



**The Minerva Program – Fall 2001  
The Theory and Operation of a Modern National Economy**

**FTAA – NEW GAME**

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**“We believe in the importance of trade liberalization, both globally and regionally, in generating economic growth and prosperity in the Hemisphere. In this connection, we consider important the strengthening of the ongoing trade integration processes within our Hemisphere, which can facilitate the achievement of full Hemispheric integration. We reaffirm our commitment to a more open and balanced global trading system and believe that the FTAA negotiations will facilitate the achievement of this objective. Consequently, we reiterate our commitment to avoid, to the extent possible, adopting policies or measures that may adversely affect regional trade and investment and to avoid imposing further barriers to countries outside the Hemisphere.”**

**Ministerial Declaration**

## 1 - INTRODUCTION

In December 1994, the effort to unite the economies of the Western Hemisphere in an only free trade area began with the "Summit of the Americas", in Miami. The purpose of the Summit was to take initial steps toward establishing a hemispheric free-trade agreement which would build upon the ongoing evolution of the region's many subregional trade agreements, such as NAFTA and MERCOSUR.

The Presidents of 34 democracies of the hemisphere decided to build the Free Trade Area of America (FTAA), in which they will progressively eliminate the barriers to trade and investment, concluding the respective negotiations before the year of 2005.

Those leaders also committed their governments to achieving substantial progress in the establishment of the FTAA, starting from some principles settled in the "Declaration of Principles," approved in the Miami Summit and later enlarged in several subsequent meetings Trade Ministers (Denver, Cartagena, Belo Horizonte, São José,...).

From the ministerial declarations and in actual practice, the trade ministers of the member countries of the FTAA decided to face the "Dracula's Test" that, according to Lori Wallach, director of NGO Public Citizen, "only the exhibition to the sunshine can say if the agreement of the FTAA stays on foot or becomes powder, as in Dracula's legend". In that way, the Ministers disclosed, although with many divergences, the 416 pages of the draft of the FTAA agreement produced by the nine negotiating groups<sup>1</sup>.

The Brazilian Foreign Affairs Minister, Celso Lafer, praised the decision. He said "the Brazilian society has, with reason, placed the importance of knowing what is in dispute in that negotiation, meditating and processing the terms of such a complex negotiation".

According to the Manager of the Brazilian delegation for the negotiations of the FTAA, Ambassador José Alfredo Graça Lima, "the civil society will be accompanying the negotiations more and more closely starting from now, a decisive moment of the game."

Despite of the publication of the activities of the negotiating groups and the role function of the press in clarifying the issues, the definition of a free trade agreement and how it will impact Brazil it has not reached most of the Brazilian population yet.

The Brazilian people are not familiar with terms such as: dumping, anti-trust law, nontariff barriers, agricultural subsidies, phyto-sanitary measures, compensatory rights and other terminology.

The declarations made by Diplomats Celso Lafer and Graça Lima symbolize the inspiration for this paper, which is the need to clarify for Brazilian society the components of the "game" of international trade, more specifically, the components of **THE GAME OF THE FTAA.**

In order to clarify the theme in a quite creative and simple way, facilitating the understanding about the proposed commercial integration that will be made by the FTAA, this final paper for the "**Theory and Operation of Modern National Economy**" course makes an analogy between the game of international trade, represented by the FTAA, and something that the Brazilian population knows well: **SOCCER.**

From this perspective, the FTAA represents a great intercontinental championship that is being set up. The 34 teams that will participate in the event are being structured to face great challenges in the following way:

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<sup>1</sup> The nine negotiating groups are discussing about: access to markets, agriculture, investments, subsidies, antidumping and countervailing duties, competition policy, services, government procurement, dispute settlement and intellectual property rights.

- ? The Ministers of Trade will command the teams in the function of coaches. The coach has already chosen the technical commission: diplomats, lawyers, experts in international trade etc;
- ? The players that will compose the main team will be represented by the most prepared sectors of the national economy, that are, the sectors that have competitiveness in the international arena;
- ? The rules of the game will be established and respected by all of the participants;
- ? So far, the teams have been facing each other in isolated disputes or in small blocks, where everybody has an established position of trade deficit or trade surplus and with the FTAA this “score” can change;
- ? Finally the main goal of the teams that will participate in the championship is not to reach first place, but to improve, strategically, their current position because international trade is not a “zero-sum game”.

## **2 - HISTORICAL OVERVIEW**

### **2.1 - GLOBALIZATION OF SOCCER**

The trajectory of soccer began with the appearance of a similar game in China. This game was improved in the English universities before arriving in Brazil, where it was introduced officially in 1894, by Charles Miller.

In the end of the 19<sup>th</sup> and the early 20<sup>th</sup> centuries the international expansion of soccer took place with the establishment of the first sporting associations in Europe and South America. More recently, we witnessed the evolution of the sport in the African Continent that, even with many countries lacking financial resources, has surprised the world with its cheerful and competitive soccer.

Several soccer leagues were created throughout the world and with them the formation of local, regional and world championships. In the regional ambit we can mention two of the most important "blocks" or soccer competitions in vigor: The European Championship of National Teams (EUROCUP) and the South-American Championship of National Teams (AMERICA's CUP).

The EUROCUP represents the largest continental competition in the world. Now with the participation of sixteen national teams from throughout Europe. The AMERICA's CUP takes place with the fixed participation of ten South-American countries and, at least, one from Central or North America.

The FIFA, the most important organization of world soccer, also sponsors other championships involving national teams from several continents, with the largest being the WORLD CUP, that happens every four years.

## 2.2 - GLOBALIZATION OF MARKETS

Globalization is not a new phenomenon. Shadowing a retrospective of humanity's history, we can say that everything began when the first man left the African Continent and ventured into the rest of the planet.

Some years before the introduction of soccer in Brazil by Charles Miller, in fact in 1848, Karl Marx with his "Communist Manifesto," considered globalization a highly positive liberator and revolutionary movement. He said:

*"The new industry created the world market. The old national industries were destroyed and continue being destroyed day by day. They are supplanted for new industries, whose products are simultaneously consumed at the own country and in all continents. Instead of the old needs, assisted by the products of the own country, new needs appear, that demand products of others countries. All old and consolidated social relationships are dissolved and all the relationships that substitute the old ones get old before its consolidation."*

More recently, after the fall of the Berlin wall, the whole world could check the technological delay and the ignorance produced by closed regimes that ignored globalization.

There is a wide consensus of opinion that democracy, the opening of markets and freedom of expression, produce wealth and promote the evolution of people in all aspects of society.

As with soccer, globalization, in actual point, is not free from imperfections, in fact it has many problems. The main problem generated by the process of globalization is the significant difference between the economic conditions of rich and poor countries.

The benefit that shimmers with globalization of soccer is a equalization of Asian and African teams with their European and South American competitors. The same type of equalization in terms of economic globalization is not that simple. It makes the enrichment of the countries that are already rich easier, but the ones that live in

poverty, cannot prosper as easily. Although the poor may improve their lives, the increase of the prosperity of the rich is much more accelerated.

Some poor countries would like to participate in the game of globalization with the same will and agility that they display in a soccer game, but this is not easy in the field of the international trade because of their economic fragility. This is the case of most of the African nations, with global companies demonstrating little interest in trading with them.

Between the two economic extremes, there is Brazil, which is the greatest soccer world champion, with four World Cup championships, and a country that has been making great efforts to enter in the rhythm of globalization.

### 3 - COMMERCIAL BLOCKS – GREAT COMPETITIONS

In 1960, MacLuhan, a philosopher, presented the concept that "the world is a village". Today this concept is a reality, not only in communication terms but also in trade. The speed of transport, the facilities for negotiations, the regionalization of commercial blocks, mechanization and automation of the factors of production, all enlarge commercial exchange among countries.

Some trade are accomplished bilaterally, for example, Chile and United States, and others regionally or multilaterally, for example, the European Common Market (**EUROPEAN UNION or EU**) and the North American Free Trade Agreement (**NAFTA**), already established; the Common Market of the South (**MERCOSUR**) and the Free Trade Area for the Americas (**FTAA**), still in negotiation process and consolidation.

#### 3.1 - EUROPEAN UNION

The European Union provides for the free circulation of goods and people, and is made up of members from 15 countries, with a population close to 380 million people and US\$8.5 trillion of GDP. The common market<sup>2</sup> was implemented in 1993, and a common currency (EURO), was introduced in 1999.

This block seeks to promote the integration of Europe by eliminating tariff barriers among the countries, introducing common macroeconomics goals and through the establishment of a supranational legislation.

New members are supposed to accept the legislation of the group upon accession, this representing the most basic requirement for acceptance into the block. The new countries waiting to be admitted include Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

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<sup>2</sup> Common market is a type of economic integration in which all tariffs are removed between members, a common external trade policy is adopted for nonmembers, and all barriers to factor movements among the member countries are removed. (Appleyard & Field – International Economics – page 352)

### **3.2 - NAFTA**

The executive branches of the governments of Canada, Mexico and the United States signed the NAFTA in August 1992, agreeing to create a free-trade area with a combined GDP, at that time, of US\$7.5 trillion and a population of 372 million.

This agreement took effect on January 1, 1994. The purpose of NAFTA is to look for tariffs reductions among countries, over a 15-year period, and at the same time substantially reduces nontariff barriers. It is much more a commercial agreement than a project of political and economic integration like that of the European Union.

### **3.3 - MERCOSUR**

In 1991 Argentina, Brazil, Paraguay, and Uruguay formed the MERCOSUR, with attempts to create a common market by eliminating tariffs on goods and services between member countries and establishing a Common External Tariff (CET). Workers, goods and services will may cross borders without any impediment.

The members of MERCOSUR have a combined population of more than 200 million people and a combined GDP of over US\$1 trillion.

Today MERCOSUR represents an uncompleted customs union. That means that a great part of the tariffs was already reduced and the countries are trying to establish an agreement to define the CET for all sectors.

### **3.4 - FTAA**

The FTAA is a proposal of commercial integration that, if concluded, will embrace all of the Americas, except Cuba, encompassing almost 800 million people and a combined GDP of US\$11.5 trillion.

The countries of the FTAA will have simultaneous tariff preferences. The objective is that the tariffs for the member countries trade will be gradually reduced until becoming null, facilitating the flow of goods and services in the area.

This is the most ambitious plan for hemispheric economic cooperation to date, and it undoubtedly will experience a number of serious obstacles that must be overcome prior to its implementation.

## 4 - RULES

### 4.1 - WHO ESTABLISHES THE RULES OF SOCCER ?

The agency that establishes the rules of soccer is called "The International Football Association Board."<sup>3</sup> The purpose of the Board is to discuss and decide modifications to the rules of the game and other issues that concern the Soccer Association.

The proposals for modifications are sent for the Board's approval, in an annual general session, after they have been examined during the session of annual work or during other adapted sessions of the Associations that comprise the Board.

The decisions of the general annual session, relative to the modifications approved in the game's rules, are obligatory for all the Associations and will go into effect starting every July 1 following to the general annual session of the Board.

#### 4.1.1 - WHAT ARE THE RULES OF SOCCER ?

There are 17 official rules of soccer, each one relative to a topic of the game. They are:

- |  |                             |
|--|-----------------------------|
| 1 - the game field                                   | 10 - the goal               |
| 2 - the ball   | 11 - impediment             |
| 3 - number of players                                | 12 - faults and bad conduct |
| 4 - the players' equipment                           | 13 - free shots             |
| 5 - referees   | 14 - penal shots            |
| 6 - assisting referees                               | 15 - lateral throws         |
| 7 - duration of the game                             | 16 - area shots             |
| 8 - the beginning and the recommencement of the game | 17 - corner shots           |
| 9 - the ball in the game or out of the game          |                             |

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<sup>3</sup> The "Football Association" (England), the "Scottish Football Association", the "Football Association of Wales", the "Irish Football Association" and the "International Federation of Football Association" (FIFA). All of them are called "Associations" and take part of "International Football Association Board".

## **4.2 - WHO ESTABLISHES THE RULES OF THE FTAA ?**

The official rules of the FTAA are represented by the 9 themes established by its "Board," the Trade Negotiating Committee (TNC) and guided by 9 negotiation groups or the "Associations" linked to its "Board."

The Trade Ministers are responsible for the supervision and management of negotiations. They generally meet every 18 months in the country that has the presidency of the FTAA, at the time of the meetings.

In addition to guiding the work of the 9 negotiation groups, the TNC will also decide on the general architecture of the agreement and institutional subjects.

The TNC has the global responsibility of assuring the full participation of all countries in the process of the FTAA and, in particular, the issues that are treated in each negotiation group concerning the smaller economies and those related to countries at different levels of development.

The TCN meets as many times as necessary, but not less than twice a year.

### **4.2.1 - WHAT ARE THE RULES OF THE FTAA ?**

Until now the 9 official "rules" of the FTAA are:

- 1 – market access;
- 2 - agriculture;
- 3 - investments;
- 4 - subsidies, antidumping and countervailing duties;
- 5 - competition policy;
- 6 - services;
- 7 - government procurement;
- 8 – dispute settlement ; and
- 9 - intellectual property rights.

#### **4.2.1.1 – MARKET ACCESS**

This part directly relates to progressively eliminate import tariffs and non-tariff barriers, as well as other measures with equivalent effects, which restrict trade between participating countries. The negotiation group on access to markets should present by April 1, 2002, the methods and modalities for tariffs negotiation and identify all non-tariffs barriers.

#### **4.2.1.2 – AGRICULTURE**

This group is responsible for negotiating all the practices that distort the trade of agricultural products, including all those that have equivalent effect such as subsidies for agricultural exports.

The negotiation group is working to ensure that sanitary and phytosanitary measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries or a disguised restriction to international trade, in order to prevent protectionist trade practices and facilitate trade in the hemisphere.

Like the negotiation group on access to markets the negotiation group on agriculture will have until April 1, 2002, to establish a methodology for the elimination of the subsidies to the exports that affect the trade of the agricultural products in the Hemisphere.

#### **4.2.1.3 – INVESTMENTS**

The intention is to establish a fair and transparent legal framework to promote investment through the creation of a stable and predictable environment that protects the investor, his investment and related flows, without creating obstacles to investments from outside the hemisphere.

#### **4.2.1.4 – SUBSIDIES, ANTIDUMPING AND COUNTERVAILING DUTIES**

The idea is to achieve a common understanding with a view to improving, where possible, the rules and procedures regarding the operation and application of trade remedy laws in order to not create unjustified barriers to trade in the FTAA.

The World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures represents the base of the discussion of the group established by TNC.

#### **4.2.1.5 – COMPETITION POLICY**

The group intends to guarantee that the benefits of the FTAA liberalization process not be undermined by anti-competitive business practices, for example, how to avoid monopolies by a company or a coalition of companies.

This negotiation group has also prepared a study of competition policy that is being discussed in smaller economies and in economies without competition regimes.

#### **4.2.1.6 – SERVICES**

The negotiation group intends to establish disciplines to progressively liberalize trade in services, so as to permit the achievement of a hemispheric free trade area under conditions of certainty and transparency.

Services as rendered by banks, insurance companies, telecommunication companies, tourism operators, hotels, carriers, etc, can also make good use of the same principles of trade liberalization, until now only focused on the trade of goods.

. The negotiation group on services will present, by April 1, 2002, the modalities and negotiation procedures that the TNC should observe and evaluate.

#### **4.2.1.7 – GOVERNMENT PROCUREMENT**

The broad objective of negotiations in government procurement is to expand access to the government procurement markets of the FTAA countries, more specifically, to achieve a normative framework that ensures openness and transparency of government procurement processes, without necessarily implying the establishment of identical government procurement systems in all countries.

In other words the goal is to ensure that companies from all member countries can bid for Federal government procurement contracts for goods and services in any country as if it were a domestic company.

#### **4.2.1.8 – DISPUTE SETTLEMENT**

The objective here is to establish a fair, transparent and effective mechanism for dispute settlement among FTAA countries, taking into account inter alia the WTO Understanding on Rules and Procedures Governing the Settlement of Disputes.

#### **4.2.1.9 – INTELLECTUAL PROPERTY RIGHTS**

Each member country must offer to the nationals of any other FTAA member an adequate and effective protection and enforcement of intellectual property rights within its territory, while ensuring that measures to enforce intellectual property rights do not themselves become barriers to legitimate trade.

The intention is to reduce distortions in trade in the hemisphere and promote and ensure adequate and effective protection to intellectual property rights.

The rules will regulate and establish protection for copyrights, marks (trademarks), geographical names used to identify products, industrial designs, and layout of industrial circuits.

## **5 - PARTICIPANTS**

### **5.1 - THE PARTICIPANTS OF A SOCCER GAME**

#### **5.1.1 - TECHNICAL COMMISSION**

The coach leads the technical commission. He has the function of commanding the team and choosing other professionals that will work with him, such as: the coach's assistant also called the supervisor, the doctor, the physical trainer and the masseur.

In a general way, the mission of the technical commission is to determine the best formation of players who will play as the titular team's base, to devise strategies for each game, and to put the team in perfect game conditions.

#### **5.1.2 - PLAYERS**

On the Inside of the field each team has eleven players, distributed as defenders, midfielders, and attackers. During the game three players can be substituted from a group of five to nine substitutes.

#### **5.1.3 - REFEREES**

Still on the inside of the field there are referees, including the main referee and two auxiliary referees, also called assistants. All of them have the function of assuring the rules of soccer game are followed, for example, strictly punishing violent players, stopping the game in situations permitted by rules or for attending to the medical needs of injured players.

For the most serious cases of misbehavior or when a player is caught in a drug screening exam the sports tribunals are authorized to penalize according to each situation.

#### **5.1.4 - COMMENTATORS**

Standing on the side-line is an important segment linked to the soccer game, the sports commentators, working for several specialized communication programs in soccer, such as: radio, newspaper, television and internet.

The main function of a sports commentator is to clarify the game to the audience, making critical and impartial reports before, during and after a soccer game.

#### **5.1.5 - FANS**

The same commentators impartiality should not be expected of the fans. Soccer, in many countries, is considered a great and popular event that heightens people's passions. Many of them go, individually, in small groups or in larger organized groups to the stadiums to have fun.

Unhappily, the game is not always a "party." Fan groups exist that go to the stadiums with the clear objective to seek a quarrel and incite violence against the opposing fans, mainly when these groups of agitators see their team lose a game.

Many of those agitators cross international borders in airplanes, trains and buses with the idea of having fun as a secondary goal. The most well-known example of that type of fan is the UK's Hooligans.

### **5.2 - THE PARTICIPANTS OF THE FTAA**

#### **5.2.1 - TECHNICAL COMMISSION**

In a general way the "technical commission" of each one of the 34 countries, responsible for negotiating the conditions that will affect the "players", is composed of the Minister of Trade as its "coach", with a quite wide group to help him or her, such as: secretaries, diplomats, lawyers, experts in customs, etc.

As an example of some of the members of the Brazilian “technical commission,” we can mention Mr. Pedro Malan, Minister of Finance, Mr. Sérgio Amaral, Minister of Development, Industry and Trade, and Mr. Celso Lafer, Minister of External Relations, as the Brazilian "coaches" that compose the front commission. Below the coaches, exercising “coach’s assistant” role, the supervisor of Brazilian delegation for negotiations of the FTAA, Ambassador José Alfredo Graça Lima.

Despite some differences of function, we can say the American team's “coaches” are represented by Mr. Don Evans, Trade Secretary, and Mr. Robert Zoellick, the United States Trade Representative (USTR), and the "coach’s assistant" is Ambassador Peter Allgeier, Vice-Representative of Trade.

The great disparity between Brazil and United States is in the rest of the staff or the "technical commission”.

The USTR is an agency that has ministerial status and was established by the American Congress in 1962 to negotiate international trade agreements and to resolve trade disputes.

Mr. Zoellick, who has the title of Ambassador, answers directly to the President of United States. His technical group consists of 185 employees, 20 of them allocated in Geneva and, depending on the need, he can mobilize an army of lawyers, consultants and economists to act in the defense of the interests of American companies<sup>4</sup>.

Brazil has a smaller structure when compared with that of United States. Itamaraty is the responsible organ for foreign trade policy. The task of defending the interests of the Brazilian companies is given to a group of 45 diplomats, 9 of them allocated in Geneva, and 6 in Brussels in the European Union’s mission<sup>5</sup>.

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<sup>4</sup> Source: EXAME magazine – March 21, 2001

<sup>5</sup> Source: EXAME magazine – March 21, 2001

Itamaraty also receives support from Brazilian companies such as the National Confederation of Industry (CNI) and Getulio Vargas Foundation (FGV), engaged in sectorial research and academic studies.

### **5.2.2 - PLAYERS**

In the game of the FTAA the “players” are represented by the several productive sectors of the economy, each one with more or less ability to face a commercial competition inside the Hemisphere.

Basically the Brazilian “technical commission” has the support of the following list of “players:” **agriculture, textile, metallurgy, auto parts, footwear, ceramics, meat, aeronautics, pharmaceuticals, paper, machinery, furniture and chemicals.**

Each “player” will be detailed in a later chapter.

### **5.2.3 - REFEREES**

Until some years ago the great “referee” of the international trade was represented by the General Agreement on Tariffs and Trade (GATT), an organization established in 1948, in Geneva, Switzerland. Initially 23 countries signed the General Agreement on Tariffs and Trade, with a structure designed to support a system of liberal multilateral trade.

Until the “Uruguay Round” that concluded in 1994 with the participation of 125 countries, GATT exercised the function of a great forum of discussions on such issues as: barriers to trade, protectionism, regional liberalization, reduction of tariffs, anti-dumping measures and nontariff barriers.

Arising out of the negotiations among the participating countries, the “Uruguay Round” resulted in an agreement to create the World Trade Organization (WTO), which is today the normative and regulatory organ for trade among countries.

The main objective of this new "referee" is to help the unhindered flow of trade among the members states.

The members of WTO established a non-discriminatory system of trade, that respects rights and obligations. Each country receives a guarantee that its exports will have correct and consistent treatment in the markets of other countries. Each country assumes the commitment of doing the same for imports from other member states into its own market.

#### **5.2.4 - COMMENTATORS**

The function of the FTAA "commentators" is accomplished by institutions, managers, politicians, academics, journalists, scientists and other categories that have knowledge and experience in the treatment of issues linked to the international trade.

An example of a "commentator" is the Foreign Affairs Council of New York. That Council sent a document, whose work and final text was coordinated by the historian Kenneth Maxwell, to President Bush, illustrating the importance of the commercial relationship between United States and Brazil.

The following "commentators" aproved the initiative: George Soros, David Rockefeller, Louis Gestner, of IBM, Paul Allaire, of XEROX, Alain Belda, of ALCOA, specialists in diplomacy, economy and trade like Cyrus Vance, Robert Rubin, Martin Feldstein, Theodore Sorensen, Carla Hills, Diego Asencio, Thomas MacNamara, and experts in Brazil like Albert Fishlow, Thomas Skidmore and Alfred Stepan, among others.

## 5.2.5 - FANS

In the same way that the soccer is practiced in all parts of the world, the antiglobalization movement is also global. The "fans" are mobilized in several ways, including by internet, and they cross international borders in airplanes, trains and buses.

As the soccer game fans the same impartiality exist in a portion of "fans" that accompanies the movements of the "technical commissions" in the creation of the FTAA.

Among the antiglobalization people there are several different philosophies at work. Many of them understand that is necessary to find forms of overcoming the obstacles and moving forward and not going back. However, the main thinking of a minority, that has anachronic ideas, is exactly the adverse position to the globalization of trade.

The radical segment is composed by unions members worried about the reduction of the employment opportunities in their country, or religious persons and idealistic students, interested in helping underdeveloped countries, or environmentalists worried with the ecological degradation and anarchists who are against any type of government regulation.

On the one hand it is positive that there exist people who think differently, in the sense of promoting the democratic debate of the issues, on the other hand some of the "fans" who say they are fighting for more democracy and transparency are also trying to impede the debate, many times, with violence. This violence grows as the antiglobalization movement grows, according to the historical below:

Cologne, Jun/99	Favorable manifestants to the pardon of foreign debt of the poorest countries of the planet formed a isolation cord around the building where the meeting of the G-8 happened.
Seattle, Nov/99	100.000 demonstrators protested in a meeting of the WTO. The meeting was interrupted.

Davos, Jan/00	Demonstrations disrupt the politicians and managers' encounters in the World Economic Forum.
Washington, Apr/00	10.000 demonstrators, including environmentalists, farmers and activists in defense of the poorest countries, tumultuate the annual meeting of the World Bank and the IMF.
Prague, Sep/00	Young people from 54 countries debated the effects of the economic globalization. There was a confrontation with the police.
Quebec, Apr/01	At the Summit of the Americas the police used tear gas bombs and water cannons to disperse people.
Gothemburg, Jun/01	Violent confrontation between demonstrators and the Swedish police accompanied the discussion that intended to enlarge membership in the European Union.
Barcelona, Jun/01	Meeting of the World Bank to discuss forms of combatting the poverty in the world was canceled by lack of safety.
Genoa, Jul/01	15.000 policemen were sent into the streets to confront 100.000 demonstrators. The day before the G-8 leaders meeting, three letter-bombs were sent to the meeting place.

## 6 - STRATEGY

### 6.1 - STRATEGIES OF SOCCER

As related previously, in a general way, the mission of the technical commission is to determine the best formation of players who will play as the titular team's base, to devise strategies for each game, and to put the team in perfect game conditions.

The coach makes decision of what will be the main team, in each game, keeping in mind at least two preponderant factors: 1) if the team will play in its own field or in the opposite team's field; and 2) what is the relevance of the final result of the game: defeat, draw or victory.

The combination of the factors will determine the coach's decision in setting up a more or less aggressive team in the attack and, consequently, less or more solid in the defense and in the midfield.

To select good athletes for each one of the three functions in the field is a job that requires much care, not only by the coach but also by the whole technical commission.

The attackers have the big mission of scoring the team's goals in spite of the importance of defenders and midfielders. For that reason the attackers are more "hunted" by the opposing defenders.

Once the coach takes the decision, he will distribute the team for the three sectors of the field (defense, midfield and attack), using, for example, one of the following combinations:

- 5-3-2 or 4-4-2**, in case the decision is to maintain a strong defense and midfield in prejudice of the attack;
- 4-3-3**, in case the decision is to maintain the balance of the three sectors; or

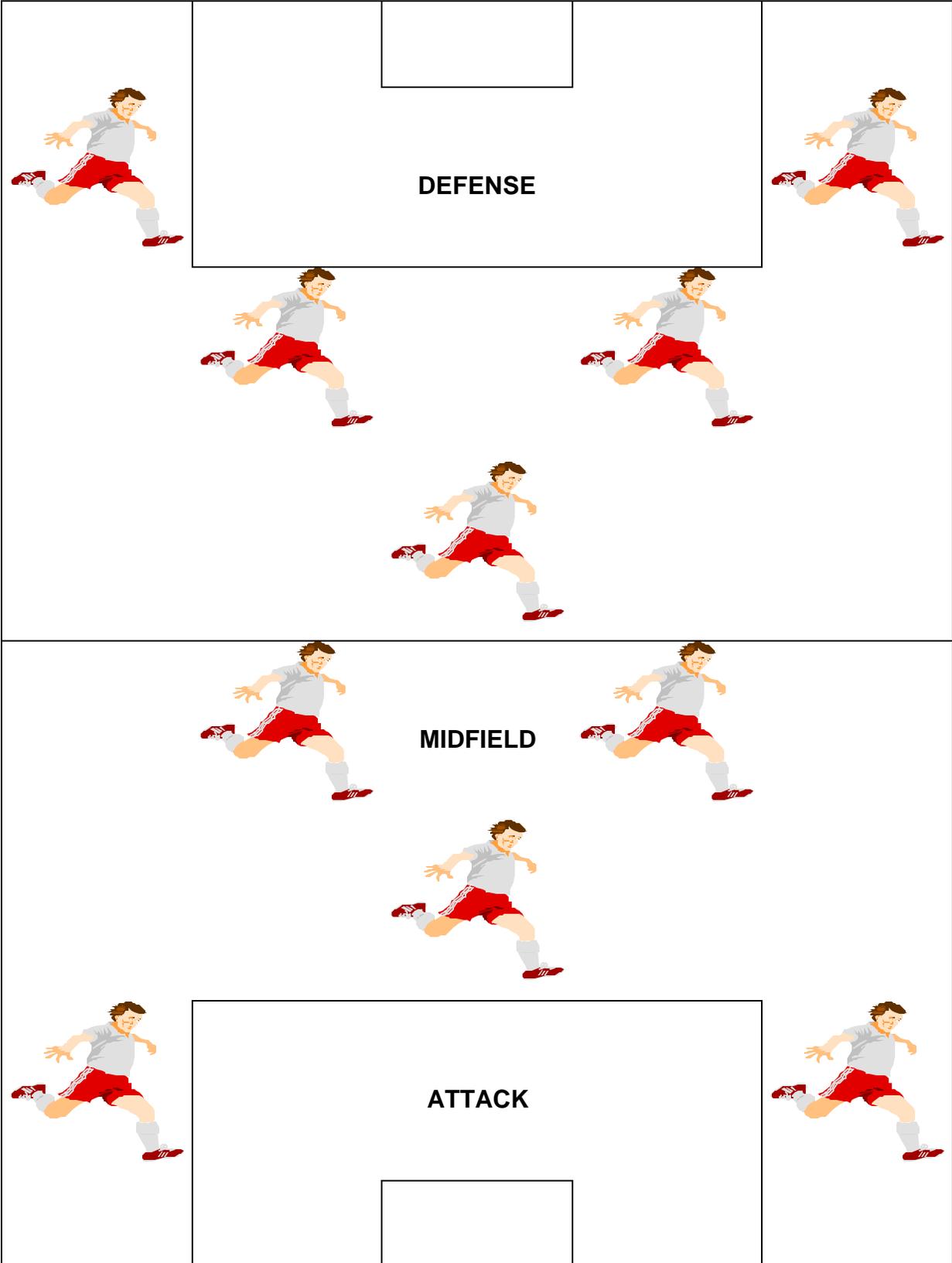
**3-3-4 or 4-2-4**, if it is necessary to maintain a quite aggressive team in the attack.

Each group of numbers above represents, on the left to the right, the quantity of players<sup>6</sup> distributed in defense, midfield and attack, respectively.

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<sup>6</sup> Except the goal keeper who is not related in this codification

Below we can visualize a team's distribution in the combination 4-3-3:



## 6.2 - STRATEGIES THAT BRAZIL CAN ADOPT IN THE FTAA

How are the Brazilian “players” going to prepare and what are the possible strategies the Brazilian “technical commission” can adopt ?

To answer this question we will describe the level of preparation of some "players" and some possible formations the “technical commission” can adopt in the game of the FTAA.

### 6.2.1 - AGRICULTURE

Soybeans, sugarcane and orange represent the main agricultural products with great export capacity for the international market and, specifically, for the FTAA.

Brazil produces the most competitive soy of the world, picking 3,420 kilos per hectare against the American average of 2,450 kilos<sup>7</sup>.

The Brazilian sugar is sold in the international market by US\$200 per ton. The European Union produces sugar beet for US\$700 per ton., while in the United States, the price per ton varies from US\$410 for the sugarcane and US\$522 for the sugar beet<sup>8</sup>.

Brazil is the world’s largest producer of orange juice. The country’s largest market is the European Union, followed by NAFTA. 70% of American imports of orange juice come from Brazil. This percentage was 90% in the past. If the FTAA allows the free trade of this product, the Brazilian competitive conditions could dominate, in an extreme case, the whole American market, generating more than US\$1 billion in revenue<sup>9</sup>.

Agriculture is one of the more prepared "players" for a confrontation in the FTAA. With the agriculture Brazil has a great "attacker."

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<sup>7</sup> EXAME/CEPAC research – The 500 biggest companies

<sup>8</sup> EXAME/CEPAC research - The 500 biggest companies and report from *Câmara do Comércio Exterior* (CAMEX)

## 6.2.2 - METALLURGY

The Brazilian steel plants are more modern and have lower production cost than their obsolete and indebted American competitors. According to the Brazilian Metallurgy Institute's report, the production of steel sheet in Brazil cost approximately US\$110 per metric kiloton which is cheaper than the steel sheet production in the United States. In production of cold-rolled sheet steel the Brazilian production cost is more than US\$150 per metric kiloton cheaper than the United States.

Brazilian companies like Gerdau and CSN already have plants inside the United States and in Canada, benefitting, in that way, from the legislation of those countries. Gerdau bought the Ameristeel plant, in 1999, with capacity to produce 1.8 million per ton/year and CSN acquired in June, 2001, the control of Heartland Steel of Indiana<sup>10</sup>.

Metallurgy is another very well prepared "player". Besides agriculture, the Brazilian "technical commission" can also put metallurgy together, as an "attacker", to disturb the opposing defense.

## 6.2.3 - TEXTILE

After bad moments in the first half of the nineties, the Brazilian textile industry invested in modernization and grew strong again. In this sector a lot of companies have the condition to enlarge still more the production and export of its products in the FTAA, like Coteminas, that already has a good performance in international trade.

Textile is a "player" that was "lesioned" in the past. Today the textile sector is invigorated and is ready to face a competition in the FTAA. The "technical commission" can use this "player" as midfielder or defender.

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<sup>9</sup> report from *Câmara do Comércio Exterior (CAMEX)*

<sup>10</sup> American Chamber of Trade (AMCHAM) – "The way that steel is tempered" - Update magazine-set/01 - nr.375

#### **6.2.4 - FOOTWEAR**

To the Brazilian shoe makers, the FTAA would already be in function. The American market imports 1.6 billion pairs of footwear per year, imported mainly from Italy, Asian countries and Brazil<sup>11</sup>. Brazilian companies such as Grandene and Azalea are engaged in cost reduction and in international competitiveness gain and they already account for more than half of Brazilian shoe exports to the Hemisphere.

The tariffs and barriers for the entrance of Brazilian footwear in the United States oscillate between 8% and 60%. According to the Brazilian federal deputy, Mr. Júlio Redecker, the extreme hypothesis of elimination of all tariffs and barriers could double in one year the exports of the sector to the United States, increasing the revenues from US\$1 billion to US\$2 billion.

Footwear is a quite versatile “player”. The sector of footwear can play in the midfield or in the attack as well as the textile sector.

#### **6.2.5 - AUTO PARTS**

In the early nineties, during the Collor’s Government, the automotive sector was hardly affected by the commercial opening, when tariffs dropped from 60% to 14%. The companies that remained in market, like Mangels, a wheel maker, had to reduce its operational cost. With the “Real Plan” , Mangels had profited again and exported US\$50 million per year<sup>12</sup>. From 1994 to 1998 Mangels invested US\$50 million in the modernization of its three factories. Result: today, with lower costs than those of its international competitors, the company is prepared to face the competition in the FTAA.

Auto parts is another "player" that brings a “lesion” from the past. The autoparts sector also gives clear signal of recovery, as well as the textile sector. The "technical commission” can use this “player” as a defender.

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<sup>11</sup> EXAME/CEPAC research – The 500 biggest companies

<sup>12</sup> EXAME/CEPAC research – The 500 biggest companies

## **6.2.6 - CERAMICS**

Americans traditionally prefer to cover the walls of their houses with paper and to carpet the floors. But in the last few years they have increased the consumption of tiles and ceramic floors. Brazilian ceramic makers, such as Cecrisa, already have made the United States their main external market, in spite of an import duty of 15%.

The FTAA could mean the fall of that rate and it could give Brazilian ceramic makers an advantage over producers in Italy, the country that now is the biggest ceramic exporter to the United States and Canada.

Ceramics is a "player" that can surprise the opponent. The ceramic sector would give a great defender in the team, as well as the auto parts

## **6.2.7 - FOOD**

The possibility of the American market opening to the Brazilian aviculture will be a great business for the sector. The exports that added US\$800 million last year, would have an increase of US\$300 million with the FTAA. According to Mr. Luís Furlan, President of the Sadia Administration Council, Brazil, the second largest exporter of chicken in the world, will have a great opportunity to enlarge its exports, including to the United States, the first of the exporter list, because of the "unbeatable" production costs of the Brazilian chicken.

Meat is certainly a very prepared "player" to play as attacker and to disturb the opposing defenses.

### **6.2.8 - AERONAUTICS**

Few countries in the world have an aeronautical industry. The only country among the developing economies to have one that is prominent in this high technology sector is Brazil, with Embraer.

Embraer does not depend on the FTAA to continue being a competitive company in the global market. There are no tariff barriers for the sales of airplanes. In the FTAA, Embraer will dispute the market mainly with the Canadian Bombardier.

Aeronautics is a "Player" of great technical quality. Aeronautics certainly has place in the Brazilian midfield team.

### **6.2.9 - PHARMACEUTICALS**

The pharmaceutical industry is unlikely to suffer from in the short term with a free trade area. The reason: medicines are not just regulated by tariffs, they obey the health policies of each country.

Even with NAFTA, there is no still free transit of medicines between Mexico and the United States. The agreement foresees that the Mexican rules for those products move more slowly than the one of other categories.

On the other hand, FDA, the regulator organ of medications in the United States, delays more to liberate a brand in name of a Mexican or European company than of an American maker.

Pharmaceuticals is a discreet "player," but has condition of playing in the titular team as a defender.

### **6.2.10 - PAPER**

After years of loosing money, the Brazilian paper industry is now recovering. The increase of the international price of cellulose has been an important contributing factor for this phenomenon. Companies such as Klabin, the largest of the sector, had 30% of its total revenue of R\$2.4 billion in 2000, generated from exports<sup>13</sup>. Now, that Klabin is again profitable, it has started to invest.

According to Mr. Josmar Verillo, Klabin's General Director and Vice-President of the Brazilian Association of Paper Makers, the competition in the sector will increase with the FTAA, that is why Klabin is reducing its operational costs and abandoning niches whose performance was complex and not very lucrative.

The Brazilian paper sector is making a huge effort to guarantee a place in the international market. Besides the pharmaceutical sector, this "player" can also be placed in defense.

### **6.2.11 - MACHINERY**

*Abimaq*, the Brazilian Association of Machines Industry, is working to improve the efficiency of the sector. In September 2000, the organization introduced a quality certification program for companies in order to achieve certain levels of quality.

Another effort that is being done in the sector in order to reduce the verticality and to adopt the Italian model of outsource production.

However, according to Mr. Luiz Carlos Delben Leite, the sector needs more time to reach the necessary competitiveness and the chronogram of the FTAA would interfere with the process.

With a preparation still in an inferior level to the others "players", the machinery sector should be placed as a substitute in the team so as to await a better opportunity to play.

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<sup>13</sup> EXAME/CEPAC research – The 500 biggest companies

## 6.2.12 - FURNITURE

*Abimovel*, the Furniture Makers Association, wants the sector to stay out of the negotiations of the FTAA. Mr. Eduardo Lima, Superintendent of *Abimovel*, fears the competition with the American popular furniture industry.

According to Mr. Eduardo Lima, most of the Brazilian companies that manufacture furniture are family companies, responsible for 800 thousand jobs and their are making a tremendous effort to export, like the Carraro company.

Even for Carraro, located in the town of Bento Gonçalves and one of the largest manufacturing companies of bedroom furniture, tables and chairs in Brazil, would find it be difficult to compete in the FTAA.

Furniture still is a “player” of little vigor. The furniture sector needs to be well worked. In this moment there is no place for this “player” in the main team of FTAA.

## 6.2.13 - CHEMICALS

The chemical industry is one of the areas where Brazilian competitiveness is fragile. Last year, Brazil imported about US\$8 billion in chemical products, generating a deficit of US\$5 billion for the sector<sup>14</sup>.

*Abiquim*, the Chemical Industry Association, points out the necessary steps required to improve the situation of the sector: 1) access to the import of capital goods not produced in *MERCOSUR*; and 2) incentive for development of new technology.

This "player" needs intense work to reach minimum conditions for playing in the titular team. The chemical sector should also stay out of the main team of the FTAA, as well as machinery and furniture.

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<sup>14</sup> EXAME/CEPAC research – The 500 biggest companies

### **6.3 - WHAT WOULD BE THE DISTRIBUTION OF THE "PLAYERS" IN THE GAME OF THE FTAA?**

Once the current condition of some sectors of the economy is identified, it is up to the "technical commission" to establish the best team combination to play the FTAA game.

#### **6.3.1 - DEFENSIVE TACTIC**

A defensive posture would take the "technical commission" to concentrate "players" in the defense, giving larger protection to the "team" as a whole, consequently, the number of "attackers" who would form the front line of the team would be reduced for a minimum number of "players".

To play in the defense represents not to expose many "players" to the external competition, although some sectors have already reached a reasonable level of competitiveness in the international market.

In order to illustrate, a combination as the **5-3-2** would have the following distribution:

<b>DEFENSE</b>	: pharmaceutical, paper, auto parts, ceramics and textile
<b>MIDFIELD</b>	: footwear, aeronautical and food
<b>ATTACK</b>	: agriculture and steel

#### **6.3.2 - OFFENSIVE TACTIC**

The decision of enlarging the performance of Brazilian companies in the international market in a more aggressive way would require the "technical commission" to put a larger number of "attackers" in the front line of the FTAA.

Certainly, to play offensively represents a larger risk with greater exposure of the "players" in relation to the opponent. In that way, the "technical commission" has to have a very clear goal to achieve in the FTAA game of FTAA.

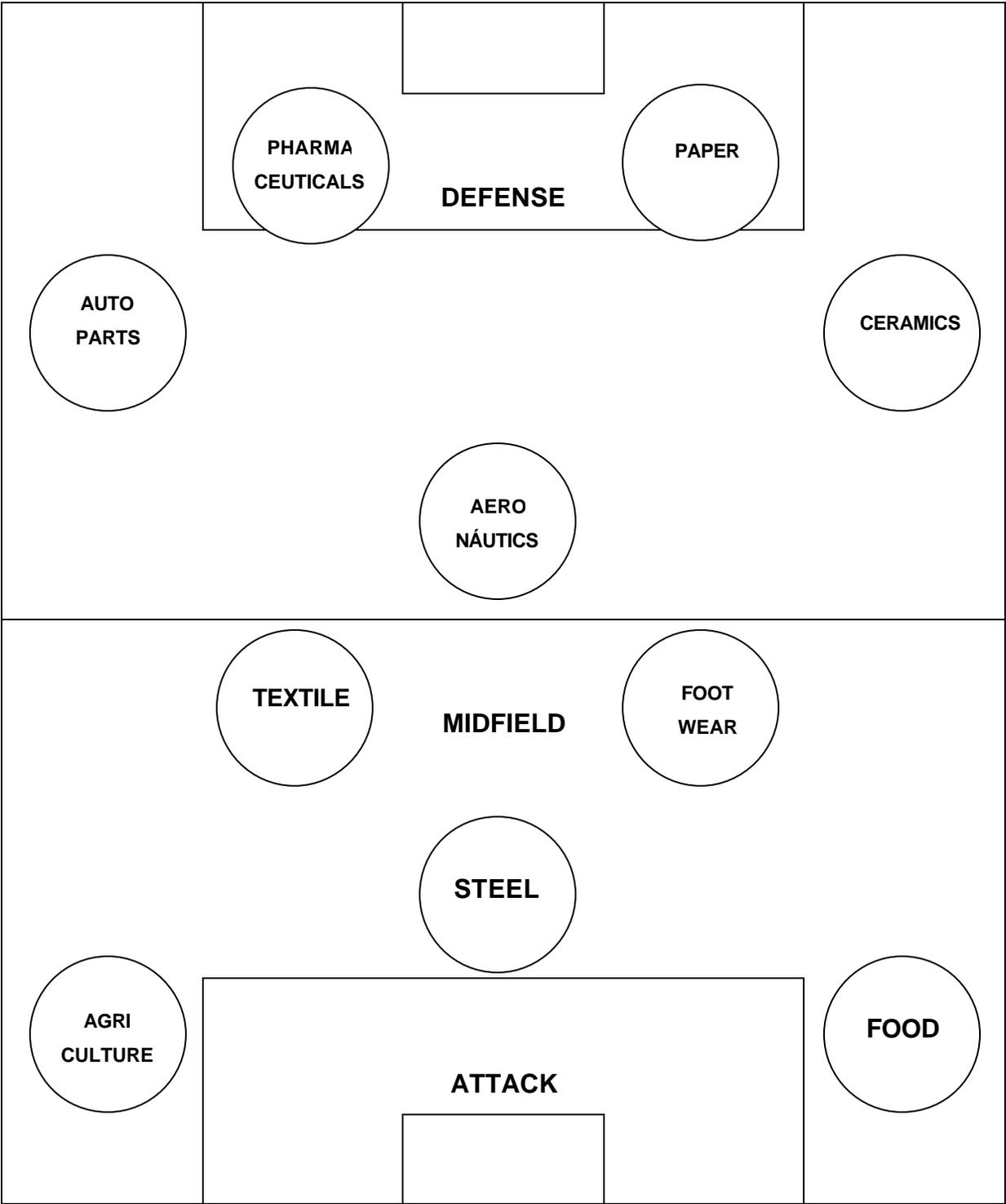
Again, in order to illustrate, the "technical commission" could use, by hypothesis, the combination **3-3-4**, with the following distribution:

**DEFENSE** : pharmaceutical, paper, auto parts  
**MIDFIELD** : aeronautical, textile and ceramics  
**ATTACK** : agriculture, steel, food and footwear

### **6.3.3 - BALANCED TACTIC**

Neither very offensive nor extremely defensive. If the intention is to look for a positive result without exposing too much to the "attackers" and without characterizing a posture of extreme protection of the defense, a balanced combination among the sectors looks better and more suitable.

One of the possible combinations, the 4-3-3, is represented as followed:



## **7 - THE CHALLENGES TO PUT THE TEAM IN SHAPE FOR THE FTAA**

Up until now we showed the rules, the strategies and the participants of the international trade game, giving more importance to the “players” that have better conditions of composing the Brazilian team in the FTAA.

Is Brazil really prepared to participate in FTAA, in spite of the advanced stage of preparation of some individual “players?” Although the competition will not begin immediately<sup>15</sup>, the question is pertinent, because the process of adaptation of the Brazilian productive system is quite slow.

To face the competition of the FTAA requires accelerating changes that reduce the social inequalities and increase the productivity of the Brazilian economy. To identify opportunities, to select the most advantageous ones for the Country and the ones that are worthwhile to defend in the negotiation groups is a serious and arduous job.

### **7.1 - REFORMS**

The successful adhesion of Brazil into the FTAA depends on very deep structural reforms. The fiscal reform is one to these. The Brazilian government has made progress through the “Kandir Law” and other measures to reduce the tax burden on exports, but only full fiscal reform and a modern tax structure can properly address the problem.

According to Mr. Horácio Lafer Piva, president of the São Paulo Industries Federation (FIESP), "FTAA will be an instrument of pressure against the government to push ahead the reforms." One of the biggest issues is the excessive tax burden, that imposes a cascading tax and drags on a considerable portion of the business to the informal economy (about 50% in Brazil), debilitating the social relations.

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<sup>15</sup> In this case I am considering the beginning of the competition the moment that companies will export according to the FTAA rules.

## **7.2 - INFRASTRUCTURE**

The Brazilian government also has made significant progress in transportation. The “MERCOSUR Corridor,” between Belo Horizonte and Porto Alegre and the “Western Export Corridor” (comprising the BR-364 and BR-163 highways and the Madeira-Solimões Waterway) are both excellent and important projects that deserve more investments. But much more could and should be done. Good railroads are essential to a country the size of Brazil, and the government could work with private concessionaire operators to accelerate investments.

## **7.3 - LOBBY**

The United States offer an almost incredible opening to others governments and foreign companies try to influence, according to the law, its legislators. It is up to the Brazilian government and exporters to use that freedom.

To negotiate the NAFTA with the many American interest groups (for example state, sectoral and unions), the Mexicans maintained an office with 120 people working for two and a half years, and they invested US\$50 million in lobbying efforts.

The Washington lobbyists can be divided in two teams. One team plays in the defense and the other plays in the attack.

The lobbyists of free trade are playing on the offensive. They made the hard game for the NAFTA, later for the normalization of commercial relations with China and now they are devoted to drumming up support to approve the Trade Promotion Authority (TPA, the old fast track).

On the defense are the lobbyists of steel and sugar who are a force that protects, imposes barriers, ask for subsidies and cheap loans. They are so efficient that, before completing 6 months in the White House, president George W. Bush changed his mind about free trade and announced a vigorous protection package for the American steel industry.

According to Renard Aron and Roxana Jordan, authors of "The Free Trade Area of the America & The Brazil Trade Calendar in the U.S. Congress," the metallurgical and sugar sectors invested US\$1 million and US\$2 million in senatorial and house campaigns in the elections of 1998.

The lobbyists of steel work based on a triangle built by companies, unions and politicians. Through the years the lobbyists of steel made a grandiose work. Adding the amount the U.S. spent in subsidies and in higher prices paid by consumers when imports were suspended, it is calculated that the benefits received by the industry have cost close to US\$100 billion in 3 decades.

On October 25, 2001, the USTR announced the procedures to be considered for the possible imposition of a safeguard action on certain steel products, according to the Section 201 - Trade Law of 1974, which can include the imposition of a tariff, a tariff quota or a quota.

#### **7.4 - TRADE PROMOTION AUTHORITY (TPA)**

On October 24, 2001, in a release to the press the United States Trade Representative, Robert Zoellick, once again mentioned the need for fast approval of Trade Promotion Authority (TPA) by Congress, emphasizing the importance for the negotiations on agriculture.

Without the TPA, the negotiators from Washington will not have credibility to sit down in a FTAA negotiation table, nor in a global round in the World Trade Organization (WTO).

It is good to keep in mind the words uttered by Zoellick in his speech when he became the United States Trade Representative: "If the United States doesn't overcome the current political impasse on foreign trade it would be an immense lost opportunity and a historical mistake."

## 8 - CONCLUSION

President Fernando Henrique Cardoso and the Brazilian technical commission that is working on the FTAA negotiations have always reinforced the need of all segments of Brazilian society to deepen discussions and define, in detail, the real interests of Brazil.

The Brazilian government and entrepreneurs, albeit with a lot of difficulties, are doing their homework. Unions, good or poorly, are basically paying attention to the possible impacts in the labor market in the context of free trade. Brazilian civil society probably is the segment with the largest lack of information about what the free trade area will mean for Brazil and what will be its main consequences.

With less emphasis but not less importance I have identified the main challenges that surround the FTAA, for Brazil and for the United States.

The aspect that makes an agreement like the FTAA challenging for Brazil is the inability of the country to expose itself to greater international competition.

Brazil probably will have to reduce its import duties, of 14% on the average, to do concessions in services area and to impose a more austere intellectual property rights policy.

Concessions from the United States will have to come in well known areas: antidumping, reduction of agricultural subsidies and elimination of technical barriers.

Brazil has been a victim of past United States antidumping and countervailing duty actions brought, more often than not, as a result of protectionist pressure from fearful United States producers.

In this critical moment the Brazilian entrepreneurs and the Brazilian researchers have to lend their experience to the technical commission in the FTAA. More than knowing what to ask, the government will have to decide what to cede, and in which period of time, because, until 2015, 85% of trade inside of the hemisphere will transit freely, without any tax and barriers.

To conclude this paper let us remember the president Fernando Henrique Cardoso's words, in a speech uttered at the opening session of the third summit of the Americas, on April 20, 2001, in Quebec:

***“A Free Trade Area of the Americas is welcome if its creation is a step toward providing access to more dynamic markets; if it indeed leads to common antidumping rules; if it reduces nontariff barriers; if it prevents the protectionist distortion of sound sanitary norms; and if, while protecting intellectual property, it also furthers the technological capabilities of our people; and also if it goes beyond the Uruguay Round to redress the inequalities resulting from those negotiations, particularly with regard to agriculture. Otherwise, it would be irrelevant or, worse, undesirable. If we have the wisdom to do it well, FTAA may mean progress in the promotion of development and social justice.”***

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