consultative Group on Smaller Economies (CGSE) in the implementation of the Hemispheric Cooperation Program (HCP). We instruct all the Negotiating Groups to include in their reports to the Trade Negotiations Committee (TNC) a section on the treatment accorded to the issue of the differences in the levels of development and size of economies. We also reiterate to the Chairs of the FTAA Negotiating Groups and other entities, the need to maintain a timely and adequate flow of information with the Chair of the Consultative Group on Smaller Economies, with a view to facilitating the analysis and follow-up of the progress of the negotiations, in particular proposals on the treatment of differences in the levels of development and size of economies.

ANNEX III

HEMISPHERIC COOPERATION PROGRAM (HCP)

Recognizing the broad differences in the levels of development and size of the economies of the countries participating in the FTAA negotiations, the Ministers responsible for Trade, in

their Buenos Aires meeting, reaffirmed their commitment to create opportunities for the full participation of the smaller economies and to increase their level of development.

At the same time, they stressed the importance of cooperation to enable the strengthening of the productive capacity and competitiveness of countries with different levels of development and size of the economies, especially the smaller economies. They also reaffirmed the need for technical assistance, as well as specific provisions for addressing these situations.

On that occasion, the Ministers considered that the Third Summit of the Americas constituted an opportunity to continue to build on the Plans of Action approved at earlier Summits, in order to strengthen the hemispheric cooperation programs, which facilitate the support of each country's effort on areas relevant to its effective participation in the negotiations and benefits of the FTAA.

On the other hand, the Ministers instructed the Trade Negotiations Committee to formulate, with the support of the Consultative Group on Smaller Economies and the Tripartite Committee, some guidelines or directives on way of applying the treatment of the differences in the levels of development and size of economies.

In meeting this mandate, in the IX Meeting of the Trade Negotiations Committee (TNC), held in Managua, Nicaragua in September 2001, the TNC approved the guidelines or directives. By way of complementary supporting measures to the guidelines, the Trade Negotiations Committee instructed that the Consultative Group on Smaller Economies, with the technical support of the Tripartite Committee and based on the contributions of the Negotiating Groups, would submit to the TNC a proposal for a **Hemispheric Cooperation Program**.

PRINCIPLES

- Be included within the context of the Summit of the Americas process, that has broader objectives linked to the strengthening of democracy, the creation of greater prosperity, social justice, and the realization of human potential. This Program shall recognize that the strengthening of the socioeconomic environment sought by the Summit process is intimately linked to the success of the FTAA.
- The Hemispheric Cooperation Program will be a central element of support for the FTAA.
- Be conceived in the context of national development objectives and strategies and be part of an agenda for economic growth and development and poverty reduction.
- Respond in an effective manner to the requirements and challenges to development arising from trade liberalization, in general, and implementation of the FTAA, in particular.
- Involve the private sector as well as other sectors of civil society in the identification of proposals and execution of programs.
- Enable countries, especially the smaller economies, to participate beneficially and equitably in the FTAA

OBJECTIVES

- Strengthen the capacity of countries to implement and participate fully in the FTAA in order to contribute to growth with equity and broad-based economic development.
- Assist countries to effectively address and overcome the challenges and maximize the benefits associated with trade liberalization in the FTAA.
- Promote greater interrelationship between the objectives and requirements of development and those of trade liberalization.
- Complement current and future multilateral, sub-regional and national programs aimed at
 - Strengthening productive capacity and fostering the competitiveness of the economies;
 - Encouraging the development of innovation capacity and the transfer of appropriate technology;
 - Improving mechanisms for responding to economic shocks.
- Enhance institutional strengthening and capacity building for policy-making, development of negotiating strategies and implementation of the FTAA.
- Increase coordination among donors and between donors and recipients with the objective of maximizing cooperation and technical assistance.

CHARACTERISTICS

- Contain plans or subprograms, objectives and goals reflecting the priorities identified by countries for the short, medium and long term.
- Have a dynamic character which will enable it to respond to the changing needs of countries.
- Comprise activities that address concrete needs.
- Include mechanisms for monitoring and evaluation.
- Could be executed through programs and actions of regional and sub-regional scope or by countries or groups of countries.
- The thematic content shall reflect the issues addressed by the FTAA agreement both during the negotiation and implementation phases.
- Should include mechanisms for coordination and communication between and among FTAA Governments, donors, and beneficiaries under the Hemispheric Cooperation Program.
- Shall promote a more efficient use of the existing Technical Assistance Database, through, among other mechanisms, its updating and dissemination.

MODALITIES

The Hemispheric Cooperation Program will include, *inter alia*, the following modalities:

- Establishment of a mechanism to receive, disseminate, evaluate, and consider possible financing of specific project profiles submitted by FTAA countries and groups of countries or negotiating groups.
- Establishment of a mechanism to enable countries to define, prioritize, and articulate needs related to strengthening the capacity for: i) preparing for

negotiations; ii) implementing trade commitments; and iii) adjusting to integration.

- Interaction between countries seeking assistance to improve their trade-related capacities and those countries and institutions that are in a position to provide assistance, through, for example, roundtable meetings focusing on specific areas of need, including the preparation of studies related to fiscal scenarios, socio-economic impact and competitiveness analysis. Information on needs identified in the Database, project profiles, and other sources will be used as input to facilitate exchanges between donors and countries.

- Additional forms of technical assistance, to be determined.

- Financial assistance.

- Institutional cooperation that complements current and future multilateral and bilateral programming.

- Experience and knowledge transfer related to FTAA topics through workshops, internships, and other mechanisms.

Additional modalities may be developed in keeping with the evolution of the FTAA process and the Hemispheric Cooperation Program.

GUIDELINES FOR IMPLEMENTATION

Countries participating in the FTAA that seek assistance under the HCP shall develop national or regional strategies that define, prioritize, and articulate their needs related to strengthening the capacity for:

- i) preparing for negotiations,
- ii) implementing trade commitments, and
- iii) adjusting to integration.

The aforementioned categories should be addressed simultaneously, taking into account the changing needs over time.

In order to facilitate coordination and sharing of experiences, the strategies should follow a common format that will be developed by the Consultative Group on Smaller Economies, with the assistance of the Tripartite Committee. The Tripartite Committee and other donors will assist countries, upon request, in the timely development of national or regional strategies.

While these strategies are being prepared, the HCP will also respond to immediate assistance needs for the purpose of strengthening the participation of countries in the negotiations. Without prejudice to new inclusions, the attached Appendix summarizes requests to date, many of which have application to more than one country. This document, as revised, can be used to select those projects that require immediate technical assistance and implementation for a country or a group of countries to strengthen their participation in the negotiations.

ADMINISTRATION

The CGSE will ensure the effective and transparent execution of the HCP and will supervise and evaluate its progress. Under this overall management, the Tripartite Committee will coordinate the activities below and present periodic progress reports to the CGSE.

With the support of the Tripartite Committee, each country or group of countries shall provide timely reports to the CGSE on progress made.
To ensure progress in the implementation of the HCP, a transparent management process could include:

1. Sessions on lessons learned from prior experiences of countries and the Tripartite Committee in preparation for the participation in negotiations, implementation of trade commitments and adjustment to integration and related technical and financial assistance programs. Other institutions can be invited to attend.
2. Round table discussions between donors and recipients, including early identification of funding requirements.
3. Effective participation in these discussions by representatives of interested parties.

FINANCING

FTAA countries recognize that successful development and implementation of a Hemispheric Cooperation Program will require financial support for HCP activities to complement the resources of beneficiary countries. This issue will require coordination and consultation within FTAA governments, and between governments and multilateral and regional financial institutions. These sources of support, financial and non-financial, should be secure, predictable and multifaceted.
Sources of support, financial and non-financial, for the HCP could include, among others, the following:

- Countries participating in the FTAA and their cooperation agencies,
- Academic institutions,
- Private sector entities,
- Foundations and other organizations, and
- Regional and multilateral financial and development institutions.



Range of Civil Society views on the issue of Smaller Economies (Section 3 of the Report of the Committee of Government Representatives on the Participation of Civil Society, presented to the FTAA Ministers –Aug. 2002-).

Smaller Economies

33. Many of the submissions received in reference to smaller economies address the need and importance of recognizing the differences in the size of, and the asymmetries between, the economies of the hemisphere. Thus, most of the submissions stress the need for technical assistance programs and mechanisms to support them. Although they acknowledge the work of the Consultative Group on Smaller Economies, they stress that it should have a more proactive role in the FTAA process.
34. By way of illustration, the following specific proposals were made:
 - build special and differential treatment provisions for small and vulnerable economies into the Agreement as a right and accord to a group of countries or groups of countries that meet agreed criteria;

- consideration should be given to several socioeconomic indicators, such as: income, income distribution, degree of poverty, health (life expectancy, infant mortality), education, degree of openness, share of international trade (especially intra-hemispheric trade), foreign debt in comparison with exports, per capita exports, infrastructure (roads, ports, airports, telecommunications), and export diversification (products and destination);
- the FTAA should allow small and vulnerable economies to implement a flexible approach that includes exemptions and phased systems;
- the smaller economies should be exempt from the MFN and national treatment clauses that endanger government capacity to provide essential public services and safeguard the public interest;
- a binding commitment should be established for the provision of technical assistance and cooperation to enable enterprises from smaller economies to participate in tendering procedures; and
- a hemispheric fund should be established through regional institutions like the IDB, OAS and ECLAC, to provide technical and financial assistance to regional negotiators and thereby ensure their effective participation in the negotiations.



**Government Response to the Report of the Standing Committee on Foreign
Affairs and International Trade
“Strengthening Canada's Economic Links with the Americas”**

October 2002

(Recommendations 15-17 on Small Economies)

CONCERNS OF SMALL ECONOMIES

Recommendation 15

"That Canada provide the smaller economies of the Americas with greater financial and technical resources to help build the capacity necessary for these countries to negotiate, adapt to and benefit from the FTAA. Technical assistance in the development of vocational training and literacy programs, and national strategies and programs to deal with the adjustment to free trade, should be provided."

The Government endorses all three recommendations (15-17) on smaller economies in the FTAA process. These recommendations are consistent with the positions that the Canadian delegation to the Consultative Group on Smaller Economies has taken over the last year.

The Government agrees that Canada should continue to provide trade-related technical assistance and capacity-building assistance to enable the smaller economies of the Americas to access the benefits of the future Free Trade Area of the Americas agreement. Canadian assistance is part of a broader coordinated program of trade and development involving support from bilateral and multilateral donors. It involves the provision of technical assistance supporting a balanced trade agenda, including the promotion of effective governance. Canada will continue to play an active role in the FTAA's Consultative Group on Smaller Economies,

as this is one of a number of mechanisms used to attain the appropriate level of coordination and support to meet these needs.

Recommendation 16

"That the federal government support the inclusion into the FTAA of special measures that would provide developing countries participating in the FTAA with a flexible time frame for implementing the terms of the agreement."

The Government is willing to consider time-limited transitional measures to enable smaller economies to adapt to and benefit from new opportunities in the FTAA. However, these measures are part of the FTAA negotiating process. The measures should also be supported by appropriate trade-related technical assistance and capacity-building activities. For this reason, Canada is lending support to the creation of a Hemispheric Cooperation Plan that would provide the level of coordination and assistance required to enable smaller economies to maximize the use of transitional measures.

Recommendation 17

"That Canada encourage other participating members of the Inter-American Development Bank to strengthen the mandate of that institution and its contribution to addressing the development requirements of countries in the Americas, as outlined in the Plan of Action of the Third Summit of the Americas."

As chair of the Summit of the Americas process, Canada encouraged the Inter-American Development Bank (IDB), among other multilateral development banks, to participate in the drafting of the Summit Plan of Action and to cooperate during its implementation. Among the most significant results of the Quebec City Summit was the commitment made by the President of the IDB to make resources available to support the Summit process. The IDB responded strongly to the call by Canada to support the Plan of Action of the Third Summit of the Americas. Shortly after the Summit, the IDB announced that its entire lending program for the next five years would be in support of Summit commitments (approximately US\$40 billion at the Bank's present, sustainable level of annual lending). The mandates provided by the Board of Governors of the IDB coincide with the priorities endorsed by Leaders in the Summit process. Canada has also taken a leadership role in fostering the development of a Joint Working Group of Summit Partner Institutions in order to encourage the effective use of resources provided by hemispheric and multilateral organizations, optimize effectiveness of program delivery, avoid unnecessary overlap and duplication of existing mandates, maximize funding opportunities for beneficiaries, and ensure consistency in the implementation of the Summit initiatives. This coordinating body is chaired by the Organization of American States and includes the active participation of the IDB. Members of the Working Group meet with an interest in furthering their work on Summit implementation activities. They place special emphasis on the financing of Summit mandates and citizens' engagement.

Canada will continue to work with the Bank to achieve the Plan of Action and will encourage all IDB regional and non-regional members to strengthen the mandate of the Bank to support the Summit of the Americas process and goals.