

The *SLEPT* Aspects of the Free Trade Area of the Americas

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ABSTRACT

The Free Trade Area of the Americas (FTAA) attempts to become one of the most far reaching integration agreements in world's history. It will eventually eliminate all barriers to trade and investments and create a uniformed sense of democracy in the region. The stakes are high in terms of market size, trade volume, and overall output. The FTAA will not benefit its country members equally. A social, legal, economic, political and technological framework of analysis suggests the FTAA will greatly benefit the largest economies while severely hindering smaller ones. Furthermore, recent ascendancy of a political left among the region signals the FTAA may still remain conjectural.

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I. INTRODUCTION

The Free Trade Area of the Americas (FTAA) was originally born in 1994 at the Summit of the Americas in Miami to embrace all countries from Canada to Chile, with the exception of Cuba, into a single free trade area. Ever since, its negotiation process has gone on and off triggering passionate reactions across distinctive business, policy-making, and societal circles. A perspective from McKinney (2004) suggests the FTAA was intended to be the world greatest undertaking to provide job opportunities, contribute to education, deliver health services and, ultimately, empower freedom and democracy. Acquiring them all would depend on the ability and willingness of its countries to work together for a common goal. However, Jiang (2004) claims that people in FTAA countries have not motivated themselves to advance like European Union countries did before engaging into agreements of this caliber. Headed for few opportunities and rampant corruption, those countries were indeed able to strengthen their economies and become far more transparent.

The proposition of uniting all the economies of the Western Hemisphere came from the United States as a strategic priority and has evolved into a highly controversial regional integration initiative. Representatives from 34 democratic nations pledged on creating the FTAA and complete negotiations toward this agreement by 2005 (Salazar-Xirinachs and Maryse, 2004). Initially, working groups were established between 1994 and 1998 to identify issues within each territory as well as providing possible approaches. Position papers on “action items” ranging from market access through health services to dispute settlement and antidumping policies followed suit. Concurrently, policy-makers reflected also on the need countries had to form special committees to focus on crosscutting themes such as smaller economies, electronic commerce, and participation of civil society (Rivas-Campo and Tiago Juk Benke, 2003).

According to the Inter-American Development Bank (2007), openness to trade in the region has reached massive proportions. It actually has more than doubled in the past ten years. Imports have risen from 10 to 20 percent of their GDP and average tariff rates have dropped from 40 to less than 10 percent. As a result, regional trade has grown faster than world average in the last decade. Hester (2002) contends these efforts mean little compared to the opportunities available if these economies were to unite with the rest of the Western Hemisphere. Along these lines, Friedman (2007) staunchly argues that countries cannot become economically interdependent without the support of one another since trade and investment constitute the “backbone” of their overall existence. There are, however, lukewarm examples of trade coalitions such as the Central American Common Market established in 1960, the Southern Common Market signed in 1991, and the Andean Community initiated in 1997 which have all failed to show a consistent string of success stories over time.

Furthermore, FTAA negotiations have basically stalled since 2003 due to a rising ideological opposition at national and hemispheric levels for outlining a process that would redefine multilateralism. Lately, countries like Bolivia, Ecuador, and Venezuela have made clear that conditions for establishing the FTAA are not simply there and have rather pursued their own alternative regional schemes. Others which include Argentina, Brazil, and Chile have entertained themselves in more conventional strategic bilateral deals until the World Trade Organization (WTO) completes its round of negotiations. Hence, the broader debate on regional integration requires advancing a

more holistic approach to contextualize the significance of the FTAA in a multidimensional fashion.

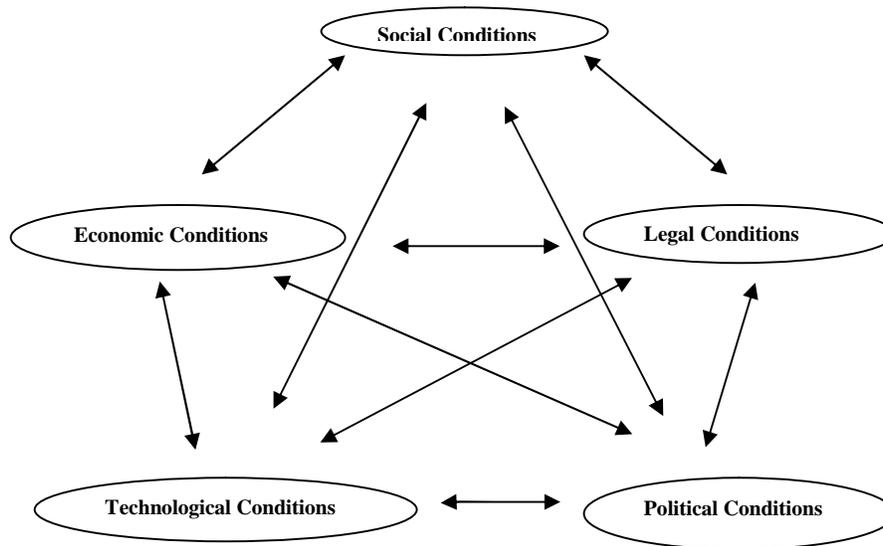
This study outlines an alternative analytical framework to understand the complex dynamics that intervene in the emergence, critique, and outcome of the FTAA. Rather than merely reporting its current state, it claims that social, legal, economic, political, and technological (SLEPT) conditions are necessary examination tools to either endorse or reject an integration process using the Americas as an example. These conditions ought to be taken seriously as they not only reshape the overall orientation of the FTAA agenda but also the criticisms for regional cohesiveness generated among various interest groups. Such an exercise helps to redefine the options for constructing a trade and integration agreement stirring the lesser amount of controversy. The SLEPT framework is used to underscore the scope and coverage of the FTAA under the expectation that negotiation talks will likely resume. This study is organized as following: the first section presents the SLEPT environment and the interdependence of each condition; the following section describes each of these conditions in light of the FTAA; lastly, it concludes with the vital benefits and costs of the FTAA.

II. THE SLEPT FRAMEWORK

The globalization process is generally understood as the flow of information, expertise, resources, and technology leading to the integration of economies and societies around the world. Stiglitz (2003) identifies the main drivers of the globalization process as advances in communication and information processing along with lower trade and investment barriers that, in turn, translate into increased efficiency and competition. Basically, each one of these activities shows how a changing international environment transforms the appreciation of diversity. The SLEPT conditions in the Americas offer as many similarities as divergences influencing the FTAA. The framework offered in Figure 1 assumes each one of the SLEPT conditions is equally important, highly dependent on each other, and mutually reinforcing within the regional integration environment.

In the context of a preferential regional integration agreement, the FTAA must accurately capture the main elements within each SLEPT condition in every country. Failure to identify those elements will distort the intended purpose of maximizing welfare to its people. The idea is that countries can synergistically reach across and beyond the SLEPT conditions in a way that both similarities and divergences can be understood by acknowledging and appreciating cooperation among nations. In view of this, a cost-effective way of achieving a regional commitment would be offering countries with opportunities to enhance the understanding of their integration environment beyond mere bilateral agreements or self-indulgent sub-regional approaches. The FTAA may become a complex and interdependent endeavor capable to involve a dispersed network of countries and institutions. Such an interrelation compels FTAA countries to carefully scrutinize their SLEPT conditions and incorporate them in their analysis.

Figure 1
The SLEPT integration environment



III. SOCIAL ASPECTS

The FTAA intends allow countries to become highly integrated geocentric areas, eager to open their borders to individuals and ideas from cultures other than their own. It has a responsibility to eliminate ethnocentrism by making significant contributions in terms of intercultural sensitivity. The FTAA comprises a diverse structure that follows different cultures, languages, and beliefs. Integration across the FTAA will have a major impact on population's living conditions. Martinez et al (2005) suggest that each country's idiosyncrasies need to be considered when applying social programs. For instance, values, norms, and other practices that unite a country provide positive attitudes towards democracy and roles for men and women. Latin American and the Caribbean cultures consist of a mix of internal and external differences in terms of centuries of traditions and history. Therefore, an important challenge for the FTAA is the establishment of development initiatives to ease cultural assimilation.

FTAA countries focus on conserving and promoting their cultural differences at the time they highlight common values through programs designed to increase understanding among people. Cultural integration enriches the cultural heritage through the exchange of ideas, knowledge, and experience. The Canadian Parliament (2004) goes onto say that FTAA countries ought to preserve and enhance their culture given the essential role that cultural assets play in the life of individuals. Awareness of the work ethics and moral codes involved in the success of developed countries may help them to adopt this model. In the words of Maniam (2005), the opportunities are

immense if the youth is educated to eliminate stereotypes and prejudice to stimulate the acquisition of knowledge. This could benefit a viable larger geopolitical middle class who, in turn, would embrace democracy. Iglesias (2005) notes that governments must keep in mind that the FTAA ultimate objective is to improve living standards and quality of life. Building skill capacity and respecting cultural diversity among countries are opportunities that will help them to ensure a more prosperous community.

Important elements within the social aspect for the FTAA include linguistic diversity. Frechette (2004) reports approximately 1,000 languages spoken within the Western Hemisphere which represent 15 percent of all 6,700 living languages in the world. Currently, Maya, Yuki, Mura, Katukinam, and Yanomam are a few of these varieties. Spanish is the official language in 18 FTAA countries. English is the second largest spoken language in 14 of them while a handful of other countries have Portuguese, French, Creole, Dutch, and Guaraní as their official languages. If population is divided into language groups, approximately 40 percent of the population speaks Spanish, 38 percent speaks English, 20 percent speaks Portuguese, and almost 2 percent speaks French. Nonetheless, English is becoming universally recognized and can be complemented with Spanish as bilingualism becomes mandatory throughout since elementary education.

In Riley's words (2004) another fundamental vision of the FTAA is human dignity. This vision is rooted in the belief that people are carriers of their own dignity and human rights. It is governments' responsibility to guard and support human rights of all citizens equally. Hence, FTAA nations must mind values such as support of the common good of society, contribution to social justice, and respect for the role people give to religion. Christianity is the largest religion in the Americas involving about 97 percent of the population. Roman Catholic is the branch within Christianity with the largest number of adherents followed by lesser practiced branches such as Anglican, Evangelical, Jehovah's Witnesses, and Protestants. The remaining 3 percent involves religions such as Judaism, Hinduism, Islam, and Buddhism as well as other spiritual indigenous rituals and cults.

There is a high disparity of literacy levels across FTAA countries. The ability to read, write, and comprehend information by individuals 15 years of age and older is the lowest in Haiti, St. Lucia, and Nicaragua with 53, 67, and 68 percent, respectively. Common elements that explain those low literacy levels are high birth and infant mortality rates. In contrast, the highest literacy levels are present in Canada, United States, and Uruguay with 98 percent that is consistent with low population growth and high life expectancies. Not for other reason, Salazar-Xirinachs (1999) stresses that FTAA countries must maintain the ability to enhance their educational assets with proactive investment programs on education and credits for specific schooling infrastructures.

Policy makers identify many possible areas of improvements associated with the FTAA. Yet, relations among FTAA nations have weakened at an alarming rate. It is in their best interest to have neighbors that are socially stable and united by common values. Aldonas (2004) acknowledges that success of the FTAA will depend on how differences on cultural dimensions such as individualism or collectivism are valued. Of particular importance would then be reducing differences in social strata within and among nations and among races. From a gender perspective, governments ought to

provide mechanisms for creating high quality jobs, skills restructuring training programs, and incentives for job creation especially for women.

IV. LEGAL ASPECTS

The legal framework sets the boundaries in terms of contracts, investments, and corporate laws. National, regional, multilateral, and international laws are constantly invoked to settle disputes ranging from labor practices to marketing regulations or foreign direct investment. Litigation becomes unavoidable in cases when conciliation cannot be reached based either on arbitration or consensual agreement among the parties involved. Current judicial systems around the region involve common, statutory, civil, administrative, and bureaucratic laws. Former colonies of the United Kingdom such as Bahamas, Guyana, Trinidad and Tobago and the United States follow the English common law that is based on the cumulative wisdom of judges' decisions on individual cases through history. Nevertheless, Hammergrinn (2006) highlights that the remaining FTAA nations base their legal systems on a relatively well-detailed listing of what is and is not permissible according to the Spanish law, the Napoleonic code, or other country-specific civil codes. Therefore, a fundamental legal challenge relates to a meaningful interpretation of those codes within the structure of international rules for trade such as dispute settlement, intellectual property rights, nationalization, and binding enforcements.

Hester (2002) notes the FTAA requires participating countries to update their domestic laws on topics such as intellectual property rights. Previously, their legal authorities had agreed on ensuring adequate protection to intellectual property rights. In most Latin American and Caribbean countries, intellectual property is not protected and some of their judicial systems are unable to enforce policies related to these specific rights. In addition, penal laws, lack of police authority engagements, and inadequate judicial procedures pose a major barrier to key regional markets. International protocols that affect competitiveness such as trade related aspects of intellectual property rights have not been enforced effectively.

Businesses have to overcome lengthy and expensive bureaucratic impediments to protect intellectual property. Conversely, governments need to strengthen the capacity of their judicial system to ensure prompt and satisfactory levels of intellectual property rights protection. The FTAA discloses standards for copyrights, trademarks, geographical indications, industrial designs and patents. Unfortunately, the current draft chapter on intellectual property rights carries certain risks for a sustainable intellectual property protection in terms of its range and strength. Hence, Carranza (2004) reflects that FTAA members may unknowingly self-inflict restrictions on national control of intellectual property rights that better address a hegemonic integration agenda pursued by the United States to the detriment of the remaining countries.

Another legal aspect of the FTAA includes nationalization for which the concepts of expropriation and confiscation are both used interchangeably in its last draft. The explanation offered by Jasper (2004) is that already signed bilateral treaties prohibit the expropriation of investments except within the Western Hemisphere and when certain required conditions are met. The requirement is that both expropriations and payment compensation are done in accordance with international law and to the satisfaction of all parties. A general consensus is that government actions that could

disrupt foreign investment can only be taken when there is a proven collective interest not out of personal motivation.

Corruption, in its many forms, still prevails in the region despite numerous denials and oversights. Ortiz (2006) points out that it requires the careful attention of bureaucrats as corruption influences policy decisions and distorts resource allocations. Notwithstanding, legal conditions in most FTAA countries tend to be more convoluted and bureaucratic than those observed in developed nations. Corruption is affecting political institutions in the entire FTAA region to become a liability to governments and legislative institutions. It weakens economic growth and jeopardizes the fundamental needs of underprivileged groups. After going through lame integration processes in the 90s, Latin America and the Caribbean have experienced an increase in corruption. FTAA members are obliged to fight against it within a complete overhauled legal framework and promote the implementation of anticorruption measures. Key approaches advanced by Transparency International (2007) for FTAA countries to prevent corruption include a cadre of policy-makers committed to encourage accountability and exercise prevention and punishment mechanisms against illicit enrichment.

The FTAA does indeed consider enacting regulations, contracting, sanctions, and embargoes. Among them, licensing agreements are one of the most complex and draconian topics being covered. For instance, pharmaceutical multinational companies plan to extend patent monopolies beyond their current twenty-year limit under which countries could license affordable medicines, eliminate their ability to export them, block generic companies' access to test data needed to timely license, and direct drug regulatory authorities to block approval of generic drug versions. Therefore, a fundamental consideration implied by Yergin and Stanislaw (2002) is that FTAA governments have to enforce policies which efficiently extend a safety net for its people through improved legal systems.

V. ECONOMIC ASPECTS

The FTAA agreement can potentially increase the combined amount of trade and investment flows of its member nations by fourfold. However, Ellner (2006a) contends that allocation of these benefits will be based on the size and stages of economic development countries have. Negotiations are not explicitly recognizing these differences to provide sustainability for all. Top economic players such the United States, Brazil, Canada, and Mexico will determine the success of the FTAA. The economies of Chile, Argentina, Venezuela, and Colombia would lag well behind. Even after having been combined these medium-size economies will not reach benefits marginally similar to any of their larger counterparts. Moreover, growing in a region with reduced tariff rates mean lower production costs but larger exposure to foreign competition. Laggard countries may not recover as tariffs are gradually eliminated. Even after adopting some preferential trading practices and focusing on potentially attractive existing or new markets, those countries will still remain as losers in each industry. In fact, empirical findings by Brown et al (2005) unequivocally suggest that a substantial drop in incomes will occur in less competitive sectors as cheaper imports replace domestic products.

The FTAA highlights agriculture as a key economic sector. Hence, it focuses on ensuring food security, increasing agricultural productivity, and maintaining a fair standard of living for the rural poor. Almost every single FTAA nation has a comparative advantage over non-FTAA countries due largely to its abundance and variety of natural resources. Market access is a key for these countries since agricultural products are their main source of revenues. A step towards bettering agricultural trade will influence prices and farmers well-being. Considering many of their export markets suffer of strong price volatility, Jiang (2004) and Ellner (2006b) deem imperative for small nations to phase their participation in the FTAA with protection in certain commodities while absorbing the costs of trade integration. This entails an ingrained cooperation of the United States to make concessions, eliminate agricultural subsidies, and revamp its anti-dumping legislation.

Foreign direct investment is a major source of capital transfer to FTAA nations. Nevertheless, Aldonas (2004) believes that it has contributed very little to improve overall economic conditions. Flows of foreign direct investment during the 1990s were the result of a stronger confidence of international investors in long-term growth. FELABAN (2004) identifies two primary factors influencing this assessment. First, the extraordinary conditions of the US economy and second, the structural reforms and macroeconomic policies implemented throughout FTAA members. Short-term international borrowings are common sources for nations to come out of a financial crisis. Hence, the FTAA needs to establish a framework to promote investment through the creation of an environment that predictable protects foreign investors without adding obstacles to investments from outside the region. Opening up financial markets is needed to ensure maintenance of financially healthy member countries. A move into that direction will address past difficulties in terms of proper accounting standards under an atmosphere of transparency.

The Inter-American Development Bank (2007) asserts that macroeconomic crises compel structural reforms within Latin America and the Caribbean to re-establish fiscal discipline. Primary concerns of these reforms are privatization, financial liberalization, and labor market flexibility. An excessively high foreign debt threatens the hopes of many FTAA nations by reducing their capacity to invest in areas key to their development plans. Ellner (2006b) and Iglesias (2005) encourage governments to retain their right to impose performance requirements on investors as well as maintain protection for small and medium-scale enterprises. FTAA countries ought to achieve structural fiscal balances to allow them to keep a constant debt ratio. In doing so, they will ameliorate capital windfalls which temporarily inflate their capital accounts giving the false impression of a long-term sustainability to debt services.

The FTAA also includes a poverty reduction platform. Initiatives like the North American Free Trade Agreement (NAFTA) have not reduced poverty and inequality but have actually increased them. Such negative effect forces analysts to wonder if the FTAA, which follows a similar pattern as NAFTA, will deliver similar outcomes. Poorer FTAA nations need to multilaterally negotiate their interests in order to achieve sustainable development and reduce poverty by creating compensation programs. The Inter-American Development Bank (2007) estimates that in the last decade free trade took 200 million people out of poverty around the world to become the largest and fastest reduction of poverty ever recorded in human history. Thus, a further elimination of trade barriers would imply 300 million people increasing their income levels and

coming out of poverty in the Western Hemisphere. Case in point is Chile where income grew four times faster in the 1990s than incomes of comparable protected economies. Another pressing issue to consider in assessing the long term impact of the FTAA is the ultimate effect on income distribution. Latin America and the Caribbean carry a history of the most extreme income inequality around the world so that an incentive to join a wide ranging FTAA must target a more equitable income distribution.

A study by Brown et al (2005) assesses the FTAA with unilateral free trade of FTAA member countries and global free trade. Their results are disappointing from a FTAA viewpoint. They show that unilateral free trade increases economic welfare by \$477b relative to a FTAA liberalization of \$119b. Global welfare with unilateral free trade by FTAA members is \$813b compared to \$110b for the FTAA liberalization. More specifically, the study finds the United States will benefit by about \$50b in annual additional trade. These gains far exceed the estimated trade gains of \$4b for Canada, \$6b for Chile, \$4.5b for Mexico, \$21b for the Central America and the Caribbean, and \$40b for South America as a whole. Trade increases for the remaining country members are definitely smaller and they accrue to the Caribbean and Central and South America especially in textile and leather products. Welfare effects of unilateral free trade are similarly much larger for the other FTAA countries as compared to FTAA liberalization. Surprisingly, these findings reveal that a worldwide tariff free trade agreement a la WTO could be substantially more advantageous. The rationale for pursuing a regional agreement as opposed to a deeper integration through the WTO might only be explained by the dispute resolution mechanisms incorporated in NAFTA.

The need for harmonizing monetary and exchange rate policies is a must in light of the perennial imbalances that have affected Latin America and the Caribbean over the past thirty years. A currency basket involving the region's main currencies is an approach that would largely offset the potentially eroding worldwide trend against the US dollar. An exchange rate convergence can only occur if financial shocks within the FTAA are rationally absorbed and made temporary. Concurrently, successful harmonization of monetary policy is needed in order to stabilize exchange rates among member countries. An integrated policy mechanism could help offset currencies depreciation and prevent "domino devaluation" effects. Careful scrutiny is required at the time of proposing the adoption of a single currency to further enhance economic and financial cohesiveness. Similarities in tax structures among FTAA members but also the non-universality of these taxing mechanisms are also necessary. Fiscal policy coordination within the FTAA is foreseen to be more difficult as autonomy desires will quite likely arise at the time of synchronizing these differences.

VI. POLITICAL ASPECTS

According to Grossman and Helpman (1995) political forces influence all aspects of a trade agreement. Countries adhere to varied political ideologies and highly unstable government systems. These range from democracies to totalitarian regimes. Regardless the extent of those government ideologies, political upheavals, repression, violence, terrorism, strikes, or cabinet changes, all create an atmosphere of risk and instability. Decision-making processes depend heavily on the degree of involvement of society and its constituencies. It seems acceptable nowadays for citizens to enjoy a minimum of constitutional guarantees regardless of the assortment of political doctrines available.

Ultimately, those political ideologies provide their own philosophical interpretation regarding ownership of production factors and market competition.

Lauredo (2004) warns that a varied ideological spectrum poses problems for consolidating the entire FTAA. Political ideologies strongly determine actions of each individual nation. Outlining the importance of institutional governance requires invoking the “democracy clause” which recognizes that values and practices of democracy are fundamental to the advancement of all objectives. Hence, any unconstitutional alteration or interruption of the democratic order becomes an insurmountable obstacle to the participation of a government in the FTAA. Nations need to make significant progress democratizing their political institutions into the multi-party political systems they are today. This is largely due to the general consensus that “multi-party systems” reduce both discretion and the need for oversight.

Essential elements in supporting involvement in national democratic institutions require enhanced fair electoral mechanisms. Ellner (2006a) reveals a pessimistic tone at the time of characterizing Latin American political systems as hyper-presidentialism which could just barely be considered democratic. In his view, the Latin American “version of democracy” is an incomplete or weakly implemented one. He further states that those presidents, many of whom were elected on anti-neoliberal economic platforms, railroaded through neo-liberal legislation by passing over congress and other democratic institutions. This implies that even though Latin American countries are implementing, in most cases, multi-party political systems in an effort to move toward democracy, simple implementation will not solve the problem. Such a lack of continuity with the implementation of a new political system is a major problem which may clearly obstructs the overall FTAA consolidation.

Interest groups represented under civil society organizations play a pivotal role in influencing political aspects. Labor organizations born out of discrimination, chronic unemployment, and informal labor markets demonstrate more actively than trade union federations. In Brazil, the rural-urban exodus has increased labor organization in rural areas. Specifically, the movement of landless rural workers remains far more combative and with a higher level of participation in conflicts than the federation of unified workers. An example provided by Martinez et al (2005) depicts the transformation of banana workers by educating them to value women's work within the community, the household, and the industry. Currently, Latin America and the Caribbean's banana unions face the combined threat of increased competition and overproduction which lead to plummeting wages, lack of health benefits, and deplorable working conditions. They have not only succeeded in conveying the importance of respect for all workers and setting aside gender inequality but also in finding ways to get organized and set goals that have substantially transformed their expectations. Therefore, success and transformation becomes a matter of education and push to play a large role in influencing political issues within FTAA nations.

A related perspective from Rivas-Campo and Tiago Juk Benke (2003) contends that trade representatives are also compelled to hear the voices of labor unions during negotiation rounds. It would be imperative then to reach a consensus for increased trade based on principles which would benefit everyone. At the national level a consultation mechanism is available to each government while at the hemispheric level a coordinating ministerial body is required. Creating such a mechanism would be important to ensure transparent private sector participation in the creation of the FTAA.

Another sensible political issue capable to pose problems for the achievement of the FTAA is the relationship between both public and private sectors. In FTAA nations, the public sector has undergone a vast amount of change. The Washington Consensus instilled the need for Latin America and the Caribbean to privatize state-owned enterprises for economic reform in order to assist in budget deficits, controlling inflation, and promote price liberalization. However, Maniam (2005) shows that the overall relationship among the public and private sectors actively affects FTAA nations due to their inability to historically relate these new integrations. In other words, even though globalization has been around for centuries, there is not a set precedent to follow for the FTAA nations. Rather, they are on a “learn-as-you-go” journey.

Political instability under increased corruption constitutes a stumbling block for accomplishing the FTAA. Transparency International (2007) rates, on average, FTAA nations as having the most unfavorable corruption ratings despite some conscious shifts in traditional governmental decisions. Latin American and Caribbean countries suffer of chronic political corruption which has created an advantage for women candidates based on the perception they are more honest than men. Exercising global governance becomes even more difficult unless global political order is previously enforced to truly implement the FTAA.

VII. TECHNOLOGICAL ASPECTS

Technical change is regarded as the main determinant of long-term economic growth. Despite being expensive and risky, research and development are instrumental for countries to survive in a globally competitive market. In its many forms, technical change encompasses new techniques and managerial practices to solve specific manufacturing problems. Capitalizing on the learning effects and seeking economies of scale help countries to obtain total factor productivity gains which allow them to increase welfare. Innovation is forcefully a continuous process that takes some time to occur and differs among industries. However, generation and adaptation of new technologies do help to counteract the pervasive effects from diminishing returns and obsolescence. FTAA members must take an increasing interest in the way technological events occur and in their impacts on different countries as well as the role of governments in shaping a culture of innovation.

Schiff and Wang (2003) conceptualize the dynamic effects of technology diffusion among member and non-member nations in the context of regional integration agreements. Essentially, they identify trade and foreign investment as important mechanisms through which knowledge positively impacts developing countries. Accordingly, Coyler (2006) goes further by explicitly labeling innovation as playing *the* most important role in leading FTAA countries to acquire competitive advantages. The economic interdependence of FTAA countries relies on technical change. Technological advances in the FTAA region depends on technology adoption or learning by experience. As leaders in world technology, the United States and Canada are able to provide opportunities for participating nations to take advantage of their technical expertise.

Similarly, Moguillansky (2006) asserts that technology transfer enforces FTAA governments to establish certain guidelines before adopting it. These guidelines will spell out policies and procedures to assess technology performance and its economic

impact on countries. The FTAA has the opportunity to provide a good match between trade and technology. Every technological development will influence the FTAA performance. Hence, some of its technological challenges would include: i) the WTO implementation, ii) diversity in size and levels of technology adoption and infrastructure of participants, iii) policy approaches, and iv) technical assistance needs.

Based on the NAFTA experience, McKinney (2004) envisions that a significantly positive effect of the FTAA would be to allow countries access to new technologies coming from outside the FTAA region. This would encourage local competition that will in turn translate into more efficient productive processes. Once the FTAA is in place, other mechanisms may contribute to deal with overly protectionist measures stimulated by declining industries. Chiefly among them are to establish an institutional framework that promotes competition and industrial modernization and make information available about the benefits and costs of maintaining obsolete production facilities. In addition, Mognillansky (2006) observes that technological advances would allow a greater number of FTAA countries to use technical processes to manufacture goods as well as define the economic context in which their firms operate.

Consistent with recommendations offered by Coyle (2006), Latin American and Caribbean countries offer relatively low labor costs to compete with countries outsourced for establishing software design and development facilities. Therefore, the FTAA region needs to provide a comprehensive information technology infrastructure to take full advantage of such a trend. Industrial policies need to address skill upgrading and domestic technological activities to increase export competitiveness. Environmental issues are also of utmost concern in the Americas considering the high correlation between environmental degradation at early stages of industrial development. Efforts need to be made to ensure that as living standards increase due to higher incomes, initial levels of pollution are abated and better technologies are called upon to reduce environmental damages.

VIII. CONCLUSIONS

The SLEPT framework and its underlined conditions represent a valuable tool to analyze regional integration schemes such as the FTAA. Country members will become even more intertwined and mutually dependent if they strive to meet those conditions. The SLEPT analysis indicates the FTAA needs the endorsement of all governments but, more importantly, the vigorous diplomatic leadership of its two largest nations, the United States and Brazil, to succeed. The FTAA could potentially iron out increasingly feverish social discrepancies and ensure a more transparent legal environment. Policy reforms will support countries to improve their long-term outlook for economic growth and political stability. Regrettably, size differences are already creating profound asymmetries which would be exacerbated with the FTAA. Large country members will benefit more, relatively speaking, from a further hemisphere-wide integration than smaller ones. The former will more rapidly adopt those technologies that come along with trade and foreign investment while research and development spillovers to the remaining nations will be far from instantaneous.

The FTAA will not override existing bilateral and sub-regional agreements. Rather it will complement them. The prospects for resuming FTAA negotiations

depend, inter alia, on the outcome of current WTO negotiations in leveling the international playing field. Trade opportunities offered by the FTAA could lead into a welfare renaissance once the most fundamental social, legal, economic, political, and technological dynamics are carefully accounted for. However, chances for Western Hemispheric countries to put aside their differences, enthusiastically embrace FTAA policies, and be willing to accept short term costs with the understanding that long term benefits will accrue to those who keep their markets open are slim. Adjustments towards specific economic sectors may result but, ultimately, truly acquired competitive advantages among member countries will lift the entire region.

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