As Prepared for Delivery

Robert B. Zoellick
U.S. Trade Representative
Conference on Productivity and Competitiveness
Santa Marta, Colombia
March 14, 2002

"Competing in the Global Economy: Five Ingredients for Success"

(As Prepared for Delivery)

I am pleased to be here in Colombia, in the lovely town of Santa Marta. I know I am in the second oldest democracy in the New World and I know this democracy will overcome those that attack it.

Former Trade Minister and current Ambassador to France Marta Lucia Ramirez importuned me - ever politely but persistently - to come here to be with you today. Those of you here who have worked with Ambassador Ramirez are aware that she is a difficult person to whom to say "no"! I have the greatest respect for Ambassador Ramirez and consider her a good friend, having seen her in impressive action on the global, regional, and bilateral stages. Among other accomplishments, she was a key contributor to the success of the WTO Ministerial meeting in Doha and in the resolution of the longstanding banana dispute with Europe. She is both a forceful advocate for Colombia's interests and a problem-solver. Of all of my colleagues, she was one of the most effective, and I have no doubt that she will be one of the most formidable diplomats in Paris since Talleyrand - or at least Thomas Jefferson and Benjamin Franklin!

I would also like to recognize Colombia's new Trade Minister, Angela Orozco, who as Vice Minister was Marta Lucia's secret weapon. More recently, as head of Proexport, Minister Orozco was a strong force in promoting Colombian exports. She is no stranger to the U.S. Government. In fact, very early in her career the Minister assisted for the U.S. Embassy in Bogota. We look forward to continuing to work closely with her and her Colombian colleagues.

Finally, I would like to pay a special tribute to President Pastrana, whose courage and vision for Colombia is of an outward-looking country, generating good jobs through firms prepared to compete in the global marketplace. He and his colleagues have persevered in the face of threats cruelty, and senseless violence. You deserve the support of all freedom-loving peoples around the world. As I have told President Pastrana during our meetings in Washington, Colombia is a key partner of the United States as we work to open markets, defend democracy, promote regional stability, and curb drug trafficking.

This "Colombia Competes" conference series is one expression of that vision, reaching out to hundreds of Colombian firms to provide them both general guidance and practical tools for increasing productivity and achieving competitiveness. I am told that the response of the Colombian private sector to this conference series has been tremendous. Therefore, I am honored to be invited and delighted to be able to share with you my thoughts on competitiveness, with a focus on seizing the opportunities that will open through the Free Trade Area of the Americas.

For decades, the United States and Colombia have recognized the value of maintaining strong relations. In 1921, President Suarez advanced the idea of *Res Pice Polum*. Follow the North Star - which linked Colombia's future to the United States through appreciation of geography, trade, and democracy. President Herrera endorsed this strategy as well, and in 1940 our two nations signed a bilateral trade accord.

The U.S. commitment to Colombia continues today. President Pastrana was among the first heads of state President Bush met with after taking office. Secretary Powell was planning to visit Colombia on September 11; he would have been the first Secretary of State to come here since my boss at the State Department, Secretary Baker, visited in 1990. As you know, Secretary Powell did not make it to Colombia, returning instead to Washington following the terrorist attacks. But there is an offsetting benefit for me: Now I have the honor of being the first member of President Bush's Cabinet to visit you.

The United States is dedicated to helping Colombia stop the scourge of drug trafficking within its borders and move forward with its economic and social development. In consultation with President Pastrana, the United States is providing $1.3 billion to support Plan Colombia - a bold initiative that provides an integrated strategy to promote economic growth and development through expansion of trade and investment, strengthen the rule of law, provide new protections for human rights, offer new educational opportunities, enhance judicial independence, and foster peace.

I am optimistic about Colombia's economic future, given its strategic location, abundant supply of natural resources, and well-educated workforce. Since 1990, a number of vital economic reforms have been implemented, creating a favorable climate for commerce and helping to boost Colombia's competitiveness.

One of the Bush Administration's top hemispheric priorities is to help Colombia build on this foundation. As business leaders and entrepreneurs, you are on the front lines of Colombia's economic future. By creating quality, high-paying jobs, you are helping to raise the living standards of the Colombian people, while expanding economic opportunities and thereby supporting democracy.

As many of you know, a free flow of exports - and imports - can help to inject new energy into the Colombian economy. The Colombian flower industry embodies the success of Colombia's export sector. In 1965, Colombia exported just $20,000 worth of flowers. Ten years later, flower exports were valued at more than $20 million. And today, these exports total nearly $600 million. The flower industry generates 75,000 direct jobs in Colombia - and these are good jobs, offering year-round stability and health and retirement benefits.

Nearly 85 percent of Colombia's flower exports go to the United States, and these shipments have contributed to impressive job creation in our home market: 7,000 people work in jobs connected to the imports of Colombia's flowers; aviation and trucking companies that transport Colombian flowers employ some 3,600 people; U.S. supermarkets employ more than 24,000 people in their flower departments; and U.S. flower shops employ nearly 125,000 people.

But that is not the whole story. This room is filled with Colombian entrepreneurs who have found ways to compete, not just in Colombia but internationally. Leonisa from the Medellin/Antioquia area has targeted all Latino markets for its apparel. Approximately 40 percent of its 5,000 person workforce is engaged in production for export. Noel, also from Medellin, saw its exports of processed foods grow from $8.5 million in 1994 to $36 million in 1999, an increase of over 400 percent in five years. Tubocaribe, a steel and pipes manufacturer in the Cartagena area that employs one thousand people, now exports about 80 percent of its production, of which 40 percent goes to the United States.

Since competitiveness is the theme of this conference, I thought I would offer some ideas on five key ingredients in the recipe for building stronger economies and stronger countries: open trade; education and innovation; the rule of law, property rights, and effective governance; a modern infrastructure; and an open, deregulated economy. Many of these ingredients will be relevant to Colombia and other developing nations, but they have universal application.

Trade & Integration with the Global Economy

First, open trade is a critical element in advancing economic development and competitiveness, offering big and lasting dividends. As Mexico’s former President, Ernesto Zedillo, has said, "In every case where a poor nation has significantly overcome its poverty, this has been achieved while engaging in production for export markets and opening itself to the influx of foreign goods, investment, and technology."

President Zedillo speaks from experience, having governed Mexico as it was deepening its integration with the United States and Canada through NAFTA. Over the past five years, Mexico's economy has grown at an average annual rate of 5.5 percent, and more than half of the 3.5 million jobs created in Mexico since 1995 are connected to trade. Inflation has dropped to single digits - a major breakthrough for Mexico's poor - and the government’s budget deficit is just one percent of GDP. NAFTA also helped Mexico’s resilience amidst the challenges of globalization. Following the 1982 peso crisis, it took Mexico seven years to be able to borrow again in international financial markets; after the financial shock of 1994-95, with the help of NAFTA, it took just seven months.

The Free Trade Area of the Americas presents an opportunity to extend the progressive principles underpinning NAFTA to Colombia and the rest of Latin America. Once completed, the FTAA will be the largest free trade zone in the world, encompassing 800 million people with a combined gross domestic product of more than $10 trillion.

Colombia has consistently demonstrated valuable leadership in helping to drive the FTAA process forward. Cartagena hosted the second FTAA Ministerial in March 1996, and Colombia has chaired a negotiating group in every cycle of the FTAA.

The benefits of trade are well-known to many in Colombia, as the country has realized impressive gains from the Andean Trade Preference Act. As you know, the ATPA provides duty-free access to the American market for a range of products from Colombia and the other Andean nations. We recognize that the expiration of ATPA is causing real hardship throughout the Andean region; the President and his team are pressing the Congress to renew and expand the ATPA as soon as possible.

The ATPA’s record certainly warrants support. It has helped to provide economic alternatives to the narcotics trade, supporting the creation of 140,000 new jobs from 1992 to 1999, while promoting development and democracy. The ATPA can serve as a bridge to the FTAA, helping to build momentum and support for market liberalization. It has already helped to strengthen our bilateral trading relationship; U.S. imports from Colombia have increased 155 percent since ATPA’s passage a decade ago, and the United States is Colombia’s leading trading partner.

Trade and integration with the global economy boosts long-term economic growth and competitiveness. A recent World Bank study examined developing countries that opened themselves to global competition, and those that did not. It concluded that the income per person in globalizing developing countries grew more than three-and-a-half times faster than it did in non-globalizing developing countries. The absolute poverty rates for globalizing developing countries fell sharply over the past 20 years, and the income levels of the lowest income households grew in line with the overall economy.

United Nations Secretary-General Kofi Annan has succinctly spoken to the need for developing nations to become more active participants in the global economy: "The poor are poor not because of too much globalization, but because of too little."

A study by Joseph Francois, of Erasmus University in Rotterdam, reports that new global trade negotiations could generate approximately $90-$190 billion a year in the form of higher incomes for developing nations. In particular, liberalization of the global agriculture market - one of the negotiating mandates agreed to at the WTO Ministerial meeting in Doha last November - is arguably the single greatest contribution that the new negotiations can make to reducing poverty and enhancing competitiveness in the developing world.

Colombia and the United States worked in a close partnership at the WTO Ministerial meeting in Doha to press an agenda of agricultural liberalization. The work of Minister Ramirez and her team was critical to our ability to forge a consensus with other WTO members.

The trade liberalization ushered in by the Uruguay Round highlights the potential of more trade for developing nations. In the six years following the round's completion, exports from developing nations grew by nearly $1 trillion, to a level of $2.4 trillion.

In 2000, developing countries exported $73 billion worth of information technology to the United States - a 43 percent increase since 1996, the year before the multilateral Information Technology Agreement had been implemented. Colombia has yet to sign the ITA; I would urge it do so. The ITA eliminates tariffs on information technology - a sector that offers the potential of generating extensive foreign direct investment and job creation, while contributing to the regional and global competitiveness of Colombian firms by giving them improved access to IT equipment. Half of all WTO members - representing over 90 percent of global trade - belong to the ITA.

In sum, these benefits from trade are not denominated in dollars alone. Open trade advances political reform, swells the ranks of independent businesses, and helps to reduce the level of government intervention in national economies throughout the world. It provides incentives and rewards for governments pursuing difficult economic reforms. It also sends a valuable signal - a signal of confidence - to potential investors that nations have agreed to abide by common rules governing trade, to create a truly hemispheric marketplace. Trade agreements such as NAFTA and the FTAA also promote good governance by creating obligations for transparency in government and adherence to the rule of law.

Education & Innovation

The second critical ingredient in the recipe for competitiveness is private and public investment in education and training. Enhancement of education levels better prepares citizens to participate in - and seize the benefits of - global capitalism. Increasing educational attainment levels is also important for a country's ability to capitalize on the information economy and quickly adapt to the waves of new changes constantly washing up on the shores of the modern economy.

The Pastrana Administration has been innovative in the area of education to support competitiveness. I understand it has even ensured that universities throughout Colombia offer a course in international trade, and that senior Colombian trade officials participate as guest lecturers.

High-quality education, along with the healthy ferment of commercial competition, is vital to innovation. It helps create new products, new methods, and new paradigms - enabling countries and companies to develop service and product niches that enhance overall competitiveness.

Constant innovation is fundamental to gains in productivity and competitiveness. Indeed, much of the increase in U.S. labor productivity in recent years arose from the responses of educated and outward-oriented workers, entrepreneurs, and managers to heightened commercial competition. For example, Wal-Mart, which co-hosted an illuminating summit on commercial opportunities in Brazil that I attended earlier in the week, has gained in the fiercely competitive retail sector by adopting economies of scale in warehouse logistics and purchasing, global sourcing, electronic data interchange, and wireless bar code scanning.

The Rule of Law, Property Rights, and Effective Governance

A third prerequisite for enhancing economic growth and competitiveness is effective governing institutions that are free of corruption. In the simplest terms, while states need markets to function, markets cannot function without effective, legitimate, and law-abiding states.

Public safety is of course fundamental. So is the existence of a sound legal system capable of adjudicating contractual disputes and assuring both domestic and foreign investors of fair, equitable, and timely treatment before the law. Governments must set and enforce fair and clear rules for commerce, whether this relates to private property, trade, or accounting standards. And there must be transparency in how these rules and regulations are enforced.

In the modern knowledge-based economy, effective property rights must extend to the fruits of intellectual labor. Patents encourage innovation. A climate of innovation encourages research and development, as well as new applications. Since most cutting-edge businesses can only prosper through continuous innovation, a failure to protect intellectual property is like putting up a "Keep Away" sign to the investments and businesses that will drive the future.

It is certainly worth noting that the 18th Century drafters of the U.S. Constitution - one of the most successful political and economic compacts of all time - took time to add to that very sparse document a specific federal power: "To promote the Progress of Science and useful Arts, by securing for Limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." In 1790 the first U.S. Government entrusted the administration of its new patent laws to none other than Thomas Jefferson. There is no doubt that from the start the United States recognized the connection between intellectual property and development.

All of the factors I have just cited influence the appeal of individual countries as places of investment by foreign companies - a key driver of competitiveness, economic growth and development. Strengthening the rule of law and effective governance in Colombia - causes for which you have worked so diligently - will strengthen the confidence of foreign investors in Colombia to invest even more and will help to attract new investors as well.

A Modern Infrastructure

A fourth factor for competitiveness is building and maintaining modern infrastructure, so that the arteries of commerce remain strong and clear. The lifeblood of commerce requires roads, rail lines, sea ports, airports, and reliable sources of energy at reasonable prices. If they are not adequate, goods cannot be transported rapidly, production is interrupted the supply chain collapses, and the economy suffers.

The same requirement holds for the infrastructure of the future: telecommunications. A well-functioning communications system is a prerequisite for investment; in today's global markets, if companies lack reliable communications, they cannot operate.

The flip side is that a healthy communications infrastructure can drive other reforms. In Senegal's presidential election last year, journalists and local election observers used cell phones to rapidly convey vote counts to the country's new FM radio stations, which provided regular updates. When it appeared the incumbent president had lost, he could not credibly challenge the results and conceded to his opponent, ending 40 years of one-party rule.

Several conditions need to be met in order for Colombia to have a world-class telecommunications system: adherence to its multilateral trade obligations to open the basic telecommunications market; fair and transparent procedures for the licensing of telecommunications service providers; and a stable, certain climate for investors. Businesses that come to Colombia need to have confidence that they will be paid promptly and fairly for their goods and services.

An Open Economy/Deregulation

Finally, an open economic environment helps create a virtuous circle: competition; investment; stronger financial markets; improved productivity; rising living standards; and expanding resources for further innovation. Competition - domestic and foreign - is the key for companies elevating their own competitiveness.

As Michael Porter of Harvard Business School has pointed out, "The quiet life is an enemy of comparative advantage. Industries thrive when they are forced to overcome high labor costs or a lack of natural resources, when their customers won't accept inferior or outmoded products, when their local competitors are many and fierce, and when government offers no protection from fair competition and sets tough technical and regulatory standards."

Governments can also boost competitiveness through the maintenance of open, flexible labor markets in which taxes are low and burdensome regulations are absent. Politicians need to resist the demands of interest groups that seek to impose taxing regulations on employers under the guise of worker protection. Rigid labor markets even contribute to budget deficits: Many employers seek to evade labor regulations by hiring employees off the books, thus depriving governments of necessary revenues.

An open economy will also help to support dynamism in capital markets. Capital is a coward. It does not go where it does not feel safe. When combined with sound domestic regulatory and trade policy, smoothly flowing capital markets help to assure that domestic and foreign savings are invested in areas with high private and public rates of return, contributing to competitiveness, growth, and higher living standards.

The capital markets can also take on new vibrance - and countries can become more competitive - with the deregulation of financial services connected to telecom and information technology. These services open the way for productivity increases, cost reductions, and customized services as firms learn how to use real-time information effectively.

Moreover, this deregulation is a "force multiplier" for structural reforms and liberalization. As financial markets deregulate and intermediaries proliferate, the traditional power of banks as the sole channel for intermediation is undermined, and a new agent of change is unleashed: financial asset managers - whether in the form of pension funds, insurance companies, mutual funds, or others.

Asset managers, regardless of country, stress common measures; return on equity; shareholder value; transparency, and improved corporate governance. The asset managers want more direct and clear comparisons among companies in a sector. These standards lead companies to restructure, focus on core competencies and clean lines of business, and spin off other operations. This trend will stimulate demands for efficiency and further deregulation. We have seen the transforming effect of such deregulation in the outlook of a new generation of global business executives in Europe. This transformation will also be key to Japan's renewal, and it also holds out tremendous potential for Colombia and the rest of Latin America.

Conclusion

Today, all countries face the same stark choice as they strive to enhance their global competitiveness: Will they revert to fear, retreat, stasis, and obsolete ideologies that seek to protect narrow political constituencies? Or will they embrace 21st Century business and governing principles grounded in markets, rules, and openness?

In recent years, Colombia has chosen to travel down the path of progress, under extremely difficult conditions, and I salute you for doing so. The challenge now is to continue down this path in the years ahead. By doing so, you can help create a more competitive, more vibrant economy in which the people of Colombia enjoy new opportunities, new economic security through flexibility, and new freedoms. Colombia’s democracy needs this firm economic foundation. I look forward to working closely with all of you to fulfill this promise. And that’s why I wanted to be here with you.

Thank you.