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THE AMERICAS SOCIETY, INC.

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THE AMERICAS SOCIETY, INC.

The Americas Society is the only national not-for-profit institution devoted exclusively to educating Americans about all facets of our Western Hemisphere neighbors. Its missions are to foster an understanding of the contemporary political, social, and economic issues confronting Latin America, the Caribbean and Canada; and to increase public awareness and appreciation of the rich cultural heritage of our neighbors.

The Society strives to achieve its mission through a variety of programs offered by its three major divisions: Latin American Affairs, Canadian Affairs and Cultural Affairs.

The programs of **Latin American Affairs** are policy-oriented and non-partisan. They include study groups, conferences, publications, a special program for the press, as well as lectures and talks offered under the auspices of the Edward Larocque Tinker Distinguished Visitor Series, the Edward Larocque Tinker Forum and the Seymour Milstein Forum. **The Canadian Affairs program**, founded in 1981, fosters greater understanding by Americans of Canada and Canada-United States issues. Annually, Canadian Affairs produces programs dealing with such areas as trade, energy, national security and the environment, as well as broader cultural, economic and political issues.

The Americas Society **Cultural Affairs program** is one of New York City's finest interdisciplinary cultural resources. Offerings include art exhibitions, concerts, theatrical stage readings, and the publication of our acclaimed magazine, ***Review: Latin American Literature and Arts.*** In addition to conducting tours and organizing lectures which complement the Society's exhibitions, the Education department operates special outreach programs for New York City's public schools and the Hispanic community.

Also affiliated or associated with the Americas Society are: The Council of the Americas, a United States business organization made up of companies with interests in Latin America and the Caribbean, and The Caribbean/Central American Action, a private sector trade and development organization.

1988 REPORT OF THE CHAIRMAN AND THE PRESIDENT

As recent, previous annual reports of the Americas Society have suggested, the last few years have not been good ones for Latin America and the Caribbean. While the United States and Canada continue to enjoy an extended economic resurgence, the rest of the region remains in serious difficulty, mired down in a crisis of debt and economic stagnation. Very little new investment capital has been attracted to the region; worse still, Latin America has suffered a large and unsustainable net outflow of financial resources. Some economies are on the verge of hyperinflation and, in terms of production, most just at a standstill — some even declining.

But as is always the case with this vibrant, ever-changing part of the world, there are positive, hopeful developments as well. Canada and the U.S. have entered into a broad free-trade agreement unprecedented in this Hemisphere. Some countries in Latin America have made serious efforts to free-up trade and investment and have moved decisively away from anachronistic, statist, import-substitution models of development. In this regard, the Americas Society can be justly proud of our 1986 initiative in commissioning a report written by a team of prominent economists from North and South America which was published as *Toward Renewed Economic Development in Latin America*. This influential book, published in English, Spanish and Portuguese, has had a significant, positive and continuing effect on Latin America's evolution toward economic reform.

Most importantly, however, Latin Americans have made enormous progress in restoring democratic governments. Only a decade ago, less than a third of the people in Latin America enjoyed democratic forms of government. Today, the vast majority do. However, these gains are clearly fragile. Our new democratic neighbors need our continuing help and support in order to consolidate the kinds of durable institutions which are so essential to the development of permanent, freely-elected representative governments.

To gain a better appreciation for the reality of the region and to begin formulating some recommendations on U.S. policy toward Latin America, the Society held an extremely successful, combined Chairman's Council and Board of Director's meeting in March of 1988 in Brazil. Thanks to our gracious and thoughtful Brazilian friends, we gained numerous insights into the problems and prospects of one of the Western Hemisphere's largest, most important countries. We also began to develop the main points of an Americas Society white paper on U.S. policy toward the Hemisphere for the purpose of providing an issue focus to the U.S. Presidential campaign and to assist the new Administration taking office after the election.

In June, the same group met here in New York to further consider the substantive content of the policy recommendations. Taking guidance from the Americas Society Board (and the Chairman's Council), a drafting committee produced an excellent overview statement and a set of policy recommendations. As Chairman and President of the Americas Society we met with the senior foreign policy advisors to both the Republican and Democratic presidential candidates at the height of the fall campaign in order to present our paper and discuss the Society's considered views on U.S. policy toward the region. Subsequent to the election, we met with President-elect Bush, Vice President-elect Quayle and several times with the President's National Security Advisor, General Scowcroft, and with the Secretaries of State and Treasury for follow-up discussions. Our efforts appear already to have had positive results. Our discussions led us to feel confident that the concerns and problems of the nations of our own Hemisphere will be accorded a higher priority by the new Administration in Washington than has been the case in the past.

From its inception, the guiding purpose of the Americas Society and its affiliate the Council of the Americas has been to engender a stronger sense of community among the democratic nations of the

David Rockefeller, Chairman, Americas Society (right) and Amb. George W. Landau, President, Americas Society

Hemisphere. Today, more than ever, our purpose is paramount. In the service of this essential goal the Americas Society has sponsored a broad range of public policy seminars and discussions for audiences in New York, Washington, D.C. and other major population centers in the United States. The topics we have included embrace all areas of political, economic and social concern. In addition, the Society's business affiliate, the Council of the Americas, sponsored numerous programs on economic and trade issues. The Cultural Affairs program, an integral part of the Americas Society, included three major exhibitions of Western Hemisphere art, which traveled from our New York venue to a number of museums in other cities, publication of our acclaimed literary and arts magazine, *Review*, as well as a host of lectures, concerts, and educational programs which you will find described in the pages of this annual report.

The more than two dozen programs organized by the Canadian Affairs department this past year helped enlighten a growing constituency of U.S. business and public affairs leaders on a range of bilateral issues. The program's major conference, *Making North America Competitive*, resulted in a book-length report that was widely circulated in both countries. Prime Minister Brian Mulroney's address in March, on the occasion of his receiving the gold Insigne award at an Americas Society dinner, hailed the Free Trade Agreement as well as Canada's contribution to peace efforts in Central America.

In the year ahead, we will need to intensify our efforts to inform public and political opinion in the United States about Latin America, Canada and the Caribbean. Our theme must be that the countries of the Hemisphere are a source of strength for us, and not just of problems. It is equally important that Latin and Caribbean societies come to appreciate that enhancing relations with the United States is their own best alternative for the future. The Americas Society, through its programs and the energy and influence of its membership, seeks to further these objectives by rekindling a sense of common purpose among the nations of the Hemisphere.

Finally, and very importantly for the future, during the latter part of 1987, the Society launched an endowment campaign to strengthen its capital base, thus ensuring program excellence in the years to come. This $11.5 million campaign finished the year with pledges of $7.4 million in hand. We are very hopeful that the drive can be completed in 1989.

Sincerely,

David Rockefeller

George W. Landau

Rita Hauser, Esq., Stroock & Stroock & Lavan and Member of the Americas Society Board of Trustees with His Eminence John Cardinal O'Connor after a luncheon in his honor.

Mr. Luís Cancel, Director of the Bronx Museum of the Arts, talking with Thomas M. Messer, Americas Society Senior Counselor for the Arts, at his December 6 welcoming reception.

(left to right): Ambassador George W. Landau, President, Americas Society; Mario Vargas Llosa, renowned Peruvian author, recipient of the Americas Society Gold Medal Award; David Rockefeller, Chairman, Americas Society.

(left to right): Fernando Botero; David Rockefeller, Chairman of the Americas Society; and Ambassador George W. Landau, President of the Americas Society, listening to Mr. Botero as he explains why he selected this painting, *El Presidente*, to donate to the Americas Society after a gala dinner that was given in his honor.

Shauna Rolston, Canadian cellist and 1988 winner of the Olga Koussivitsky Award, played in the Musician's Club of New York series.

David Rivers, actor, signing autographs after Don Quijote Experimental Children's Theater performance of "Number Twenty-One" at Casita Maria, May 25, 1988.

CHAIRMAN'S INTERNATIONAL ADVISORY COUNCIL

Created in 1983, the Chairman's International Advisory Council of the Americas Society is made up of prominent private sector persons from most of the countries of the Hemisphere. Individually and collectively, they provide invaluable advice and assistance to the Americas Society programs and exhibitions. Increasingly, the Council has also been working to formulate position papers on the critical economic and social issues facing the Hemisphere with the expectation that these papers can have a positive effect on public policy both in the United States and in the other nations of the Hemisphere.

In March of 1988, the Council held its third annual Winter Meeting in Brazil. Roberto Cezar de Andrade was the overall coordinator and host for the meeting in Rio de Janeiro, the Mato Grosso do Sul and Iguassú, while Paulo D. Villares was the host and coordinator of the meetings in Sao Paulo. These meetings give the Americas Society Trustees, Chairman's Council members and senior staff an in-depth look at current public issues, achievements, problems, private sector initiatives, and artistic values of the host country, thus enabling the Americas Society to bring accurate up-to-date information to the United States public.

The Brazil meetings were immensely successful. In both Rio de Janeiro and Sao Paulo, superb presentations were made by leading experts in economics, the environment, government enterprises, social issues, progress on the writing of the Constitution, business and the arts, giving the Council an unparalleled look at contemporary Brazil through the eyes of some of the country's most talented citizens.

At the June meeting, the Council continued its discussions and deliberations identifying important issues in the Hemisphere to be raised with the presidential candidates. This topic was further pursued at the September meeting where, in addition, Mr. Moeen Qureshi, Vice President of Operations, The World Bank, spoke on third world debt, and Mr. William R. Rhodes, Group Executive and Chairman, Restructuring Committee—Citibank N.A., gave an update on Brazil's debt situation.

Seminar on Brazil at Winter Meetings of Chairman's International Advisory Council in Brazil. (l. to r.): Helio Jaguaribe, Dean of the Institute of Political and Economic Studies, Brazil; David Rockefeller; Roberto Cezar de Andrade, President, Brascan Brasil; George W. Landau

(l. to r.): Israel Klabin, former mayor of Rio de Janeiro; Osires Silva, former president of Petrobras, the Brazilian National Oil Company

(l. to r.): Arnaldo T. Musich, Argentina; Jorge Mejía, Colombia; Amalia Lacroze de Fortabat, Argentina; José A. Estenssoro, Argentina

LATIN AMERICAN AFFAIRS

A Premier Inter-American Forum for the Discussion of Vital Issues in the Western Hemisphere.

The Latin American Affairs Program of the Americas Society is a major forum for the discussion of United States-Latin American issues, including politics, trade, economics, labor, the media, population, development, and the church. These topics are addressed in three main components of the Latin American Affairs Program: The Edward Larocque Tinker Distinguished Visitor Series; The Seymour Milstein Forum; and The Edward Larocque Tinker Forum. In each, experts and leaders from the nations of the hemisphere address these issues and exchange ideas with their United States and Latin American counterparts.

The Latin American Affairs Program is funded through the general support of the Americas Society and the generous backing of several private individuals and foundations, including the Milstein Family Foundation and the Tinker Foundation.

The Advisory Committee of the Latin American Affairs Program is composed of individuals from the private sector, the media, foundations and academia, in addition to members of the professional staff of the Americas Society, including its Chairman, Mr. David Rockefeller, and its President, Ambassador George W. Landau. The Committee meets three times a year to discuss and review the activities of the Latin American Affairs Program.

LATIN AMERICAN AFFAIRS ADVISORY COMMITTEE

1986-88

Mark Falcoff
American Enterprise Institute for Public Policy Research

George Russell
Time *Magazine*

Frederick D. Seeley
IBJ Schroder Banking Corp. (retired)

Frederick Turner
University of Connecticut, Storrs

1987-89

Albert Bildner
Bildner Center for Western Hemisphere Studies, CUNY

Rita Hauser
Stroock & Stroock & Lavan

Argentina S. Hills
Angel Ramos Foundation

Philip C. Walsh
Cyprus Minerals Corporation

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David Rockefeller
Chairman, Americas Society

George W. Landau
President, Americas Society

Leslie M. VanDerzee
Vice President, Americas Society

FUNDERS OF THE LATIN AMERICAN AFFAIRS PROGRAM

Milstein Family Foundation
The Tinker Foundation

I. Roberto Eisenmann, Jr., Editor and Publisher of *La Prensa* newspaper in Panama.

THE EDWARD LAROCQUE TINKER FORUM

The Edward Larocque Tinker Forum is made possible through a generous grant from The Tinker Foundation. The programs provide opportunities for United States and Latin American representatives to discuss topics of interest with a select group from business, the media and the Americas Society membership. The forum began in the early 1960s under the aegis of the distinguished Latin Americanist, the late Frank Tannenbaum of Columbia University. The following organizations co-sponsored some of the programs: Argentine-American Chamber of Commerce, Bolivian-American Chamber of Commerce, North American-Chilean Chamber of Commerce, Committee on Inter-American Affairs of the Association of the Bar of the City of New York, Council of the Americas, Inter-American Dialogue, Rainforest Alliance and the Venezuelan-American Association.

EDWARD LAROCQUE TINKER FORUM

1. "Update on the Economic and Political Situation in Argentina"
   H.E. Néstor Perl
   Governor of the Province of Chubut, Argentina
2. "Update on Panama"
   I. Roberto Eisenmann, Jr.
   Editor and Publisher, *La Prensa*, Panama City, Panama
3. "Present Day Cuban Cultural and Political Developments"
   Carlos Franqui
   Writer and former Cuban Government Official
4. "The Possibilities for Democracy in Nicaragua: An Inside Perspective"
   Alberto Saborío
   President, Colegio Nacional de Abogados de Nicaragua

5. "COPEI's Economic and Political Platform"
   Eduardo Fernández
   Presidential Candidate, COPEI Party, Venezuela
6. "The Current Economic and Political Trends in Brazil"
   Mario Henrique Simonsen
   Economist and former Minister of Finance, Brazil
7. "Development and Peace in Latin America from a Canadian Perspective"
   Hon. Richard V. Gorham
   Permanent Observor to the Organization of American States and Canada's Roving Ambassador for Latin America
8. "The Justicialista Party Platform"
   H.E. José Octavio Bordón
   Governor of the Province of Mendoza, Argentina
9. "The Business and Economic Outlook in Chile"
   José Piñera
   Financial Consultant and former Cabinet Official, Chile
10. "The Current Political Situation in Chile"
    Patricio Aylwin Azócar
    President, Christian Democratic Party, Chile
11. "The Rainforests of Latin America"
    Ghillean T. Prance
    Senior Vice President, Sciences, New York Botanical Garden
12. "The Americas in 1988: A Time for Change"
    1988 Report of the Inter-American Dialogue
    Peter Bell
    President, Edna McConnell Clark Foundation
    Pedro-Pablo Kuczynski
    Chairman, First Boston International
13. "The Current State of Economic and Political Affairs in Bolivia"
    H.E. Carlos Delius
    Ambassador of Bolivia to the United States
14. "Update on Chile"
    Felipe Larrain
    Independent Chilean Economist
15. "The Church's Relations with Latin America"
    His Eminence John Cardinal O'Connor
    Metropolitan Archbishop of New York
16. "The Brazilian Social Democratic Party Economic and Political Platform"
    Senator Mario Covas
    Federal Senator, Brazil
17. "Argentine Update"
    María Julia Alsogaray
    Congresswoman, Unión del Centro Democrático, Argentina
18. "The Political Impact of the NO Vote in Chile"
    Genaro Arriagada
    President, Radio Cooperativa, and Executive Director, Command for the NO, Chile

(left to right): Pedro-Pablo Kuczynski, First Boston International; Martha Muse, Tinker Foundation; and Peter Bell, Edna McConnell Clark Foundation, at a luncheon-reception to introduce the 1988 Report of the Inter-American Dialogue, "The Americas in 1988: A Time for Change."

THE SEYMOUR MILSTEIN FORUM

The Seymour Milstein Forum is made possible through a generous grant from the Milstein Family Foundation. This forum presents talks, panels and symposia on the core thematic issues of the Program and is open to members of the Americas Society and its affiliated organizations, as well as to the general public. The following organizations co-sponsored some of the programs with the Americas Society: Center for Foreign Journalists, Committee on Inter-American Affairs of the Association of the Bar of the City of New York, Council of the Americas, and the Uruguayan-American Society.

THE SEYMOUR MILSTEIN FORUM

1. "Update on Uruguay"
   Martin Weinstein
   Professor of Political Science, William Paterson College and New York University
2. "Possibilities for Democracy in Nicaragua: An Inside Perspective"
   Alberto Saborío
   President, Colegio Nacional de Abogados de Nicaragua
3. "Panama in Transition to Full Democracy"
   Panel Participants:
   Roberto Brenes
   Member, Executive Committee, National Civic Crusade, Panama
   Anne Nelson
   Executive Director, Committee to Protect Journalists
   Riordan Roett
   Director, Latin American Studies, School of Advanced International Studies, Johns Hopkins University
   H.E. Juan B. Sosa
   Ambassador of Panama to the United States
   Moderator:
   David Asman
   Editor, Americas Column, *The Wall Street Journal*

(left to right): George Russell, Senior Editor, *Time* magazine; M. Delal Baer, Center for Strategic & International Studies; Adolfo Aguilar Zinser, Carnegie Endowment for

4. "United States-Cuba: A Time for Change"
   José Luis Llovio Menéndez
   Visiting Fellow, Council on Foreign Relations
5. "Post-Election Mexico: Changing Political and Economic Directions?"
   Panel Participants:
   Adolfo Aguilar Zinser
   Senior Associate, Carnegie Endowment for International Peace, and Columnist, *Excelsior*, Mexico City
   M. Delal Baer
   Fellow and Director, Mexico Project, Center for Strategic and International Studies
   Gustavo Vega
   Fulbright Scholar and Visiting Professor, Department of Government, Georgetown University
   Moderator:
   George Russell
   Senior Editor, *Time* Magazine
6. "The Economic and Political Platform of the Christian Democratic Party of El Salvador"
   Fidel Chávez Mena
   Presidential Candidate, Christian Democratic Party
7. "The Economic and Political Platform of the Republican Nationalist Alliance Party (ARENA) of El Salvador
   Alfredo Cristiani
   Presidential Candidate, ARENA Party
8. "Conversation with the 1988 Eisenhower Exchange Fellows from Argentina"
   Panel Participants:
   Rodolpho Alejandro Díaz
   Professor of Political Law, University of Cuyo, School of Law, Mendoza, Argentina
   Julio Alberto Hang
   Aide-de-Camp to the President of Argentina
   Martín Lagos
   Consultant and Economic Advisor
   Moderator:
   Juan E. Corradi
   Associate Professor of Sociology, New York University
9. "The Difficult Process of Democratization in Haiti"
   Leslie F. Manigat
   Guest Fellow, Woodrow Wilson International Center for Scholars, and former President of Haiti
10. "Roundtable Discussion with Latin American Journalists"
    Participants:
    Teresita Celís González
    Reporter/News Commentator, Núcleo Radio Mil, Mexico City, Mexico
    Silvia González Longoria
    Communications Chief, PRI Campaign Committee, Monterrey, Mexico
    Ignacio Greiffenstein
    Deputy Director, Telenoticiero del Mediodía, Bogota, Colombia
    Mario Luis Nacinovich
    News Editor, Channel 13, Buenos Aires, Argentina
    María Cristina Pastrana
    Assistant to the Director, Noticero TV Hoy, Bogota, Colombia
    Patricia Quintanilla
    Independent Video Producer, La Paz, Bolivia
11. "Cuban-Soviet Relations and its Implications for United States-Cuban Relations"
    Gustavo Pérez Cott
    Former Vice President and Deputy Minister of the State Committee for Technology and Supplies, Cuba

International Peace; and Gustavo Vega, Georgetown University, speaking on a panel, "Post-Election Mexico: Changing Political and Economic Directions?"

H.E. Raúl Alfonsín, President of Argentina, addressing the Americas Society on the economic conditions in his country.

THE EDWARD LAROCQUE TINKER DISTINGUISHED VISITOR SERIES

The Edward Larocque Tinker Distinguished Visitor Series is made possible through a generous grant from the The Tinker Foundation. It offers the opportunity for key leaders of the hemisphere to be in contact with the members of the Americas Society and its affiliated organizations, as well as with the general public. This series provides a platform for key officials from different Caribbean and Latin American countries to discuss current issues, frequently with specific reference to United States foreign policy and its implications for the hemisphere. The Council of the Americas co-sponsored some programs with the Americas Society.

EDWARD LAROCQUE TINKER DISTINGUISHED VISITOR SERIES

1. Recipient of the Americas Society's Gold Medal Award
   Mario Vargas Llosa
   Peruvian Novelist and Social Critic
2. Major Policy Address on the Economic Situation in Argentina
   H.E. Raúl Alfonsín
   President, Argentina
3. "The Current Economic and Political Situation in Guyana"
   H.E. Hugh Desmond Hoyte
   President, Guyana
4. "The Ongoing Negotiations of the Central American Regional Conflict"
   H.E. Rodrigo Madrigal Nieto
   Minister of Foreign Affairs, Costa Rica
5. "The Current Economic and Political Situation in Uruguay"
   H.E. Luis Barrios Tassano
   Minister of Foreign Affairs, Uruguay
6. "The Current State of Affairs in Peru and the Status of United States - Peruvian Relations"
   Enrique Zileri Gibson
   Editor and Publisher, *Caretas*, Lima, Peru
7. "The Political Climate in Latin America from a Spanish Perspective"
   Juan Luis Cebrián
   Editor-in-Chief, *El País*, Madrid, Spain

The Canadian Affairs Department is the leading forum in the United States for business, economic, political and cultural issues affecting Canadian-American relations.

A major policy address in March by Prime Minister Brian Mulroney to the Americas Society highlighted an eventful year for the department. The two dozen other programming events included the Canada-United States conference, ***Making North America Competitive***, which attracted a bilateral assemblage of 200 business, government and labor leaders.

Minister of Finance Michael Wilson addressed the annual Canada Economic Overview luncheon in December. The sellout Wilson luncheon concluded Canadian Affairs' seventh year of operation, a year which saw a crucial federal election in Canada and, with the final approval in both countries of the Free Trade Agreement, the dawning of a new era in Canada-U.S. relations.

It was a year, too, in which Canadian Affairs gained ten new corporate donors, bringing the total to a record number of thirty-nine Canadian and U.S. underwriters. An additional eighteen corporations and foundations provided special funding for a number of specific Canadian Affairs programs and events. Thirty-five new individual members joined the Americas Society via Canadian Affairs.

The program's outreach activities continued to expand with an eye toward attracting new members in a diversity of professions. New dimensions were incorporated into the Visiting Associate program. Canadian Affairs' programming events were accorded wide press coverage in the U.S. and Canada.

Diversity once again was the keynote of the 1988 schedule: ten public policy events, including the conference; seven cultural programs; four business seminars; and three scholarly lectures.

Prime Minister Mulroney after receiving the Pan American Society's Gold Insigne medal from David Rockefeller and Robert C. Helander (r.), Vice-Chairman of the Society, at sellout Canadian Affairs event at Plaza Hotel in March. Mr. Mulroney, the first Canadian prime minister to receive the medal, was honored for Canada's special contribution to diplomatic efforts in Central America and the Caribbean.

PUBLIC ISSUES

Centerpiece events included: Canada's Partnership in the Americas, celebrated with an address by the Rt. Hon. Brian Mulroney, Prime Minister of Canada, on the occasion of his acceptance of the Gold Insigne medal of the Pan American Society on March 28. The dinner in the Plaza Hotel's main ballroom drew an overflow crowd of political, diplomatic and business leaders from both countries.

What the Media Has Done to North American Politics, in the 1988 election year for both countries, was the theme of the annual U.S.-Canada Press Panel Luncheon in April. The event, featuring senior broadcast and print journalists, received first-time funding from Consolidated-Bathurst Inc. of Montreal.

The first annual **Jean Lesage Lecture**, with prominent French-Canadian scholars and public figures addressing issues in Quebec, was named after the Premier who fathered the 'Quiet Revolution' of the 1960's in that province. The lecture made its debut in late 1988 with underwriting from Alcan Aluminium Ltd.

Making North America Competitive: Economic-Industrial Priorities for the 1990's was the bilateral conference organized to probe the competitive status of Canada and the United States on the eve of their new free trade era. The talks by its distinguished participants were edited into a book-size conference report.

The annual Canada Economic Overview Luncheon packed the Salon Simon Bolivar with executives and journalists to hear Canada's Finance Minister Michael Wilson review the past year and assess the coming one.

BUSINESS ISSUES

The year's key developments in Canada-U.S. relations, such as the federal election campaigns in both countries and the ratification of

the Free Trade Agreement by both national legislatures, set the themes for the four executive seminars Canadian Affairs hosted in 1988. The off-the-record dinner sessions of up to thirty people are cosponsored with Pace University's Institute for U.S.-Canada Business Studies.

CULTURAL AFFAIRS

A record number of cultural events crowded the year's schedule. Two screenings of Canadian documentary and animated films, "The Champions" and "Survivors", focused respectively on the political vicissitudes of Pierre Trudeau and René Levesque and the problems of preventing AIDS worldwide. Adrienne Clarkson reflected on the state of her nation's cultural industry; Toronto novelist John Ralston Saul gave a reading from his latest work, "The Paradise Eater", which was favorably reviewed in the Sunday New York *Times* Book Section and numerous concert recitals were cosponsored with the Performing Arts department. Moshe Safdie, architect of the new and widely acclaimed National Gallery of Art in Ottawa, was the toast of a reception cosponsored with Bombardier Inc. and Montreal's Chateau Dufresne Musée des Arts Décoratifs.

Canada's Minister of Finance Michael Wilson delivered the annual Canada Economic Overview address in December at a packed Canadian Affairs luncheon.

VISITING ASSOCIATE

Peter Brimelow, an author, journalist, and senior editor of *Forbes* magazine, was named the 1987-88 Canadian Affairs Visiting Associate. A native of Britain who emigrated to Canada in the early 1970's, Mr. Brimelow had secured a wide reputation for his incisive books and columns on the Canadian political system. His tenure with the Americas Society was marked by his participation as a lecturer and panelist, while his book *The Patriot Game* received a laudatory review in the *Wall Street Journal*. For the second year, the Visiting Associate, scholar-in-residence program received generous funding from the William H. Donner Foundation.

OUTREACH

Canadian Affairs' outreach embraced a variety of activities the past year.

Programming events received press coverage in Canadian and U.S. newspapers that ranged from *The New York Times* and *Time* Magazine to the *Toronto Star*, *Globe and Mail* and *Victoria* (B.C.) *Province*. Articles by Canadian Affairs director Lansing Lamont on the free trade agreement appeared in the *Times* and the Council on the Americas' *Washington Report*. Mr. Lamont traveled with David Rockefeller in June to Canada to meet with corporate donors and government leaders in Toronto, Montreal and Ottawa. Mr. Rockefeller was interviewed on Canadian network television and was guest of honor at a series of events generously hosted by Royal Bank of Canada chairman Allan Taylor; Alcan Aluminium chairman David Culver; and U.S. Ambassador Thomas Niles. Mr. Lamont was interviewed separately on Canadian radio and by the Canadian Press agency. He attended a State Department luncheon in Washington for Prime Minister Mulroney in the spring; journeyed to Mexico City in September to address several hundred business executives on the free trade pact; and in November to Ottawa again to assess the results of the Canadian federal election.

Canadian Affairs Visiting Associates were honored at a special dinner hosted by Americas Society trustee Kenneth Taylor. The Associates, each of whom has spent a year working at the Society, pose with Canadian Affairs director Lansing Lamont (center, front). They are, from left, Anthony Westell, Dean, Carleton University School of Journalism, Ottawa; Stephen Blank, Director, Pace University Institute for U.S.-Canada Business Studies, New York; Gary Levy, Editor, *Canadian Parliamentary Review*; Duncan Edmonds, Professor of Administration, University of Ottawa; and Peter Brimelow, Senior Editor, *Forbes* magazine.

1988 PROGRAMS

Policy Issues

The Priding Of Canada: New Perspectives on a Changed Relationship. Allan Gotlieb, Canadian Ambassador to the United States.

Canada's Partnership in the Americas. Rt. Hon. Brian Mulroney, Prime Minister of Canada.

What the Media Has Done to Politics in North America. Annual Canada-U.S. Press Panel Luncheon. Val Sears, political editor, Toronto *Star*; Pamela Wallin, Ottawa bureau chief, CTV National News and other leading journalists from both countries.

A Canadian View of Latin America's Problems. Hon. Richard V. Gorham, Canada's Roving Ambassador for Latin America.

Saving North America's Environment: The Best Business Investment. Maurice F. Strong, Chairman, American Water Development Inc.; President, World Federation of United Nations Associations.

Conspiring for Peace: A Backstage Look at Diplomacy in Action. Hon. Stephen Lewis, Canadian Ambassador to the United Nations.

Election '88 Perspectives. Michael Adams, President, Environics Research Group, Toronto; and Louis Harris, Chairman of Louis Harris Associates.

A Question of Collective Will. Hon. Ann McLaughlin, U.S. Secretary of Labor. Keynote address. Canada-U.S. competitiveness conference.

Competition as a State of Mind. Stanley Hartt, former Deputy Minister of Finance, Canada. Keynote address. Canada-U.S. competitiveness conference.

Canada Economic Overview. Hon. Michael Wilson, Canada's Minister of Finance.

Business Affairs

Canada-U.S. Business Relations seminar series, cosponsored with Pace University.

The Great White North Strikes Back. Marshall Cohen, President, Olympia & York Developments Ltd.; Harry Kelly, Managing Director, Prudential-Bache Securities; Dr. Alan Rugman, author, economist.

Free Trade Agreement: The ABC's of Getting It Approved. John McDermid, M.P., Parliamentary Secretary to Minister for International Trade; William Merkin, Deputy Assistant U.S. Trade Representative for Canada; Michael Aho, Director, International Trade Project, Council on Foreign Relations.

National Elections and Their Impact on Economic Relations. Peter Cook, economics columnist, *Toronto Globe and Mail* and Alan Murray, chief economic correspondent, *Wall Street Journal*.

New Directions in Trade-Investment Policies. Carl Beigie, Chief Economist at McLean McCarthy; and David Hale, Chief Economist and First Vice President, Kemper Financial Services.

Scholars Forum

The Risk to Canada's Unity if Free Trade Fails. Peter Brimelow, author and senior editor of *Forbes* magazine. Canadian Affairs Visiting Associate Lecture.

Quebec: The Risks to Cultural Distinctiveness in the New Economic Era. Jacques-Yvan Morin, Professor of International Law, University of Montreal. First annual Jean Lesage Lecture.

The Battle for Canada's Political Center. Professor Jane Jenson of the Center for International Affairs, Harvard University. William Lyon MacKenzie King Visiting Professor Lecture.

Cultural Affairs

"The Champions: The Final Battle". Screening of Donald Brittain's documentary on the careers of Pierre Trudeau and René Levesque, co-produced by the National Film Board of Canada and Canadian Broadcasting Corporation.

The Perversity of Being Canadian: Reflections of a Publisher. Adrienne Clarkson, President and Publisher of McClelland & Stewart.

Canadian Artists Perform Brazilian Music. Martin Foster, violin, and Eugene Plawutsky, piano. Co-sponsored with Performing Arts Department.

"Survivors". Screening of animated short story on AIDS prevention, produced by the National Film Board of Canada. Discussion and reception with the filmmakers. Co-producers: Canadian International Development Agency; World Health Organization; Unicef Canada; and Childhope.

Concert Recital. Canadian pianist Robert Vienneau. Co-sponsored with Performing Arts Department, in cooperation with the NYC Chapter of Washington and Lee University Alumni; Canadian Consulate, New York; and Quebec Government House, New York.

Twentieth Century Design: 1965 to the Present. Selections from the Collection of the Museum of Modern Art. Co-sponsored with Château Dufresne, Musée des Arts Décoratifs de Montréal, and Bombardier, Inc., Guest of honor: Architect Moshe Safdie.

"The Paradise Eater". Reading and reception with author John Ralston Saul. In cooperation with the Canadian Consulate in New York.

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The annual Canada-U.S. press panel discussion focused on how the media shaped, for better or worse, the 1988 election campaigns in both countries. (L. to R.): Val Sears, Political Editor, *Toronto Star*; Pamela Wallin, Ottawa Bureau Chief, CTV Network News; George Bain, Columnist, *Maclean's* magazine.

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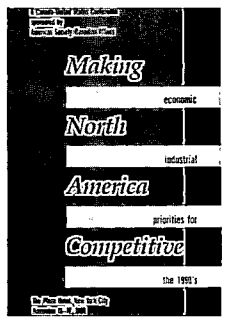

The hot issue of the late 1980's, competitiveness, was the topic of this year's Canada-U.S. conference organized and hosted by Canadian Affairs at New York's Plaza Hotel in November.

Making North America Competitive: Economic-Industrial Priorities for the 1990's convened business, government and labor leaders, along with journalists and academic experts, to examine the sources of weakness in Canada's and America's competitive status and to recommend policies for enhancing greater productivity and innovation.

Heading the roster of speakers were the Hon. Ann McLaughlin, U.S. Secretary of Labor; Stanley Hartt, Canada's former Deputy Minister of Finance; Alexander Trowbridge, President, National Association of Manufacturers; James McCambly, President, Canadian Federation of Labor; Edward Fiske, Education Editor, New York *Times*; William Blundell, Chairman of General Electric Canada; Donald Howard, Chief Financial Officer, Salomon Brothers; and Laurent Thibault, President, Canadian Manufacturers' Association.

The conference initiated a bilateral dialogue that will likely continue into the 1990's as the Canada-U.S. free trade era takes hold.

The conference opened with a keynote dinner address by U.S. Secretary of Labor Ann McLaughlin at New York's Plaza Hotel.

Among the speakers at concluding Panel IV session, which recommended national policies to enhance North America's competitiveness, was Alexander Trowbridge, President, National Association of Manufacturers.

Members of Panel I discuss issues related to revitalization of the labor force. Left to right: Stephen Vehslage, Vice President, IBM; James McCambly, President, Canadian Federation of Labour; Curtis Plott, Executive Vice President, American Society for Training and Development; and Edward Fiske, Education Editor, New York Times.

In 1988, the Visual Arts Department entered its 21st year of activity dedicated to informing the American public on the diversity and richness of Latin American, Caribbean and Canadian artistic traditions.

The year's exhibition series included: ***Three Venezuelans in Two Dimensions: Miguel von Dangel, Ernesto León and Carlos Zerpa***, featuring the distinctive, forceful works of three talented Venezuelan contemporary artists; the retrospective ***Augusto Torres: Form, Structure, Synthesis***, focusing on the career of the modernist Uruguayan master; and ***Paradise Lost: The Jesuits and the Guaraní, South American Missions, 1609-1767***, the rarely seen 17th and 18th-century sculptural artworks of the Guaraní Indians, located largely in the Southern Cone. Lectures and guided tours of the exhibitions, organized by the Education Department of the Americas Society, provided further information on and appreciation of issues intrinsic to the series.

The policy and programs of the Department of Visual Arts are devised with the assistance of an expert Advisory Board, whose members include representatives from a wide range of private and public institutions, including prominent scholars and collectors. This year's gallery program was made possible by the gracious efforts and support of curators, collectors, sponsors and museums from both North and South America.

In addition to its exhibition program, the Department of Visual Arts welcomed visiting artists and facilitated their contact with other cultural institutions, while fostering the study of their work through the compilation of biographical, bibliographical and visual documentation. The archives and slide register of the Visual Arts Department constitute an important and unique resource that is made available to the public. The archive has provided significant research assistance to students, collectors, art historians and museum professionals.

The year also marked the end of eight years of direction under John Stringer, who left the Americas Society to accept the post of Senior Curator at the Art Gallery of Western Australia in Perth. In the interim, the Visual Arts program was directed by Mr. Louis Grachos, with the assistance of Ms. Elizabeth Imm. Ms. Fatima Bercht, a Brazilian art historian who has studied and worked in New York during the past decade, was appointed Visual Arts and Cultural Programs Director, and Mr. Thomas M. Messer, former Director of the Solomon R. Guggenheim Museum, was appointed Senior Counselor for the Arts.

THREE VENEZUELANS IN TWO DIMENSIONS: Miguel von Dangel, Ernesto León, Carlos Zerpa

Guest Curator: **Axel Stein**

The Americas Society Art Gallery
New York
January 28 – April 4, 1988

The Metropolitan Art Center
Coral Gables, Florida
September 11 — October 11, 1988

The show attested to the vitality and diversity of recent Venezuelan art. Illustrated catalogue available.

Venezuelan artist Carlos Zerpa and curator Axel Stein with Americas Society Chairman David Rockefeller at the opening of *Three Venezuelans in Two Dimensions*, January 18, 1988.

Includes interviews with the artists, conducted by Axel Stein. Published by the Americas Society, New York and the Fundación Eugenio Mendoza, Caracas, 1988.

Exhibition made possible by the Fundación Eugenio Mendoza, Caracas and the following sponsors:
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AUGUSTO TORRES: FORM, STRUCTURE, SYNTHESIS, A RETROSPECTIVE

Curated by
Elizabeth and Caio Fonseca

April 19 - July 31, 1988

This exhibition presented a selection of paintings and oils executed from 1929 to the present by the Uruguayan artist Augusto Torres and was the first retrospective of this pivotal modernist painter on the East Coast in the United States, following the lead of the Santa Barbara Museum of Art, California, in 1987. Illustrated catalogue available. **Text by Dr. Barbara Braun. Published by the Santa Barbara Museum of Art, Santa Barbara, California, 1987.**

SPONSORS:
Elizabeth Fonseca, New York
J.M. Kaplan Foundation, New York

PARADISE LOST: The Jesuits and the Guaraní South American Missions 1606–1767

Curated by
Clement James McNaspy, S.J.

Organized by Margarita Casaccia Taboada de Hennessy, President, The Fundación la Candelaria, Areguá, Paraguay

Americas Society Art Gallery
New York
October 6, 1988 – January 14, 1989

Loyola Marymount University, Laband Art Gallery
Los Angeles, California
February 11 – March 11, 1989

Inter American Development Bank Art Gallery
Washington, D.C.
May 9 – May 31, 1989

This exhibition presented for the first time to the American public remarkable sculpture and decorative works from the 17th and 18th centuries.

The exhibition was made possible by the Fundación la Candelaria, Areguá, Paraguay, and the following sponsors:
Líneas Aéreas Paraguayas
Ministry of Education and Protocol, Paraguay
National Endowment for the Arts

Illustrated catalogue. **Essays by: Clement J. McNaspy, S.J.; Rafael Carbonell de Masy; Ramón Gutiérrez; Bartolomeu Melia; Josefina Plá; Pedro Ignacio Schmitz, S.J.; Rafael Eladio Velázquez. Photographs by José María Blanch, S.J. Published by the Fundación Candelaria, Areguá, Paraguay, 1988.**

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WELCOMING RECEPTION FOR FATIMA BERCHT AND THOMAS M. MESSER

The Americas Society welcomed the new Director of Visual Arts and Cultural Programs, Ms. Fatima Bercht, and Mr. Thomas M. Messer, Senior Counselor for the Arts, at a reception on December 6th.

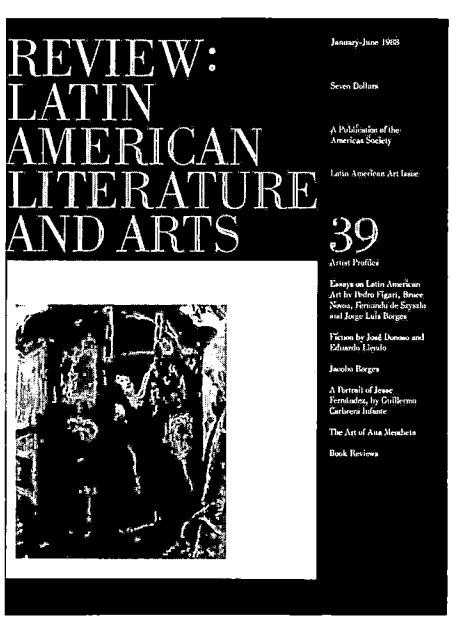
Ms. Dianne H. Pilgrim, Director of the Cooper Hewitt Museum, the Smithsonian Institution's National Museum of Design in New York, with Mr. Thomas M. Messer, and Ms. Fatima Bercht.

Advisory Board member Mrs. Barbara D. Duncan, Mr. Thomas M. Messer, Americas Society Vice Chairman Marifé Hernández, and Americas Society Vice President Leslie M. VanDerzee at December 6 reception.

LITERATURE

In 1988 the Literature Department, through the publication of its biannual magazine, *Review: Latin American Literature and Arts*, as well as through programming and its annual Writer-In-Residence program, strengthened important ties among the Latin American and North American literary and arts communities, and helped promote the work and careers of emerging and established Latin American writers.

Review 39 featured essays, accompanied by outstanding four-color reproductions, by Latin American writers on the visual arts, including pieces by Jorge Luis Borges, Carlos Fuentes and Guillermo Cabrera Infante which highlighted the achievements of individual artists. Articles by Pedro Figari, Fernando de Szyszlo and Bruce-Novoa explored aesthetic and social issues particular to Latin America. The issue also presented the work of artists now included in noteworthy travelling exhibitions and museums, such as Venezuelan painter Jacobo Borges and the late Ana Mendieta; new fiction by acclaimed Chilean novelist José Donoso; and book reviews, by leading scholars, of newly-translated Latin American titles. Thanks to the Department's promotional efforts and the magazine's outstanding content and design, *Review* this year claimed significant boosts in circulation worldwide and greater bookstore and news-stand distribution throughout the U.S. and Canada. As a result of advertisements secured from international corporations, arts institutions and publishers, advertising revenues soared throughout the year, as did new subscriptions received through *Review's* advertisements in nationally-circulated magazines such as *Harper's* and the *New York Review of Books.*



Review 39

A reception on March 21 celebrated the publication of *Review's* twentieth-anniversary issue with opening comments by Lori M. Carlson, Managing Editor, *Review*; David Rockefeller; Amb. George Landau; and Amalia Lacroze de Fortabat.

The Literature Department's programs throughout the year were noted for their variety, social relevance and interdisciplinary nature. The Department, with the Committee for International Poetry, welcomed Brazilian poet Adelia Prado at a reception to mark her first appearance in the United States. The Literature Department also hosted a luncheon with the Spanish Department of New York University and the Venezuelan Arts Center to welcome Venezuelan writers María Fernández Palacios and Victoria de Stefano.

José Donoso. Photo credit: © 1988 by Layle Silbert.

Other programs featured Dr. Marjorie Agosín of Wellesley College, Argentine writer Marta Oyhanarte, Chilean harpsichordist María Soledad Rojas, actress Barbara Feldon, Argentine writer Tomás Eloy Martínez, and Chilean novelist José Donoso.

Peruvian poet José Serna Ponce was selected by the Literature Department as its Fall 1988 Writer-in-Residence. The eleven-year-old program, this season funded by a grant from the New York State Council on the Arts, provides fiscal and moral support for young Latin American writers, encourages creative expression within the Latin American community, and aims to generate understanding and appreciation by the larger community about contemporary Latin American literature. During his residency, Mr. Serna Ponce conducted a creative writing workshop in Spanish at Washington Irving High School and worked to complete a new collection of poems.

REVIEW

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PERFORMING ARTS 1988

All of the Americas Society's regular music groups enlivened the 1988 season of performing arts. **Classic Guitar at the Y, Manhattan Vocal Ensemble, Quintet of the Americas** and **Trio Musica Hispana** each played three concerts — **Alborada Latina** presented two, **North/South Consonance** one, and the **Villa-Lobos Society** again toasted Villa-Lobos' birthday (102nd) with a sold out concert, champagne and cake. From the year's opening concert in January by the TRIO, which premiered a special arrangement of Astor Piazolla's score for "Tango Apasionado" on through to its closing event, ALBORADA's celebration of Hanukkah and Christmas, it was a joyous year of capacity audiences and good music.

Cellist Eugene Bondi, one of the Villa-Lobos Society's founding artists, after Villa-Lobos' 102nd birthday concert.

Highlights: the 21 year old winner of the Koussevitsky award, Canadian pianist **Avner Arad's** recital focusing on Bach and Villa-Lobos, which included the complete Goldberg Variations * * * a standing room only crowd which heard the **Manhattan Vocal Ensemble** sing Ariel Ramirez' beloved "Misa Criolla" — they also collaborated with the Gallery and Education Department on an evening devoted to the music and Art of the Paraguayan missions and were the featured entertainment at the Society's gala dinner honoring Fernando Botero * * * the six Latin American premieres played on American Music Week — four by the **Quintet** and two by the **Trio** * * * two Argentines, Leventritt award winning pianist ALBERTO REYES came out of retirement for a concert at the 92nd Street Y and received brilliant reviews — Andrés Segovia protegée **Guillermo Fierens** returned to New York City after an absence of ten years . . . ditto on the reviews * * * Veteran flamenco guitarist **Mario Escudero** introduced a dazzling new dancer, **La Conja** * * * **North/South Consonance** played an all conteporary concert of music written after 1980, fine reviews * * * and finally, our **Quintet** received funding for their first compact disc recording.

In all, a good year.

The new Flamenco dance team of La Conja and Manolo de Cordoba made its debut with veteran Flamenco guitarist Mario Escudero in "Classic Guitar at the Y."

PERFORMING ARTS PROGRAMS FOR 1988

Classic Guitar at the Y
Kaufmann Concert Hall, 92nd St. "Y"
February 23, April 19, May 15

Mario Escudero, Flamenco guitar and the *Al-Andaluz Dance Co. Adam Holtzman,* classic guitar; *Linda Kobler,* harpsichord; *Guillerme Fierens,* classic guitar

Funded by Albert Augustine Ltd., New York State Council on the Arts.

Manhattan Vocal Ensemble
Salon Simon Bolivar
January 24, October 12, November 6

Nelly Vuksic, conductor

Funded by New York State Council on the Arts.

Quintet of the Americas
Salon Simon Bolivar and Symphony Space
March 25, May 22, November 11

Edwin Alexander, bassoon; *Barrett Cobb,* flute; *Barbara Oldham,* horn; *Joseph Stone,* clarinet; *Matthew Sullivan,* oboe

Funded by New York State Council on the Arts and The National Endowment for the Arts.

The Alborada Latina Ensemble - clockwise - Francesca Vanesco, cello; Thad Wheeler, percussion; Thomas Chapin, flute; William Hall, doublebass; Elizabeth Acosta, soprano.

Trio Musica Hispana
Salon Simon Bolivar and Merkin Hall
January 14, March 30, May 19

Pablo Zinger, piano; *Israel Chorberg,* violin; *Alejandro Bacelar,* cello

Funded by New York State Council on the Arts, Department of Cultural Affairs.

Alborada Latina
Salon Simon Bolivar
October 2, December 4

Francesca Vanesco, cello; *Elizabeth Acosta,* soprano; *Thomas Chapin,* flute; *William Hall,* doublebass; *Thad Wheeler,* percussion

Funded by the Arts Decentralization Program through the Cultural Council Foundation.

Villa-Lobos Music Society
Salon Simon Bolivar and Cami Hall
March 4, October 1

Albert Heller, piano; *Eugene Bondi,* cello; *Suzanne Briar,* soprano; *Tina Pelican,* violin; *Jill Levy,* viola

Funded by NY Cultural Council.

Musician's Club of NY
Salon Simon Bolivar
May 4, November 16

Shauna Rolston, cello; *Avner Arad,* piano

Funded by Musician's Club of New York.

Single Concerts
Salon Simon Bolivar and 92nd Street Y
January 21, March 10, March 31, May 24, June 3, October 24, November 18

Claudio Recherme, piano
Pfister and Brieger, violin and piano duo
Alberto Reyes, piano
Arminda Canteros, piano
Foster and Plawutsky, violin and piano duo
Robert Vienneau, piano
North/South Consonance Ensemble
Max Lifchitz, conductor

Harpsichordist Linda Kobler, who teamed up with guitarist Adam Holtzman on the April 19th "Classic Guitar at the Y" concert.

The Theater Department's primary objective in 1988, as in previous years, was cultural interchange among artists from the U.S. and Latin America. This was achieved through the Department's internship program with CARI (Consejo Argentino Para las Relaciones Internacionales), which sponsored young Latin American performing artists to study at important cultural institutions in the U.S. Through the program, Argentine dancer Andres Walsh, of the Teatro Colón School, had the opportunity to study with the legendary Dame Margot Fonteyn, and excelled in her workshop at the Joffrey Ballet School. Argentine dancer Alejandro Parente received a warm reception, and was invited to return to study at the School of the American Ballet. The program enabled actor Roberto Antier to study American musicals at the Uta Hagen Institute.

The Theater Department's working relationship with Joseph Papp's New York Shakespeare Festival continued to bear fruit through theater and film panel discussions at the Americas Society; these were taped for later broadcast by Manhattan Cable TV. The Department brought Sergio Renán, Argentine actor and theater/film director, to the 1988 National Playwrights Conference at the Eugene O'Neill Center in Waterford, Connecticut. Mr. Renán, director of the film *La Tregua*, was the Conference's only Latin American representative.

As in the past, through I.T.I. (International Theater Institute) and other organizations, the Department welcomed and assisted artists from throughout the hemisphere, providing them a vital link with the U.S. theater community and increasing U.S. awareness of and interest in their work.

PROGRAM SCHEDULE—1988

Latin American Internship Program (January - August): In collaboration with *CARI* (Consejo Argentino Para las Relaciones Internacionales), young Argentine performing artists were brought to study in the U.S.: ***Rubén Maravini*** (actor, director, playwright), whose play "The Congressman is Hungry"—conceived and developed in a Theater Department workshop—was presented in two staged readings (in Spanish and English) at San Diego's Old Globe Theater; ***Andres Walsh*** and ***Alejandro Parente*** (Teatro Colón School) participated, respectively, in Dame Margot Fonteyn's workshop at the Joffrey Ballet School, and at the School of the American Ballet; musical actor ***Roberto Antier*** studied at the Uta Hagen Institute.

Meeting with HOLA (Hispanic Organization of Latin Actors) (February 4): Members of the U.S. Hispanic Theater affiliated with HOLA met at the Americas Society to discuss their organization's objectives. Many HOLA actors have participated in the Theater Department's staged reading programs.

U.S. Premiere of Oduvaldo Vianna Filho's "Papa Highirte" (February 22): A critical and commercial success in Brazil, the play was read by a cast of U.S. actors, at the Americas Society, under the direction of ***Zeca Ligeiro.***
Caracas VII World Theater Festival (March 23 - April 4): The Theater Department selected ***Robert Wilson*** and ***Ellen Stewart*** as the U.S. delegates to the Festival. ***Alberto Minero,*** Director, Americas Society Theater Department, participated as a member of an international theater panel.

Preparing for the Next Century - Theater in the Hemisphere. Participants in the Americas Society Symposium, left to right: María Irene Fornes, playwright and director; Nelson Tamayo, director; Martha Coigney, President, International Theater Institute; Joseph Papp, Founder/Producer of New York Shakespeare Festival; Carlos Gimenez, Venezuelan director; Alberto Minero, Director, Americas Society Theater Department; Cecília Vega and Oscar Ciccone, Director of Festival Latino.

International Theater Symposium - "Preparing for the Next Century: Theater in the Hemisphere" (June 20): Co-sponsored by The Women's Project, Festival Latino at the N.Y. Shakespeare Festival and the International Theater Institute. Panel discussions "From the Page to the Stage: Translating Life into Theater" and "Intercultural Collaboration in the Theater," moderated by ***María Irene Fornes,*** QBIE winner, playwright and director; and ***Martha Coigney,*** President, International Theater Institute. Panelists: ***Julia Miles,*** Director, The Women's Project; ***Carlos Giménez,*** Director of Venezuelan Rajatabla Theater Group and Joseph Papp's production of the "Death of Garcia Lorca"; ***Eduardo Pavlosky,*** Argentine actor, playwright/director; and ***Paul Verdier,*** director, Stages Theater Center.

Eugene O'Neill National Playwrights Conference (July-August): Argentine actor/director ***Sergio Renán*** appeared at this annual event under the auspices of the Americas Society Theater Department.

Latin American Film Making: Developing New Markets and International Distribution (August 8): A symposium for Latin American film professionals who contributed to Joseph Papp's Festival Latino, including film directors ***Felix de Rooy*** (Curacao), ***Fernando Perez*** (Cuba), ***Jorge Polaco*** (Argentina); and ***Salvador Samaritano,*** Director, Argentine Film Institute. ***Cecília Vega,*** Co-Director, Festival Latino, and ***Alberto Minero,*** Americas Society Theater Department, moderated. Transmitted by Manhattan Cable TV.

Latin American Theater Today (August 10): Symposium with Latin American Theater participants of Festival Latino, in which actors and directors discussed the nature of their work and status of theater arts in their respective countries.

First International Women Playwrights Conference (October): Opening Press Conference and Gala Reception. Sponsored by SUNY-Buffalo. ***Anna Kay France,*** Conference Director and Associate Professor of English at SUNY-Buffalo, and ***David E. Levine,*** Executive Director, The Dramatists Guild, discussed the Conference's themes and goals. A large international audience of women playwrights attended.

A Director Talks About His Film (December 5): Screening and discussion of the Oscar-nominated film, ***La Tregua;*** discussion by its director, ***Sergio Renán.***

In 1988, the Education Department offered a variety of activities organized in conjunction with the Visual Arts Department's gallery exhibitions. Films, concerts, lectures and panel discussions were presented with the participation of artists, art historians, museum curators and historians. The Venezuelan artists whose works comprised the exhibit, ***Three Venezuelans in Two Dimensions,*** spoke about new approaches to art in their country. ***Augusto Torres: Form, Structure, Synthesis*** was an occasion to congregate members and former students of the Torres family in a panel discussing the Taller Torres-García and its influence in the Americas. A series of events which accompanied ***Paradise Lost: The Jesuits and the Guarani South American Missions/1609-1767*** explored the fine arts of the Jesuit missions known as the Paraguay Reductions.

Women's issues and perspectives were given special emphasis at receptions and events held in cooperation with the First International Women Playwrights Conference presented by the State University of New York at Buffalo, and with the Centennial Celebration of the National Council of Women.

In anticipation of the 21st Century, programs on contemporary film, theater and visual arts in the hemisphere were organized to assess the changing configuration of the art world. The Americas Society's Theater and Education Departments organized special symposia for the Latin American participants in the First New York International Festival of the Arts and Joseph Papp's Festival Latino. Leading Latin American film and theater artists and their major colleagues from New York addressed a wide range of issues effecting theater and film works and their ability to engage an international audience.

The Department worked cooperatively with schools, administrators and teachers to enrich the study of Latin America in elementary and secondary school curricula. An educational outreach program for senior citizens and children of the Hispanic community was organized in cooperation with the Cultural Affairs Department. The program, made possible by a grant from the Angel Ramos Foundation, was designed to present high-quality cultural programs which focus on the heritage of families of Hispanic descent. The interdisciplinary program focused on the cultures of the Caribbean and included a workshop by **Marco Rizo's South American Music Project;** performances of Afro-Caribbean dance directed by dancer **Mari Nobles;** "Number Twenty-One", a play based on the life of the late Roberto Clemente and performed by **Don Quixote Experimental Children's Theater;** gallery tours and a slide presentation by **Shirley Glubok,** art historian and author of children's art history books on "The Art of the Spanish in the United States and Puerto Rico."

CONTRIBUTORS

Fundación Eugenio Mendoza
J.M. Kaplan Foundation
National Endowment for the Arts
Angel Ramos Foundation

COLLABORATING INSTITUTIONS

Association of Teachers of Social Studies/United Federation of Teachers
Casita Maria
Consulate General of Mexico in New York City

Shirley Glubok, author and art historian, participating in 1988-89 school program, "The Art of the Spanish in the United States and Puerto Rico."

Consulate General of Uruguay in New York City
New York City Board of Education/Division of Curriculum and Instruction
The Bronx Museum of the Arts

EXHIBITION/PUBLIC PROGRAMS

New Approaches to Art in Venezuela - Panel discussion with Venezuelan artists *Miguel von Dangel; Ernesto León; Carlos Zerpa;* and *Axel Stein,* Director, Fundación Mendoza Art Gallery.

The School of Joaquín Torres-García and the Work of Augusto Torres - Panel discussion and slide presentation with *Dr. Barbara Braun,* art historian; *Cecilia Torres,* artist and curator, "La Escuela del Sur: Montevideo 1934-1967"; and painters *Caio Fonseca* and *Cesar Paternosto.*

20th-Century Uruguayan Composers - Concert with *Trio Musica Hispana*

The Mission Baroque: Art and Music of the Jesuit Missions - lecture and performance with *Father Clement James McNaspy, S.J.* and *The Manhattan Vocal Ensemble.*

The Jesuit Republic of Paraguay - Screening of documentary film produced by *Robert McCown* and *Father Clement James McNaspy, S.J.*

Paradise Created - Paradise Lost - Lecture with *Father Daniel Berrigan, S.J.,* author and historical consultant to the feature film, "The Mission."

Art Preservation Strategies: From Housekeeping to High Technology - Lecture with *Paul Himmelstein,* Conservator/Environmental specialist.

Baroque Art of the "Reductions": Jesuit and Guarani Sensibilities - Lecture and slide presentation with *Fernando Molina Alcalde,* art historian.

Spanish Colonial Art in the United States - Lecture and slide presentation with *Shirley Glubok,* author and art historian.

Visions of Ariel: The Voices of Rodó - Presentation of new edition of the book, *Ariel,* by *José Enrique Rodó,* translated by Margaret Sayers Peden and published by the University of Texas Press, Austin. Panel discussion with *Professor Margaret Sayers Peden,* University of Missouri-Columbia; *Professor Roberto González Echevarría,* Yale University; Congressman *James W. Symington;* and *Professor Stanton L. Catlin,* Syracuse University.

ISSUES IN CONTEMPORARY ART OF THE AMERICAS - PREPARING FOR THE NEXT CENTURY

The Vagaries of Latin American Art: A View of the Diversity - lecture with *Professor Dore Ashton,* art critic and art historian.

Conversations on Mexican Film Making - Panel discussion with *Ambassador Joaquín Bernal,* Consul General of Mexico in New York; *Ofelia Medina,* actress; *Teodoro Maus,* independent film maker; *Mario Ortiz,* Director of Publicity, New Yorker Films.

Theater in the Hemisphere - Symposium in cooperation with The Women's Project, Joseph Papp's Festival Latino, and the International Theater Institute. Moderated by *Alberto Minero,* Director, Americas Society Theater Program.
Panel 1 - From the Page to the Stage: Translating Life into Theater with *Maria Irene Fornes,* Playwright and Director; *Griselda Gambaro,* Argentine Playwright; *Julia Miles,* Artistic Director, The Woman's Project and Productions Inc.; *Eduardo Pavlosky,* Argentine Playwright, Actor and Director; *Paul Verdier,* Artistic Director, Stages Theater Center; *George C. White,* President, Eugene O'Neill Theater Center.
Panel 2 - Intercultural Collaboration in the Theater with *Martha Coigney,* President, International Theater Institute; *Carlos Giménez,* Director, RAJATABLA Theater Group; cast members of Joseph Papp's production of "The Death of García Lorca" from Venezuela, Cuba, Paraguay and the United States.

Symposia in Cooperation with Joseph Papp's Festival Latino:

Latin American Film Making: Developing New Markets and International Distribution - Panel discussion with *Cecilia Vega,* Co-director, Festival Latino; *Felix de Rooy,* film director from Curazao; *Fernando Perez,* Cuban film director; *Salvador Samaritano,* Film Historian, Instituto Nacional de Cinematografía de Argentina.

Latin American Theater Today - with participating Festival Latino actors, directors and producers from Argentina, Costa Rica, Cuba and Mexico.

WORKSHOPS FOR TEACHERS

Central America: Is Peace Possible? - Panel discussion in cooperation with The Greater Metropolitan New York Social Studies Conference, with *Amb. Carlos Gutierrez,* Permanent Representative of Costa Rica to the United Nations; *Amb. Julio Icaza,* Deputy Permanent Representative of Nicaragua to the United Nations; and *Dr. Robert P. Matthews,* Adjunct Associate Professor of Latin American Studies, New York University.

The Latin American Spirit in New York Today: Resources for Teachers of Latin American Studies - Co-sponsored by The Bronx Museum of the Arts. Panel discussion and slide presentation with *Jeffrey Ramirez,* Curator of Education, The Bronx Museum of the Arts; *Brenda Alejandro,* Director of Education, The Museo del Barrio; *Nilda Peraza,* Director, Museum of Contemporary Hispanic Art; *Savannah Whaley,* Director of Marketing, INTAR Hispanic American Arts Center; and *Martha Bograd,* Director, Americas Society Education Program.

(left to right): Amb. Patricio Alvarez, Consul General of Ecuador in New York; Amb. George W. Landau, President, Americas Society; and the trip chaperone, Ruth Cooperman, with students who participated in the essay contest.

PAN AMERICAN SOCIETY EDUCATION PROGRAM

In 1988, the Pan American Society, a division of the Americas Society, maintained an effective program in New York City's education system. Its annual Essay Contest, which was established in 1979 to promote improved understanding in the Americas at the student level, was again sponsored. The three winners, chosen in cooperation with the New York City Board of Education, were given a one-week, all-expenses-paid trip to Ecuador, where they were warmly received. The Society continued its annual program of awarding Certificates of Merit to graduates of the City's public school system who excelled in Spanish language studies. It also maintained its annual Bronze Medal award program for students in private schools on the Eastern Seaboard who excelled in the study of the Spanish language.

DEVELOPMENT

The Americas Society's wide base of public support from corporations, individuals, foundations and government agencies continued to be a source of pride to the institution. This year, public support provided 79% of the year's operating revenue.

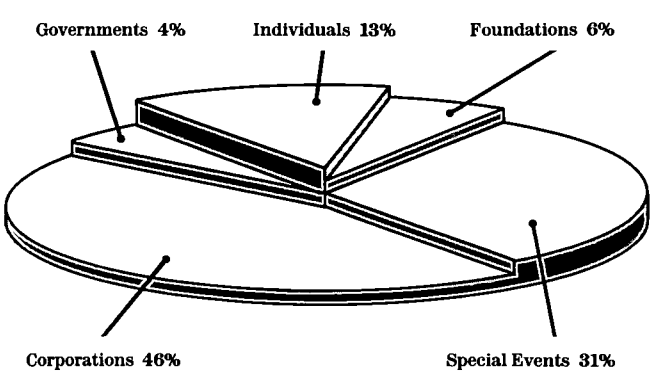
Corporate support, the strongest growth area, provided 46% of contributed income. This was an increase of 25% over the previous year. A dozen new donors joined the Society's steady list of contributors to provide operating and special project support as well as invaluable equipment and services.

Special events continued to be a significant source of operating support. The eighth annual Spring Party, held at Tavern on the Green in June, drew record patronage and attendance.

City, state and federal funding included grants from the National Endowment for the Arts, New York Council for the Humanities, and New York State Council on the Arts. The New York State Council on the Arts' inclusion of the Americas Society under its multi-year funding program for the literature and performing arts departments enabled us to plan ahead with certainty.

Individual giving, trustees and members accounted for 13% of the total, while foundation support, 6% of the total, continued with grants for special projects and general operations.

The Society's $11.5 million endowment campaign finished the year with pledges of $7.40 million in-hand. This campaign, launched in 1987, was undertaken to help ensure a stable future for the institution.



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Dr. Susan Kaufman Purcell joins the Americas Society as *Vice President for Latin American Affairs* as of January 1, 1989. Dr. Purcell will be responsible for developing programs, organizing study groups, conferences and symposia, and supervising publications for the Latin American Affairs Program. Dr. Purcell has been the Director of the Latin American Project and a Senior Fellow at the Council on Foreign Relations in New York since 1981. The Americas Society looks forward to an exceptional program in 1989 under her leadership.

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Fatima Bercht joined the Americas Society as the Director of Visual Arts and Cultural Programs on December 1, 1988. Ms. Bercht, a Brazilian born art historian, is responsible for the coordination of the Society's educational and cultural programs. As director of the Visual Arts Program, she plans and implements the Americas Society's art exhibitions and related activities.

Also on December 1, 1988, Mr. Thomas M. Messer, Director Emeritus of the Solomon R. Guggenheim Museum joined the Society as Senior Counselor for the Arts. The experience and talents of Mr. Messer and Ms. Bercht assure the Americas Society a prominent role in New York's vital cultural life.

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FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Americas Society, Inc.

We have audited the balance sheet of The Americas Society, Inc. as of December 31, 1988 and the related statements of activity and changes in fund balance and of functional expenses for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of The Americas Society, Inc. at December 31, 1988 and the results of its operations and the changes in fund balance for the year then ended, in conformity with generally accepted accounting principles.

Deloitte Haskins & Sells

New York, NY
April 7, 1989

BALANCE SHEET

December 31, 1988

	Operating Fund	Donor Restricted Fund	Fixed Asset Fund	Endowment Fund	Total All Funds
ASSETS					
Cash	$137,563	$274,427		$1,512,355	$1,924,345
Money market funds	128,983	340,677		660,311	1,129,971
United States treasury bills, at cost (market value of $1,046,163)				1,019,002	1,019,002
Marketable securities, at cost (market value $2,444,430)				2,028,382	2,028,382
Accrued interest and other receivables	9,785			41,472	51,257
Due from related organization	106,724				106,724
Prepaid expenses and other assets	20,294	6,000			26,294
Property and equipment (net of accumulated depreciation and amortization of $1,341,747)			$2,996,598		2,996,598
Total	$403,349	$621,104	$2,996,598	$5,261,522	$9,282,573
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 23,874	$ 26,546			$ 50,420
Deferred contributions	119,254	594,558			713,812
Total	143,128	621,104			764,232
Fund balance	260,221		$2,996,598	$5,261,522	8,518,341
Total	$403,349	$621,104	$2,996,598	$5,261,522	$9,282,573

See notes to financial statements.

STATEMENT OF ACTIVITY AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 1988

	Operating Fund	Donor Restricted Fund	Fixed Asset Fund	Endowment Fund	Total All Funds
SUPPORT AND REVENUE:					
Support:					
Foundations and public agencies	$ 23,200	$160,567		$ 330,000	$ 513,767
Corporations and corporate foundations	205,022	318,300		503,000	1,026,322
Individuals	75,449	10,842		1,847,797	1,934,088
Total support	303,671	489,709		2,680,794	3,474,177
Revenue:					
Investment Income	324,131				324,131
Benefits (net of direct costs)	374,544				374,544
Gain on sale of investments				75,232	75,232
Membership dues	161,834				161,834
Other	202,206	284,127			486,333
Total revenue	1,062,715	284,127		75,232	1,422,074
Total	1,366,386	773,836		2,756,029	4,896,251
EXPENSE:					
Program services:					
Visual arts	263,650	93,696	$ 26,817		384,163
Education	56,563	8,019	2,088		66,670
Literature/publications	162,357	63,626	5,226		231,209
Performing arts	70,479	41,005	2,887		114,371
Theatre	63,880	6,861	2,088		72,829
Public affairs	248,142	46,135	10,431		304,708
Canadian affairs		472,158	14,356		486,514
Total program services	865,071	731,500	63,893		1,660,464
Supporting services:					
Management and general	211,945	42,336	25,258		279,539
Fund raising	178,802		5,591		184,393
Total supporting services	390,747	42,336	30,849		463,932
Total	1,255,818	773,836	94,742		2,124,396
EXCESS (DEFICIENCY) OF SUPPORT AND REVENUE OVER EXPENSE	110,568		(94,742)	2,756,029	2,771,855
FUND BALANCE, BEGINNING OF YEAR	158,267		1,897,726	3,690,493	5,746,486
TRANSFER BETWEEN FUNDS — FIXED ASSET ADDITIONS	(8,614)		1,193,614	(1,185,000)	
FUND BALANCES, END OF YEAR	$ 260,221	$ —	$2,996,598	$5,261,522	$8,518,341

See notes to financial statements.

AMERICAS SOCIETY, INC.

FINANCIAL STATEMENTS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 1988

	Visual Arts	Education	Literature/ Publications	Performing Arts	Theatre
Salaries, payroll taxes and benefits	$140,539	$38,923	$ 78,530	$ 50,541	$46,595
Professional and other fees	29,170	8,947	29,374	28,824	7,789
Supplies	10,846	1,746	9,029	5,197	1,740
Travel and meetings	4,777	627	1,390	321	790
Books, dues and subscriptions	1,920	—	433	31	—
Communications	6,128	2,626	3,946	2,738	2,662
Utilities	10,286	1,693	3,492	1,938	1,716
Maintenance, insurance, rental and service contracts	38,726	6,376	13,149	7,295	6,459
Printing and publications	12,195	2,492	34,277	8,883	1,779
Postage, shipping and handling	10,588	1,152	6,965	5,206	971
Meetings, concerts and exhibitions	92,171	—	45,398	510	240
Total expenses before depreciation	357,346	64,582	225,983	111,484	70,741
Depreciation of property and equipment	26,817	2,088	5,226	2,887	2,088
Total Functional Expenses	$384,163	$66,670	$231,209	$114,371	$72,829

See notes to financial statements.

AMERICAS SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1988

1. Description of Organization

The Americas Society, Inc. (the Society) is financed by membership dues and contributions from foundations, public agencies, corporations and individuals. The Society is an educational forum presenting programs in public affairs, visual arts, literature, performing arts, theatre, and Canadian affairs focused on the countries of the hemisphere. The Council of the Americas, Inc. (the Council) is a related organization.

2. Summary of Significant Accounting Policies

Basis of Reporting—The accounts of the Society are maintained in accordance with the principles of fund accounting by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been reported by fund group.

The assets, liabilities and fund balances of the Society are reported in four self-balancing fund groups as follows:

Operating Fund represents unrestricted funds that are available for support of the Society's operations.

Donor Restricted Fund is composed of contributions restricted for specific programs by the donor or grantor. Special activities of the Society directly related to these purposes are charged to this fund.

Fixed Asset Fund includes land, apartment, building, furniture and equipment used in the Society's operations.

Endowment Fund represents the permanent resources for the Society. The principal of the fund is invested in U.S. Governmental and other marketable securities. The income generated from these securities is transferred to the operating fund; capital gains and losses from the sales of securities are retained in the endowment fund.

Contributions—Contributions restricted by the donor or grantor for specific purposes or projects are deemed to be earned and reported as income to the extent that the Society has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as deferred contributions.

Pledges—Pledges for future contributions are not recorded until collected.

Investments—Investments are presented at the lower of cost or market value.

Property and Equipment—Property and equipment consists of land, building, apartment, improvements, furniture and equipment. Land and building are reflected at fair market value ($1,210,200) at the date of gift (1966). Other property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets: building—40 years, other assets—from 5 to 40 years.

Public Affairs	Canadian Affairs	Management and General	Fund Raising	Total
$176,001	$210,491	$105,498	$124,529	$ 971,647
40,635	27,300	30,402	18,094	220,535
10,752	13,402	7,607	1,932	62,251
3,684	12,712	13,414	3,028	40,743
608	1,754	—	—	4,746
5,300	7,125	2,229	1,896	34,650
5,942	8,385	15,616	3,967	53,035
22,374	31,573	58,795	14,934	199,681
10,729	10,454	16,191	6,673	103,673
11,146	8,595	4,529	3,749	52,901
7,106	140,367	—	—	285,792
294,277	472,158	254,281	178,802	2,029,654
10,431	14,356	25,258	5,591	94,742
$304,708	$486,514	$279,539	$184,393	$2,124,396

Income taxes—The Internal Revenue Service has classified the Society as tax exempt under Section 501(c) (3) and 509(a) (1) of the Internal Revenue Code.

3. Property and Equipment

Property and equipment is summarized as follows:

Land	$ 885,211
Building	324,989
Apartment	1,185,000
Improvements	1,475,001
Furniture and equipment	468,143
Total	4,338,345
Less: Accumulated depreciation	1,341,747
Net book value	$2,996,598

Depreciation for the year ended December 31, 1988 aggregated $94,742 and is allocated to functions based on square footage occupied.

4. Transactions With Related Organizations

The Society has an agreement with the Council under which they share certain costs. The agreement may be terminated by either party upon sixty days prior written notice. Costs charged by the Society under this agreement amounted to $570,763 for the year ended December 31, 1988. At December 31, 1988 the Council owed the Society $106,724.

5. Real Estate Taxes

The Tax Commission of the City of New York had, in 1982, revoked the tax-exempt status for real estate taxes for the Society and its related organizations, which were previously exempt, effective with the 1981/1982 tax year. The Society contested this revocation and the tax exception was reinstated for the 1984/1985 and subsequent tax years.

During 1988, the Society settled the open years by making a payment of $57,944, which was charged to reserves previously provided by the Society and the Council.

6. 401(k) Retirement Plan

The Society and the Council have a 401(k) retirement plan (the Plan) covering all employees. Total employer contributions made to the Plan for the year ended December 31, 1988 amounted to $76,887 of which $60,110 was contributed by the Society. At December 31, 1988 the assets of the Plan totalled $538,222, all of which are fully vested.

7. Capital Campaign Pledges—Endowment Fund

In connection with the capital campaign which commenced during 1987 the Society has received pledges for the endowment fund totaling $7,403,000. Payments of $3,015,000 had been received on these pledges as of December 31, 1988. In accordance with the Society's accounting policies (see note 2), the remaining pledges have not been reflected in the financial statements as of December 31, 1988.

CORPORATE PROGRAM

Established in 1984, the Americas Society Corporate Program is a private-sector focused program for non-U.S. headquartered companies with interests in the hemisphere. The Americas Society Corporate Program convenes executives of foreign-based corporations with U.S. executives and hemisphere government and private sector leaders to improve understanding of economic political, and social issues affecting business in Latin America.

The objective of the Americas Society Corporate Program is to support companies' operating performance in the region through the exchange of information and ideas on business environments. Current Americas Society Corporate Members are based in Canada, and Latin America. Together with the Council of the Americas, the Americas Society Corporate Program forms an international network of over 200 companies operating in Latin America and the Caribbean.

Americas Society corporate Members have access to all Americas Society functions including Council of Americas activities, except for those reserved for U.S. government policy decisions. The Americas Society Corporate Program regularly offers its members briefings on the hemisphere's business issues by experts in the field. Corporate Members also keep track of Washington and multilateral institutions' activities affecting business through complimentary monthly copies of the Council of the Americas' **Washington Report.**

AMERICAS SOCIETY CORPORATE MEMBERS

Banco Industrial de Venezuela, C.A.
Banco Itau, S.A.
Banco de la Nación Argentina
Carvajal International, Inc.
C.V.G. International America Inc.
Globe & Mail
Latin American Cultural Exchange
Mega Economics
Minorco
Noranda Sales Corp.
Pacific Fruit, Inc.
Petróleos de Venezuela (USA) Corp.
Royal Bank of Canada
Sural, C.A.
Unibanco
Venezuelan American Bank
Villares Overseas Corporation
Westdeutsche Landes Bank

THE COUNCIL OF THE AMERICAS

The Council of the Americas is a U.S. business association dedicated to advocacy of the combined interests of its nearly two hundred international corporate members doing business in Latin America. The Council, broadly representative of total U.S. investment in the region, is the U.S. private sector vehicle for promoting positive change and future private sector-led development in the hemisphere.

The Council seeks to improve the business environment in Latin America, ensure the viability of commercial operations, and support the role of the private sector as an engine for national development. The Council of the Americas is a recognized and viable forum for problem-solving and consensus building among its various member constituencies, which include industrial, financial and services companies. Consensus and viewpoints are communicated by its members through the Council to Latin American government officials and U.S. policymakers, as well as to the domestic Latin American private sector.

The forum is three-fold: Council members bring their specific concerns to roundtable discussions in an attempt to reach a consensus with their peers on both country- and sector-specific problems affecting their business. In broad terms, this includes trade, investment and financial issues specific to one country, or to Latin America as a whole. In addition, panels of in-country U.S. managers provide their unique insights into the business, economic and socio-political environment to broaden the overall knowledge necessary for consensus and action.

Specific issues affecting business are discussed in strictly off-the-record interchanges between Council member executives and Latin American government officials. The audience can range from the President of a given nation, to his principal ministers, to a specific government official whose portfolio controls only one aspect of the economic or business environment. This forum has been expanded in recent years to include functionaries of international financial institutions, including the World Bank and the International Monetary Fund, whose financial decisions are crucial to the overall environment for U.S. international corporations.

Member executives regularly brief U.S. government officials on critical policy issues—both in the United States and in individual countries of the hemisphere that influence and affect their companies' ability to do business in Latin America. These briefings are for members of the executive and legislative branches of the U.S. government, as well as for United States diplomats who bring their insights to Council members, and in turn are briefed by executives about business opinions on events and trends in specific countries.

1988 COUNCIL OF THE AMERICAS PROGRAMS

ARGENTINA

Néstor Perl, Governor of Chubut, Argentina
January 19, 1988 New York

Juan Higinio Ciminari, Minister of Trade & Industry, Argentina
January 28, 1988 New York

Rodolfo H. Terragno, Minister of Public Works, Argentina
April 20, 1988 New York
April 21, 1988 Houston
April 22, 1988 San Francisco

José Octavio Bordón, Governor of the Province of Mendoza, Argentina
April 21, 1988 New York

H.E. Raúl Alfonsín, President of Argentina
Private briefing
May 31, 1988 New York

Luis Alberto Remaggi Alberro, President, Banco de la Ciudad de Buenos Aires
June 17, 1988 New York

Panel Discussion with 1988 Eisenhower Exchange Fellows: Rodolpho Alejandro Díaz, Professor of Political Law, University of Cuyo School of Law, Mendoza; **Julio Alberto Hang**, Aide-de-Camp to the President of Argentina; **Martín Lagos**, Consultant and Economic Advisor
October 11, 1988 New York

Juan Higinio Ciminari, Minister of Trade and Industry, Argentina

Roundtable Discussion: Eduardo Curia, Economic Advisor to Presidential Candidate Carlos Saúl Ménem, and Advisor, Argentine Budget Committee, Chamber of Deputies/ Lower House; **Félix Adolfo Pérez**, President, Astimar S.A. Talleres y Construcciones Navales I.C.F.; **Luis María Savino**, Management Consultant, Coordinator for Special Projects, National University of Buenos Aires; and **Mario Julio Truffat**, Advisor to the Justicialista Bloc in the Chamber of Deputies, Advisor to the Union of Public Enterprises, and Advisor to the President of Dirección General de Fabricaciones Militares.
December 2, 1988 New York

María Julia Alsogaray, Member of the Argentine Congress, Representative of Unión del Centro Democratico Party
December 5, 1988 New York

BOLIVIA

Carlos E. Delius, Ambassador of Bolivia to the United States
June 21, 1988 New York

Robert S. Gelbard, American Ambassador to Bolivia
September 23, 1988 New York

CHILE

Hernán G. Somerville Senn, Director of External Indebtness, Central Bank of Chile
January 15, 1988 New York

Harry G. Barnes, American Ambassador to Chile
January 25, 1988 San Francisco
January 26, 1988 Los Angeles
February 3, 1988 Chicago

José Piñera, Financial Consultant, Former Chilean Cabinet Official
April 29, 1988 New York

Patricio Aylwin Azócar, President, Christian Democratic Party of Chile
May 5, 1988 New York

Ricardo Lagos Escobar, President, Partido por la Democracia, Chile
July 14, 1988 New York

Hernán A. Buchi Buc, Minister of Finance, and Enrique Seguel, President, Central Bank of Chile
August 4, 1988 New York

Felipe Larraín, Independent Chilean Economist
September 9, 1988 New York

Chilean Private Sector Delegation: **Ernesto Ayala**, President, Compañía Manufacturera de Papeles y Cartones, **Fernando Agüero**, President, Sociedad Fomento Fabril and **Carlos Cáceres**, Former Finance Minister, Director, Adolfo Ibáñez Business School, Universidad Técnica Federico Santa María
September 14, 1988 New York

Charles A. Gillespie, Jr., American Ambassador to Chile
October 21, 1988 San Francisco
October 24, 1988 Chicago
October 25, 1988 New York

Genaro Arriagada, President, Radio Cooperativa, Executive Director, ***Command for the NO***
December 13, 1988 New York

Amb. George W. Landau, President, Americas Society; Patricio Aylwin Azócar, President, Christian Democratic Party of Chile; Catherine Lieber, Program Director, Council of the Americas

COLOMBIA

Guillermo Perry Rubio, Minister of Mines and Energy of Colombia

January 26, 1988 New York

January 27, 1988 New Orleans

January 28, 1988 Houston

Business Intelligence Roundtable: "Beyond the Stigma"

Manuel Lasaga, Vice President & Senior Economist, Southeast Bank, N.A.; **David J. Craft**, General Manager, Borden (Cicolac), Colombia; **Carlos A. Estévez**, General Manager, Rohm & Haas, Colombia, **Ernest Brown, III**, Vice President, Bankers Trust Co., N.Y.; **R.H. Vanderplast**, Assistant Vice President, First National Bank of Chicago; **Antonio Copello**, Attorney, Colombia; **Edgar Vallejo**, General Manager, Warner Lambert Co., Ltd., Colombia

February 22, 1988 New York

February 23, 1988 Chicago

February 24, 1988 Miami

Thomas Edmund McNamara, American Ambassador to Colombia

August 3, 1988 New York

September 15, 1988 Miami

Hernán A. Buchi Buc, Minister of Finance, Chile

Oscar Mejía Vallejo, Minister of Mines and Energy of Colombia

November 14, 1988 New Orleans

November 15, 1988 Houston

November 16, 1988 New York

DOMINICAN REPUBLIC

Paul D. Taylor, American Ambassador to the Dominican Republic

July 22, 1988 New York

ECUADOR

Richard N. Holwill, American Ambassador to Ecuador

July 20, 1988 New York

August 17, 1988 Washington

October 18, 1988 Miami

Abelardo Pachano, President, Monetary Board of Ecuador, **José Correa**, Former President, Monetary Board of Ecuador, **Jorge Gallardo**, Minister of Finance, **Jaime Moncayo**, Ambassador-Designate, Republic of Ecuador to the U.S., and **José Morillo**, General Manager, Central Bank of Ecuador

December 2, 1988 New York

GUATEMALA

James H. Michel, American Ambassador to Guatemala

May 16, 1988 New York

GUYANA

His Excellency Hugh Desmond Hoyte, President of Guyana

September 14, 1988 Washington, D.C.

PERU

Peruvian Private Sector Delegation: CONFIEP (Peruvian National Confederation of Private Sector Institutions) with **Rafael Villegas**, Chairman, **Ricardo Vega Llona**, Past President, Exporters Association, **Benami Grobman**, Past-Director, Lima Chamber of Commerce, **Eduardo Espinosa**, President, Confederation of Chambers of Commerce, **Carlos Chiabra Donoso**, Director, Financial Institutions Associations, **Jorge Camet**, President, Constructors Association and **Juan Antonio Aguirre**, Past President, Industrial & Manufacturers Association

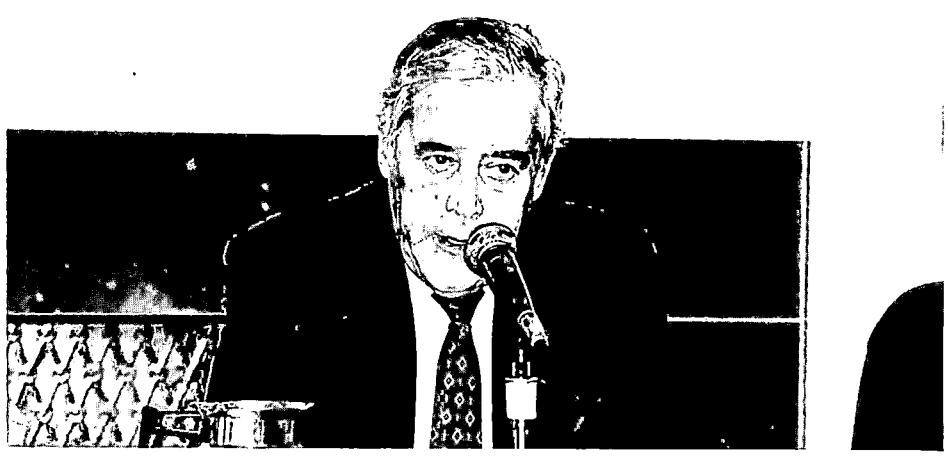
September 16, 1988 New York

Augusto Blacker-Miller, Peruvian Financial Consultant

October 20, 1988 Miami

October 31, 1988 New York

Thomas E. McNamara, American Ambassador to Colombia.



Mr. Oscar Mejía Vallejo, Minister of Mines and Energy of Colombia

VENEZUELA

Juan Carlos Pérez-Segnini, Superintendent of Foreign Investment
April 6, 1988 Detroit

Venezuela Business Dialogue
Eduardo Fernández, COPEI Party Presidential Candidate
Panelists:
Terence C. Canavan, Executive Vice President, Chemical Bank; **Brower A. Merriam**, President, Latin America & Southeast Asia, Pfizer, Inc.; **Michael Dingee**, President & General Manager, Pillsbury de Venezuela
April 12, 1988 New York

Celestino Martínez, President, Alcasa
May 2, 1988 Pittsburgh

Victor Bentata, Attorney, Estudio Bentata Abogados, Caracas, Venezuela
May 6, 1988 New York

Otto J. Reich, American Ambassador to Venezuela
July 15, 1988 Washington, D.C.

REGIONAL

U.S. Government Labor Attachés
Kathy Barmon, Honduras; **Joseph McLean**, Guatemala; **Charles Evans**, Uruguay
August 17, 1988 Washington, D.C.

Open discussion with Latin American and Caribbean journalists
April 12, 1988 Washington, D.C.

Caribbean Debt-Equity Conversion Program
September 13, 1988 New York

FINANCIAL MANAGEMENT ROUNDTABLES FOR MANUFACTURING COMPANIES

Mexico and Brazil

Panelists:
Jack Holland, Director, Americas Operations Control, Xerox Corporation; and **Jess Valenzuela**, Director of Finance and Administration, International, Gerber Products Company
June 9, 1988 Chicago

Argentina, Colombia and Venezuela

Panelists:
Michael L. Beam, Finance Manager, Latin America, Procter & Gamble; **Enrique Larroucau**, Treasurer, Dow Chemical, Latin America
November 30, 1988 Miami

BRAZIL

The Council's active schedule of programs concerning Brazil reflects the interest of Council members in Latin America's largest country. Programs were held in Washington and San Francisco as well as New York, and included topics ranging from informatics and intellectual property policy to the debt/equity swap program. Speakers included the Minister of Finance and the President of the Rio de Janeiro stock exchange. Brazil programing culminated in a day-long session on Brazil's new constitution.

Informatics and Intellectual Property Policy
Georges Charles Fischer, Attorney, Mattos Filho e Suchodolski Advogados; **Carlos Augusto Da Silveira Lobo**, Lobo & Ibeas
February 19, 1988 New York

His Excellency Mailson Ferreira da Nobrega, Minister of Finance of Brazil
February 19, 1988 New York

New Debt/Equity Program - A Workshop on Investment Opportunities
Mario Berard, President, Banco do Brasil; **Arnim Lore**, Director, Foreign Affairs Department, Central Bank of Brazil; **Arnoldo Wald**, President, Brazilian Securities and Exchange Commission; **Roberto Teixeira da Costa**, President, Brasilpar Financial Services, Ltd.; **David Gill**, Director, Capital Markets Department, International Finance Corporation; **Eduardo Da Rocha Azevedo**, President, Sao Paulo Stock Exchange; **Sergio Barcellos**, President, Rio de Janeiro Stock Exchange; **Alvaro Dias**, Governor, State of Paraná; **Narciso Da Fonseca Carvalho**, Vice President, International Operations, Banco do Brasil; **His Excellency Mailson Ferreira da Nobrega**, Minister of Finance of Brazil; **His Excellency Marcilio Marques Moreira**, Brazilian Ambassador to the United States
April 15, 1988 New York

Brazil's new Debt/Equity Program - A Workshop on Investment Opportunities (left to right): His Excellency Mailson Ferreira da Nobrega, Minister of Finance of Brazil; Amb. George W. Landau, President, Council of the Americas; His Excellency Marcílio Marques Moreira, Brazilian Ambassador to the United States

Amb. Fernando Rondón, Senior Area Advisor for Central & Latin America

The Outlook in Brazil - A Critical View
Mario Henrique Simonsen, Vice Chairman, Brazilian Institute of Economics, The Getulio Vargas Foundation
April 18, 1988 New York

Sergio Barcellos, President, Rio de Janeiro Stock Exchange
June 21, 1988 New York
June 23, 1988 San Francisco

His Excellency Mario Covas, Federal Senator, Brazilian Social Democratic Party
November 22, 1988 New York

Brazil's New Constitution - The Effect on Trade and Investment
Adolph Posnick, Chairman, U.S. Section of the Brazil-U.S. Business Council, and Chairman of the Board and CEO, Ferro Corporation; The Honorable **Harry W. Shlaudeman**, American Ambassador to Brazil; **R. Christopher Lund**, President, American Chamber of Commerce for Brazil - Sao Paulo, and President, Grupo de Lund; **Gunnar Vikberg**, Executive Vice President, Xerox do Brasil, S.A., and First Vice President, American Chamber of Commerce for Brazil Rio de Janeiro; **George Charles Fischer**, Attorney, Fischer & Forster, Sao Paulo; **Peter Dirk Siemsen**, Senior Partner, Dannemann, Siemsen, Bigler & Ipanema Moreira, Rio de Janeiro; **Ronaldo Veirano**, Senior Partner, Baker & McKenzie, and Partner, Stroeter, Trench & Veirano, Rio de Janeiro; **Ann H. Hughes**, Deputy Assistant Secretary for the Western Hemisphere, Department of Commerce; His Excellency **Paulo Nogueira Batista**, Permanent Representative of Brazil to the United Nations; **Amaury Temporal**, President, Confederation of Brazilian Commercial Associations (CACB); **Jacy de Souza Mendonca**, Director, External Affairs, Ford Volkswagen Autolatina; and First Vice President, Automobile Manufacturers Association of Brazil; **Kevin Brennan**, Commercial Counselor, American Embassy, Brasilia
December 7, 1988 New York

H.E. Abelardo Pachano, President, Monetary Board of Ecuador

WASHINGTON POLICY DIALOGUES

In 1988 the "Washington Policy Dialogues" subscription series completed its second successful year. This series of working meetings held with senior staff and officials of various U.S. government agencies, international organizations and Congress offers corporate executives an opportunity to communicate concerns to key policymakers on a regular basis. In 1988 the series included country-specific programs on Mexico, Brazil and El Salvador and region-wide programs on investment, trade, the World Bank, and the Southern Cone as well as Congressional briefings.

Brazil: Outlook for 1988
Armeane M. Choksi, Director, Country Department I - Brazil, Latin America and the Caribbean, World Bank; **Bruce M. Juba**, Assistant Director for Latin America, Office of Developing Nations Finance, Department of the Treasury; **Christina M. Lund**, Director, Southern Cone Affairs, Office of the U.S. Trade Representative; **Dr. Riordan Roett**, Director, Center of Brazilian Affairs, The Johns Hopkins University School of Advanced International Studies
January 19, 1988

Mexico's Bond Proposal
Thomas J. Berger, Deputy Assistant Secretary for International Monetary Affairs, Department of the Treasury; **Gonzalo de las Heras**, Senior Vice President and Head, Latin America Division, Morgan Guaranty Trust Company of New York; **José Angel Gurria**, Director General of Public Credit, Mexican Secretariat of Finance and Public Credit
February 17, 1988

Policies for Investment in Latin America - the View from the Treasury
The Honorable **David C. Mulford**, Assistant Secretary for International Affairs, Department of the Treasury
March 17, 1988

World Bank Activities in Latin America
S. Shahid Husain, Vice President for Latin America and the Caribbean, The World Bank
April 14, 1988

Congressional Breakfast
The Honorable **Robert García**, Chairman, Subcommittee on International Finance, Trade and Monetary Policy, Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives; and Members of the Committee
June 9, 1988

Southern Cone - An Economic and Political Update Focusing on Argentina and Chile
Richard B. Howard, Director, Office of Southern Cone Affairs, Bureau of Inter-American Affairs, Department of State; **William G. Tyler**, Lead Economist, Country Department IV, Latin America and the Caribbean Regional Office, The World Bank; **Dr. Arturo Valenzuela**, Director, Latin American Studies Program, Georgetown University; **Christopher P. McCoy**, Country Officer for Argentina, Chile, Uruguay, Paraguay, Office of Developing Nations Finance, Department of the Treasury
July 14, 1988

El Salvador - Prospects for the Future, Pt. I
Dr. Fidel Chávez-Mena, Christian Democratic Party, Candidate for President
September 12, 1988

El Salvador - Prospects for the Future, Pt. II
Alfredo Cristiani, National Republican Alliance, Candidate for President
September 23, 1988

The Outlook for Trade - A New Administration in Washington and a New Trade Bill
Judith Bello, General Counsel, Office of the U.S. Trade Representative; **Robert E. Herzstein**, Senior Partner, Arnold and Porter; **Stephen L. Lande**, President, Manchester Trade, Ltd.
November 29, 1988

Washington Policy Dialogue: "Politics for Investment in Latin America - The View from Treasury". The Hon. David C. Mulford, Assistant Secretary for International Affairs, Department of the Treasury

MEXICO PROGRAMS

The Council's programs on Mexico demonstrate a variety of approaches to the bilateral relationship, and are closely coordinated with the agenda of the Mexico-U.S. Business Committee. Council programming offers the opportunity—in the United States and in Mexico—for interaction between Mexican government officials and U.S. corporations, often in small, interactive binational groups.

AmCham Business Mexico '88
The Honorable **Charles J. Pilliod**, American Ambassador to Mexico; **Stephen B. Friedman**, President and General Director, American Express Company and President, American Chamber of Commerce of Mexico; **Rodrigo Guerra**, President, IBM de México; **Erick A. Reickert**, Managing Director, Chrysler de México; **Donald F. Spieler**, President and Managing Director, Kodak Mexicana; **Alexis Falquier**, Partner and General Director, McKinsey & Company; **John M. Bruton**, Executive Vice President, American Chamber of Commerce of Mexico (moderator).

February 5, 1988 New York

Mexico: Current Status of Discussions Under the Bilateral Commercial Framework Accord Between Mexico and the United States
B. Timothy Bennett, Deputy Assistant U.S. Trade Represent ative, Office of the U.S. Trade Representative

April 20, 1988 New York

Mexico: The Business of Border Development - Policy Issues and the Role of Private Enterprise
The Honorable **Jim Kolbe**, U.S. House of Representatives; **Mario Rodríguez-Montero**, Minister Counselor, Trade Office, Embassy of Mexico; **B. Timothy Bennett**, Deputy Assistant U.S. Trade Representative, Office of the U.S. Trade Representative; **Timothy F. Ashby**, Director, Office of Mexico and the Caribbean Basin, Department of Commerce; **Kevin Gore**, Office of External Affairs, Canadian Trade Negotiations Office; **Don Hagans**, Chairman, Border Trade Alliance; Lic. **José Manuel Martínez-Ayala**, Director General, Dirección General de Promoción Industrial y Desarrollo Regional, Secretaría de Comercio y Fomento Industrial; **Henry Esparza**, President, Assemble in Mexico; **David Flowers**, Chairman & Chief Executive Officer, Pulse Engineering; Professor **Donald Michie**, Director, Institute for Advanced Manufacturing, University of Texas/El Paso; **Fred J. Quintana**, President, Maquila Management Services, **William F. Huskins**, Vice President and General Manager, Tyco de México; **Daniel O. Pegg**, President, San Diego Economic Development Corporation; **Sergio Argüelles**, President, Finsa Industrial Park; **Sergio Bermúdez**, Chairman, Grupo Bermúdez; **Carlos Bustamante**, President, Tijuana Industrial Park; **Xavier Rivas**, President, Parque Industrial de Mexicali; **Jaime Bermúdez, Jr.**, President, Grupo Bermúdez; **Ann H. Hughes**, Deputy Assistant Secretary for the Western Hemisphere, Department of Commerce

May 20, 1988 New York

Mexican Foreign Trade Policy - Current Status and Outlook
His Excellency **Luis Bravo Aguilera**, Under-Secretary for Foreign Trade, Secretariat of Commerce and Industrial Development of Mexico

June 30, 1988 New York

Corporate delegation to Mexican Business Council for International Affairs (CEMAI) "Gold Medal" award ceremony for **David Rockefeller**

September 19, 1988 Mexico City

Breakfast in honor of **David Rockefeller**, hosted by His Excellency **Miguel de la Madrid**, President of Mexico

September 20, 1988 Mexico City

Dr. **José Córdoba Montoya**, Special Advisor to President-elect Lic. **Carlos Salinas de Gortari**

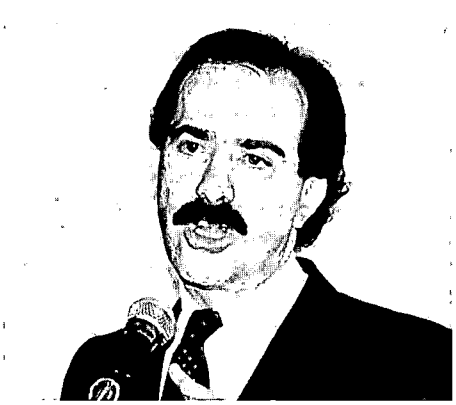
September 22, 1988 New York

Mexico's Economic, Financial and Investment Outlook
Sergio Paliza Valdés, President, Mexican Institute of Financial Executive; **Alexis D. Falquier**, Partner and Director, McKinsey & Co. Inc.; **Luis Téllez Kuenzler**, Coordinator of Advisors to the Secretary, Dr. Pedro Aspe, Secretariat of Budget and Planning of Mexico; **José Angel Gurría**, General Director of Public Credit, Secretariat of the Treasury and Public Credit of Mexico; **Jaime Serra Puche**, Undersecretary of the Treasury, Secretariat of the Treasury & Public Credit of Mexico; Ing. **Antonio Madero Bracho**, Chairman & CEO, Corporación Industrial San Luis, S.A. de C.V.; **Gonzalo de las Heras**, Senior Vice President and Head, Latin American Division, Morgan Guaranty Trust Company of New York; **William Bron**, Director of Corporate Finance for Latin America, Drexel Burnham; **Timothy Heyman**, Senior Vice President for Investment Strategy, Estrategia Bursátil, S.A; **Kenneth Prysor Jones**, Director General, Estratur Sidek Hotels; **Lars R. Christianson**, Managing Director, Christianson, S.A. de C.V.; **Andrés Ochoa Bunsow**, Partner, Bufete Sepúlveda, S.C. (Baker & McKenzie); Mr. **Rodman C. Rockefeller**, Chairman, U.S. Council of the Mexico-U.S. Business Committee.

October 11, 1988 New York

Corporate delegation to the Inauguration of His Excellency C. Lic. **Carlos Salinas de Gortari**.

December 1, 1988 Mexico City



Jaime Serra Puche, Under-Secretary of the Treasury, Secretariat of the Treasury & Public Credit of Mexico

U.S. COUNCIL OF THE MEXICO-U.S. BUSINESS COMMITTEE

The Mexico-U.S. Business Committee celebrated its XLIII Plenary Session in 1988 in Guadalajara, Jalisco, Mexico. The Committee—the oldest private sector organization between Mexico and the United States—is comprised of two national sections. The Mexican section is represented by the Mexican Business Council for International Affairs (CEMAI), with members from all sectors of the Mex-

Dr. José Córdoba Montoya, Special Advisor to President-elect Lic. Carlos Salinas de Gortari

Honorable Charles J. Pilliod, American Ambassador to Mexico

ican economy. The U.S. Council—the U.S. secretariat—is sponsored by the Council of the Americas, the American Chamber of Commerce of Mexico, A.C., and the Chamber of Commerce of the United States. The Committee maintains an agenda of binational work programs on trade and investment, capital formation and flows, and border development.

U.S. COUNCIL MEMBERSHIP
(as of March 15, 1989)

American Telephone & Telegraph Company
Arthur Andersen & Company
Arnold & Porter
Becton-Dickinson & Company, Inc.
Caterpillar, Inc.
The Chase Manhattan Bank, N.A.
Citibank, N.A.
The Coca-Cola Company
Continental Illinois National Bank & Trust Company of Chicago
Deere & Company
Dow Chemical Company
E.I. du Pont de Nemours & Company
Eastman Kodak Company
Eurinam/Singer & Friedlander Ltd. Partnership
Exxon Mexicana, S.A. de C.V.
First Boston Corporation
The Ford Motor Company
General Electric Corporation
General Foods Corporation
General Motors Corporation
Goodyear Tire & Rubber Company
Ibec, Inc.
IBM Corporation
ITT/Sheraton Corporation
Johnson & Johnson
Laredo National Bank
Eli Lilly International Corporation
Monsanto Corporation
Pfizer, Inc.
The Procter & Gamble Company
Rohm & Haas Company
Salomon Brothers
Shearson Lehman Hutton, Inc.
Texas Instruments, Inc.
UNISYS Corporation
U S West International
Warner Lambert Company
Xerox Corporation
Zenith Electronics Corporation

SPONSORING ORGANIZATIONS

Council of the Americas
American Chamber of Commerce of Mexico
U.S. Chamber of Commerce

COORDINATING ORGANIZATIONS

The Conference Board
Committee for Economic Development
National Planning Association
Association of American Chambers of Commerce of Latin America

U.S. COUNCIL, MEXICO-U.S. BUSINESS COMMITTEE PROGRAMS

Trade Subcommittee:	January 18	Washington
Briefing by B. Timothy Bennett, Deputy Assistant U.S. Trade Representative		
Fifth Annual Breakfast	February 15	Mexico City
Hosted by: H.E. Miguel de la Madrid, President of Mexico; speeches by Lic. Gustavo Petricioli, Secretary of the Treasury and Public Credit; Dr. Pedro Aspe Armella, Secretary of Planning and Budget; Lic. Héctor Hernández, Secretary of Commerce and Industrial Development.		
Binational Steering Committee	February 15	Mexico City
Advisory Group on Capital Development for Mexico:	March 16-17	Washington
Briefings for U.S. Department of State: Honorable Elliott Abrams, Assistant Secretary of State for Inter-American Affairs, and Paul Taylor, Deputy Assistant Secretary for Economics & Mexican Affairs; U.S. Trade Representative: B. Timothy Bennett, Deputy Assistant U.S. Trade Representative; World Bank: Barber M. Conable, President, Moeen Qureshi, Senior Vice President, Operations, and Sahid Husain, Regional Vice President, Latin America; U.S. Department of Commerce: C. William Verity, Secretary of Commerce.		
U.S. Council Briefing	April 7	New York
Binational Steering Committee	May 11	Washington
Trade Subcommittee	June 1	Washington
Guests: Ann H. Hughes, Deputy Assistant Secretary of Commerce for the Western Hemisphere; Timothy Ashby, Director, Office of Mexico and the Caribbean Basin; James Holbein, Director, Mexico Division		
U.S. Council Luncheon	June 30	New York
H.E. Lic. Luis Bravo Aguilera, Undersecretary of Commerce for Foreign Trade of Mexico		
Binational Trade Subcommittee	August 5	Mexico City
"Options for Continuing Liberalization of Bilateral Trade and Investment."		
Binational Trade Subcommittee	September 7	Dallas
Binational Steering Committee	September 20	Mexico City
U.S. Council Dinner	October 11	New York
Dr. Luis Téllez, Coordinator of Advisors to the Secretary of Planning and Budget of Mexico; Executives of the Mexican Institute of Financial Executives (IMEF)		
Task Team on Capital Formation and Flow	October 14	New York
Forty-third Plenary	November 16-19	Guadalajara, Jalisco, Mexico
Private Sector Briefing and Luncheon for His Excellency C. Lic. Carlos Salinas de Gortari	December 2	Mexico City
Task Team on Capital Formation and Flow	December 6	New York
Trade Subcommittee discussion with: Donald S. Abelson, Deputy Assistant U.S. Trade Representative for Mexico; Ann H. Hughes, Deputy Assistant Secretary of Commerce for the Western Hemisphere; Timothy Ashby, Director, Office of Mexico and the Caribbean Basin, U.S. Department of Commerce; James Holbein, Director, Mexico Division, U.S. Department of Commerce	December 16	Washington

PANAMA WORKING GROUP

Beginning in April, 1988 an informal group of Council members began meeting in the Washington office to discuss the crisis in Panama and its implications for U.S. business interests. Over the next few months, the gathering evolved into an action-oriented working group whose effort was directed at bringing to the U.S. Government's attention the counter-productive and unduly onerous aspects of economic sanctions imposed on Panama from the point of view of the U.S. business community. The sanctions have been twice modified in ways which have diminished the harmful effects to U.S. business. The Council's collective effort was a key contributor to this result.

Paul D. Taylor, Deputy Assistant Secretary for Economics, Bureau of Inter-American Affairs, Department of State; **Ludlow Flower, III**, Director, Latin American Affairs, National Security Council; **Richard Newcomb**, Director, Office of Foreign Asset Control, Department of the Treasury
April 22, 1988

Corporate member working group briefing and planning session
May 27, 1988

Richard Newcomb, Director, Office of Foreign Assets Control, Department of the Treasury
June 3, 1988

Richard Newcomb, Director, Office of Foreign Assets Control, Department of the Treasury
June 24, 1988

Preparatory meeting for U.S. Government appointments
July 21, 1988

The Honorable **M. Peter McPherson**, Deputy Secretary of the Treasury; **Lt. General Colin L. Powell**, National Security Advisor to the President; The Honorable **John C. Whitehead**, Deputy Secretary of State
July 27, 1988

Briefing on the internal situation in Panama by members of the American Chamber of Commerce in Panama
August 3, 1988

Ludlow Flower, III, Director, Washington Office, Council of the Americas and **Michael A. May**, Assistant Director, Latin American Affairs, Association of American Chambers of Commerce in Latin America
August 16, 1988

Richard Newcomb, Director, Office of Foreign Assets Control, Department of the Treasury
October 5, 1988

(left to right): Enrique Candioti, Ambassador of Argentina to the U.S.; Juan Sourrouille, Finance Minister of Argentina; Raúl Alfonsín, President of Argentina; Amb. George W. Landau, President, Council of the Americas; Dante Caputo, Minister of Foreign Relations; Robert Wilhelm, Executive Vice President, Exxon Corporation

Mario Henrique Simonsen, Vice Chairman, Brazilian Institute of Economics, The Getulio Vargas Foundation

Rodolfo H. Terragno, Minister of Public Works, Argentina

XIX WASHINGTON CONFERENCE FOR CORPORATE EXECUTIVES

"Next Steps: Policies for Latin America in the 1990's"

May 9-10, 1988
U.S. Department of State
Washington, D.C.

This year's Washington Conference served as a forum for business executives to exchange ideas with U.S. policymakers on economic, commercial and financial policies that will affect the Latin American and U.S. economies into the 21st Century.

Speakers

George P. Shultz, Secretary of State; Elliott Abrams, Assistant Secretary of State for Inter-American Affairs; Charles McC. Mathias, Jr., former U.S. Senator from Maryland, Partner, Jones, Day, Reavis & Pogue, and Milton S. Eisenhower, Distinguished Visiting Professor of Public Policy, The Johns Hopkins University; Senator Lloyd Bentsen, Chairman, Committee on Finance, U.S. Senate; Enrique V. Iglesias, President, Inter-American Development Bank.

Panels

"Competing in Global Markets"

Pat Choate (Chairperson), Director, Policy Analysis, TRW, Inc.; Ann H. Hughes, Deputy Assistant Secretary for the Western Hemisphere, Department of Commerce; Charles J.L.T. Kovacs, Vice President, International Finance, Chase Manhattan Bank, N.A.; William Lilley, III, President, Policy Communications, Inc.; Alan Magazine, President, Council on Competitiveness; Dr. Joseph J. Minarik, Senior Research Associate, The Urban Institute; Congressman Don J. Pease, Member, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives.

Congressman Don J. Pease, Member, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, participating in Washington Conference panel discussing "Competing in Global Markets"

"Mexico: Continuity and Change in the Coming Sexenio"

Brower A. Merriam (Chairperson), President, Latin America & Southeast Asia, Pfizer International, Inc.; Juan Elek, Partner, Elek, Moreno, Valle y Asociados; Enrique Madero Bracho, President, Mexican Business Council for International Affairs (CEMAI); Gary G. Jacobs, President, Laredo National Bank; W.R. Clay, Vice President, International, E.I. du Pont de Nemours & Company, Inc.; Fausto C. Miranda, Senior Partner, Miranda y Estavillo; Cesáreo Frías, Director General, Consorcio Intermex, S.A. de C.V.

Senator Lloyd Bentsen, Chairman, Committee on Finance, U.S. Senate - keynote speaker at 1988 Washington Conference

"Debt Crisis—What Solutions?"

Robert W. Chandler, Jr. (Chairperson), Vice President, Chase Manhattan Overseas Corporation, and President, Association of American Chambers of Commerce in Latin America; Hans D. Bartges, Senior Vice President, NMB Bank; Clark Bernard, Partner, Coopers & Lybrand; Dr. Jane Hughes, Adjunct Professor of Economics, Brandeis University; Robert McCormack, Vice President, Citibank, N.A.; James J. McDermott, Executive Vice President and Director of Research, Keefe, Bruyette & Woods.

"Brazil: The Challenge Ahead"

Paulo D. Villares (Chairperson), President, Industrias Villares, S.A.; Eugenio Emilio Staub, Director President, Industrias Gradiente Brasileiras, S.A.

"Policies for the 1990's"

Opening Address: William R. Rhodes, Group Executive & Chairman of the Restructuring Committee, Citibank, N.A.

Panel: Robert C. Helander (Chairperson), Partner, Jones, Day, Reavis & Pogue; Pedro-Pablo Kuczynski, Chairman, First Boston Corporation; Dr. Gert Rosenthal, Executive Secretary, United Nations Economic Commission for Latin America and the Caribbean; Senator Terry Sanford, Chairman, Subcommittee on International Economic Policy, Trade, Oceans, and Environment, Committee on Foreign Relations, U.S. Senate; Rita M. Rodríguez, Director, Export-Import Bank of the United States.

(left to right): Enrique V. Iglesias, President, Inter-American Development Bank; David Rockefeller, Chairman of the Board, Council of the Americas; George W. Landau, President, Council of the Americas

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Chiquita Brands Co.
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Colgate-Palmolive Company
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Coopers & Lybrand
CPC International Inc.
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Dole Fresh Fruit
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Freeport McMoRan
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W.R. Grace & Co.
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Irving Trust Company
ITT Corp.

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Jones Day Reavis & Pogue

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UpJohn International

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Xerox Corporation

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Young & Rubicam

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American Chamber of Commerce for Brazil — Sao Paulo
American Chamber of Commerce of Mexico, A.C.
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Bolivian-American Chamber of Commerce
Border Trade Alliance
Brazil-U.S. Business Council
Chicago Council on Foreign Relations
Colombian American Association, Inc.
Dade Manufacturers Council
Greater Miami Chamber of Commerce
Inter-American Action Committee
International Economic Development Group
Massachusetts Port of Authority
Mexico Business Council for International Affairs (CEMAI)
Mexico Institute of Financial Executives (IMEF)
North American-Chilean Chamber of Commerce
Pan American Society of San Francisco
San Diego Economic Development Corporation
U.S. Department of Commerce
World Trade Center of Miami
World Trade Center of New Orleans

FINANCIAL STATEMENTS

BALANCE SHEET
December 31, 1988

ASSETS	
Cash	$ 699,942
Money market funds	370,947
Accounts receivable	31,180
Prepaid expenses	2,338
Property and equipment, net of accumulated depreciation and amortization of $30,143	20,276
Total	$1,124,683
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	$ 33,263
Due to related organization	106,724
Deferred dues income	476,111
Total	616,098
Fund Balance	508,585
Total	$1,124,683

STATEMENT OF ACTIVITY AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 1988

REVENUE:	
Membership dues income	$1,489,242
Meetings and seminars	349,944
Other income	205,128
Total	2,044,314
EXPENSE:	
Program services	1,302,661
Membership	107,599
General and administrative	305,544
Total	1,715,804
Excess of Revenue over Expense	328,510
Fund Balance, Beginning of Year	180,075
Fund Balance, End of Year	$ 508,585

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 1988

	Program Services	Membership	General and Administrative	Total
Salaries, payroll taxes and employee benefits	$ 388,165	$ 56,221	$ 74,576	$ 518,962
Travel and meetings	291,014	3,587	38,909	333,510
Printing and publications	24,310	6,996	9,047	40,353
Rent and utilities	82,904	—	12,720	95,624
Professional dues and fees	31,925	3,332	39,741	74,998
Costs charged by the Society	433,780	34,246	102,737	570,763
Telephone, office and sundry	41,909	2,534	25,764	70,207
Depreciation and amortization	8,654	683	2,050	11,387
Total	$1,302,661	$ 107,599	$ 305,544	$1,715,804

See notes to financial statements.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Council of the Americas, Inc.

We have audited the balance sheet of Council of the Americas, Inc. as of December 31, 1988 and the related statements of activity and changes in fund balance and of functional expenses for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Council of the Americas, Inc. at December 31, 1988 and the results of its operations and the changes in fund balance for the year then ended, in conformity with generally accepted accounting principles.

Deloitte Haskins & Sells

New York, NY
April 7, 1989

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 1988

1. Description of Organization

The Council of the Americas, Inc. (the Council) was founded in 1958 as the United States Inter-American Council. It was reconstituted in 1965 as the Council for Latin America, Inc., and in 1970 its name was changed to Council of the Americas, Inc. The Council's purpose is to further understanding and acceptance of the role of private enterprise as a positive force for the development of the Americas. The Americas Society, Inc. (the Society) is a related organization.

2. Summary of Significant Accounting Policies

Basis of Reporting—The financial statements are prepared in accordance with generally accepted accounting principles.

Deferred Dues Income—Dues are recognized in income ratably over the period of membership.

Property and Equipment—Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from five to eight years.

Income Taxes—The Internal Revenue Service has classified The Council as tax exempt under Section 501(c)(6) of the Internal Revenue Code. Consequently no provision for income taxes is necessary.

3. Transactions with Related Organizations

The Council has an agreement with the Society under which they share certain costs. The agreement may be terminated by either party upon sixty days prior written notice. Costs charged by the Society under this agreement amounted to $570,763 for the year ended December 31, 1988. At December 31, 1988 the Council owed the Society $106,724.

4. Real Estate Taxes

The Tax Commission of the City of New York had, in 1982, revoked the tax-exempt status for real estate taxes for the Society and its related organizations, which were previously exempt, effective with the 1981/1982 tax year. The Society contested this revocation, and the tax exemption was reinstated for the 1984/1985 and subsequent tax years.

During 1988, the Society settled the open years by making a payment of $57,944, which was charged to reserves previously provided by the Society and the Council.

5. 401(k) Retirement Plan

The Council and the Society have a 401(k) retirement plan (the Plan) covering all employees. Total employer contributions made to the Plan for the year ended December 31, 1988 amounted to $76,887 of which $16,777 was contributed by the Council. At December 31, 1988 the assets of the Plan totalled $538,222, all of which are fully vested.

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Program Assistant

Sarah L.H. Schenck
Program Assistant

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Lowell R. Fleischer
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Fran Howard
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William E. Knepper
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CARIBBEAN/CENTRAL AMERICAN ACTION

Caribbean/Central American Action, founded ten years ago, pursues three sets of program objectives:

- stimulating trade and investment benefiting the region
- promoting constructive public policies, and
- strengthening private-sector institutions in the region.

During 1988, these objectives were pursued aggressively, continuing to take the organization in a number of new directions.

In the public policy arena, C/CAA strives to make relevant constituencies more aware of issues affecting the economic future of the Caribbean Basin and to shape and sustain specific policies benefiting the region. In 1988, C/CAA took the lead role in shaping and mobilizing support for legislation to improve the CBI, which passed the committee stage in the House and was reintroduced in 1989 with a greatly broadened base of support. "Friends of the Caribbean," formed by C/CAA in 1986, is now a group of over 70 Congressmen who are keenly interested in supporting Caribbean Basin initiatives.

The 1988 Miami Conference attracted some 2,000 participants, including a large contingent from Europe and Asia. Speakers included presidents and prime ministers from over half the region's countries.

C/CAA's business stimulation activities are designed to generate trade and investment opportunities that create jobs and increase foreign exchange earnings in Caribbean and Central American countries. In addition to bringing players together at the Miami Conference, C/CAA builds awareness of Caribbean business opportunities through its publications, by responding to requests for information, by organizing Caribbean Basin Pavilions at industry trade shows, and by developing task forces to tackle major issues in key sectors.

C/CAA works with other private-sector organizations in virtually every country in the Caribbean and Central America, as well as throughout Western Europe, Canada and Asia, creating a sound institutional foundation for its business promotion and policy activities.

C/CAA has become the leading player in the Caribbean Basin policy arena. In 1988 its efforts included Congressional advocacy on a range of specific legislation and a broader effort to develop constitutencies within Congress, political circles and the business community for laws and executive policies favorable to the Caribbean.

CONGRESSIONAL ADVOCACY

Convinced that the CBI's momentum can only be maintained if it is constantly expanded and improved, C/CAA took the initiative in pushing CBI reforms that by 1988 were largely incorporated in the Gibbons Bill. In testimony by Chairman Rockefeller and in ongoing outreach and staffwork, C/CAA strongly supported the key provisions of the Gibbons bill—extension of the original 12-year term, coverage of most presently excluded products, inclusion of textile products up to a tariff-free quota, non-cumulation for CBI countries in countervailing duty cases, and restoration of larger sugar quotas for Caribbean producers. C/CAA went on to urge that the bill recognize tourism as a major CBI development tool and restore full CBI status for Caribbean ethanol production.

The CBI-II bill got past hearings and mark-up but fell short of passage in either House, setting the stage for re-introduction in 1989. While pressing for positive improvements in U.S. policy toward the region, a top C/CAA task in 1988 was undoing damage already inflicted by the 11th-hour ethanol exclusion enacted in 1986, and making sure that broader pending legislation did not have a negative effect on the CBI effort:

- Omnibus Trade Bill—C/CAA played a key roll in insertion of language expressing a strong Congressional intent that these new trade restrictions not undermine U.S. national interests in the success of the CBI.
- Ethanol—C/CAA succeeded in having included in the Trade Bill language granting at least an interim reprieve to the companies whose existing operations were about to be closed down by the escalating feedstock requirements enacted in 1986.
- Textile Bill—C/CAA opposed this protectionist legislation which garnered enough votes to pass, but not to override President Reagan's veto.
- Omnibus Drug Bill—C/CAA consulted at the staff level in an effort to insure adequate flexibility in provisions potentially penalizing Caribbean Basin countries.
- Sugar—C/CAA tried unsuccessfully to win Administration implementation of the emergency Sugar Re-Export Program enacted at the end of 1987.
- Crockett Bill—In testimony to the Western Hemisphere Subcommittee, C/CAA urged integration of aid policy with the broader CBI development strategy emphasizing investment attraction and non-traditional export promotion. C/CAA also urged restoring aid amounts to peak CBI-era levels, earmarking if necessary, and removing per-capita GNP ceilings as applied to Caribbean countries.

During 1988 C/CAA also played a constructive leadership role in the precarious situation in Haiti, working closely with Trustees Sen. Bob Graham and Rep. Dante Fascell. C/CAA's aim was to forestall any move that would adversely affect investment and employment in Haiti, while supporting the desire of both the U.S. Congress and the Haitian business community to keep up pressure on the military regime to restore democracy, combat corruption and drug collusion, and insure respect for human rights. In two visits to Haiti and before and during the Miami Congress, C/CAA met with three successive Haiti governments to help make clear the concerns of the U.S. Congress and facilitate progress.

While issues like the trade bill, CBI-II, aid policy and Haiti dominated 1988, C/CAA stayed ahead of current headlines by tackling issues that were not on the legislative front-burner in 1988, but will be or should be soon:

- Section 936—Anticipating a reopening of 936 in light of budget pressures, C/CAA sought to protect existing 936 tax benefits by urging

Above, a C/CAA business delegation visited newly elected Jamaican Prime Minister Michael Manley (left) in early 1989. With him are Jamaica business leader and JAMPRO chairman Carlton Alexander (also a C/CAA trustee), Amb. Peter King of JAMPRO, and Peter Johnson and Fred Brooks of C/CAA. In 1988 C/CAA staff or trustees met with government and private-sector leaders in many of the Caribbean and Central American countries.

Congress to view all CBI investment by 936 companies as part of the fulfillment of Puerto Rico's broad CBI-936 initiative, while pressing Puerto Rico to expedite approval of projects and actual flow of 936 funds.

- Sugar—Anticipating the expiration of the Farm Bill in 1990, C/CAA urged Congress to use the intervening period to come up with a workable alternative to present sugar policy that takes CBI needs into account.
- 1992—C/CAA took the lead in calling for discussion and organizing forums to examine the impact of Europe's move to a unitary market in 1992 on the Eastern Caribbean's critical banana, sugar and rum industries.
- Export Administration Act—C/CAA worked with House Foreign Affairs Committee staff on language being developed for this bill, which, like the Farm Bill, will come up in 1990.

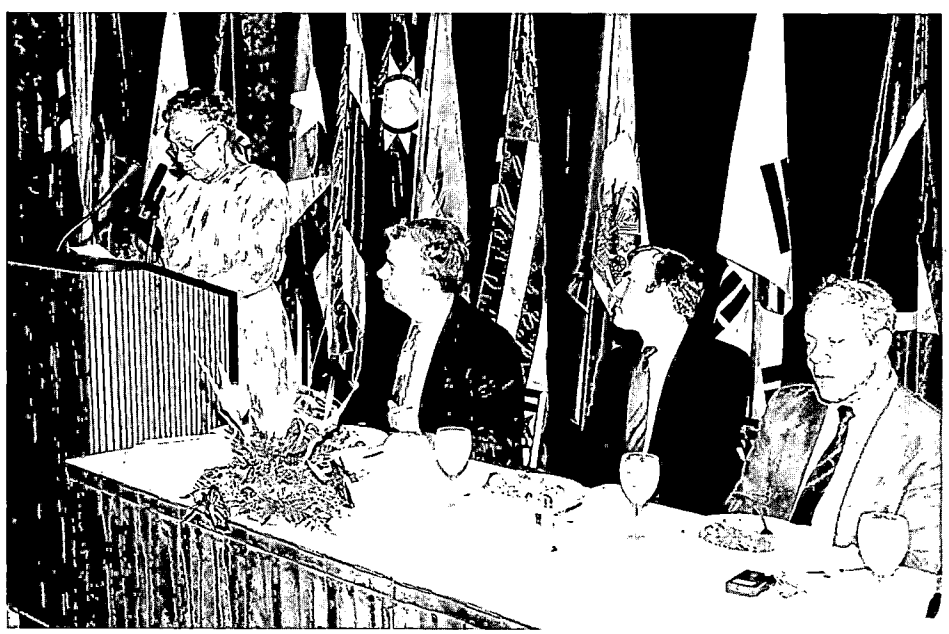
CONSTITUENCY BUILDING

In an effort to create an ongoing base of awareness and support for Caribbean Basin economic issues both in Congress and beyond, C/CAA has developed or cultivated a number of key constituencies. In 1988 C/CAA continued to work closely with the Congressional Friends of the Caribbean—a product of its earlier stimulation efforts—not just on immediate legislative advocacy issues but in developing a series of forums to help Members and staff explore Caribbean issues in depth. C/CAA collaborated with the Friends on a Congressional breakfast with C/CAA trustees in June, where Trinidadian Prime Minister Robinson was a speaker, and an April tourism breakfast at which Deputy Commerce Secretary Donna Tuttle and Aruban Prime Minister Eman spoke.

The CBI Embassy Group, made up of CBI-country diplomats in Washington originally brought together by C/CAA as part of the CBI-II effort, has become an energetic, self-directing body with significant policy impact. C/CAA works closely with the Embassy Group, which for two years has been meeting at least once a month, usually in C/CAA's conference room, to coordinate CBI-enhancement strategy, produce policy papers, and work together on other legislative issues.

Meanwhile, within the region, C/CAA has strongly supported the efforts of Muni Figueres and others to form an active working coalition between the Central American and island Caribbean governments and their respective private sectors. Finally, as the U.S. presidential campaign ran its course in 1988, C/CAA prepared and circulated a policy paper designed to command support from both Democratic and Republican Parties, developed close working links with both campaigns, and worked with officials of the Bush transition team to insure high profile for Caribbean Basin concerns.

Congressional participation was a key element in the 1988 Miami Conference. Above, C/CAA president Fred Brooks (second from left) presents Representatives Bill Frenzel, Frank Guarini and Charles Rangel a first copy of *Caribbean Basin Development—Challenges and Priorities for 1989*, a volume based on the Conference's seven "policy hearings."



Prime Minister Eugenia Charles of Dominica (at Miami Conference podium) exchanges messages via telephone hookup with President Reagan, as C/CAA president Fred Brooks, Assistant Secretary of State Elliott Abrams, and Prime Minister John Compton of St. Lucia listen.

PUBLIC POLICY FORUMS

The 1988 Miami Conference featured a major policy component, with participation by a bi-partisan U.S. Congressional delegation and representatives of the new Administration, as well as numerous heads of government from the region and top officials of European and Asian countries. A full day devoted to policy discussions included hearing-style sessions on seven key issues (textiles, agricultural issues, debt, narcotics, aid, 936, tourism) chaired by top Caribbean leaders, who then presented their recommendations in an open forum chaired by Rep. Dante Fascell and closed by Sen. Graham. Presidents Cerezo of Guatemala and Balaguer of the Dominican Republic, and Prime Ministers Compton, Esquivel, Charles, Sandiford, Robinson, Mitchell and Simmonds were among the speakers.

Earlier in the fall, C/CAA in cooperation with FEDEPRICAP sponsored a one-day conference in Guatemala on CBI and other U.S. trade policy issues.

COMMUNICATIONS

In addition to Congressional testimony, policy papers, and conference agendas, C/CAA sought to bring the CBI message to a broader public through its newsletter, CARIBBEAN ACTION, through by-lined articles in the *Miami Herald, Wall Street Journal,* and other major media, through a pre-Conference press release campaign, and in a new CBI message in C/CAA's display exhibit. C/CAA published a book in 1989 based on the 1988 Miami Conference policy hearings, with monographs on each issue by the respective chairman.

The practical edge to C/CAA's mission is helping Caribbean Basin countries attract U.S., Asian and European firms to trade, invest and create jobs. Continuing its policy of funneling resources into a limited number of high-target areas, C/CAA focused its 1988 business development efforts on *key sectors* (agribusiness, apparel, tourism) and areas where new business or policy developments offer *special promise* of new trade or investment resources for the Caribbean Basin (debt-equity conversion, ex-GSP migration, Asian investment, 936 twin planting, improving transportation services). Through its conferences, publications, and on-going response to business inquiries, C/CAA also seeks on a broader basis to build Caribbean awareness, confidence, and exposure among the U.S. and international business communities.

KEY SECTOR FOCUS

The agribusiness and apparel sectors were singled out for special attention throughout the year. In addition to initiatives in the policy arena, C/CAA organized an Apparel Advisory Group, participated in textile and agricultural trade shows, and highlighted these key sectors at the Miami Conference. In the second year of C/CAA's trade show participation, it organized CBI seminars and coordinated "Caribbean Pavilions"—clustered exhibits by Caribbean Basin countries—at the United Fresh Fruit and Vegetable Convention and the Bobbin Show. At the Miami Conference, special apparel and agribusiness components included whole-day "supertracks" (with workshops, and case studies, and sector-specific lunches and receptions) as well as Miami area field trips for Caribbean Basin business participants. AID as well as the City of Miami provided funding for the field trips, which took some 90 participants to port and custom facilities as well as sites of importing and distributing firms.

The tourism sector was also a major focus of C/CAA attention in 1988. In addition to initiatives in the policy arena, C/CAA concentrated on building relationships with leaders of tourism-related associations and corporations, encouraging Asian investors to consider CBI-country tourism, encouraging U.S. hotel operators to look at Section 936 financing, and reactivating C/CAA's tourism task force.

The Caribbean Basin/U.S. Trade Exposition gave Miami Conference participants an opportunity to make contacts and do business.

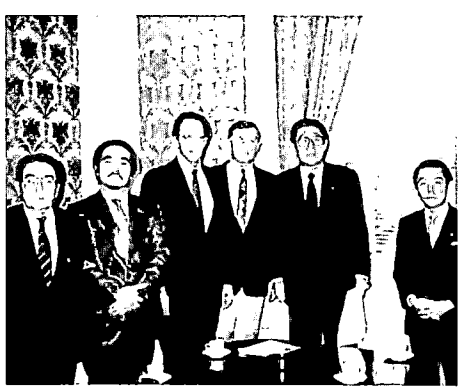
AREAS OF OPPORTUNITY

Besides the sector approach, C/CAA concentrated its resources on special areas where important progress might be made by seizing opportunities of removing obstacles:

- Debt-Equity Conversion. C/CAA has been in the forefront of efforts to explore debt-equity swaps as one answer to the debt crisis. In 1988, C/CAA, with the support of an AID grant, organized a debt-equity program in Honduras for Central American business leaders, and held debt-equity seminars in New York and Chicago in a 3-part U.S. series featuring presentations by Latin American governments and U.S. firms that have direct experience with them. A third seminar took place in Los Angeles in January 1989.

Since 1987, C/CAA has organized "Caribbean Pavilions" at the United Fresh Fruit and Vegetable Association convention and the Bobbin Show. Above, at the 1989 UFFVA convention, Patrick Cozier of the Barbados Manufacturers Association (center) shows Barbadian products to Derryck Cox of JAMPRO and Corinna Arnold of C/CAA.

- GSP Graduation. Long before the approaching loss of GSP status by Hong Kong, Taiwan, Korea and Singapore became a current news item, C/CAA identified this shift in comparative overseas production economies as a potentially major opening of opportunity for CBI countries. To help the region capitalize on this potential, C/CAA stimulated an AID-funded study of high-prospect companies, encouraged the Miami business community to sell the concept of CBI-Florida production sharing to these companies, organized conference components on the issue, and published a *Miami Herald* op-ed piece that drew widespread interest.
- Asian Trade/Investment. Recognizing that Japan and other East Asian nations are a prime potential source of export and investment dollars for the Caribbean Basin, C/CAA organized a U.S. Government CBI briefing for Asian business executives, began discussions to create an Asian Task Force in Washington, and met with Japanese government and business leaders during an October visit to Tokyo to help them plan a 1990 Asian Conference on the Caribbean.



In October 1988, C/CAA executive director Peter Johnson (center) and Asian Program director Katsuyuki Imamura (second from left) met in Tokyo with Japanese parliamentary leaders to plan an upcoming Tokyo conference on the Caribbean Basin.

- Section 936. The disposition of 936 companies to seek out CBI opportunities, combined with the availability of 936 financial resources, together represent one of the largest potential sources of new investment in the region. In addition to initiatives in the policy arena, C/CAA in 1988 helped some of the leading 936 companies launch a plan to create a large-scale private-sector financial mechanism, funded by 936 companies for lending to CBI ventures, which would complement Puerto Rico's official 936 CBI program.
- Transportation. Seeing transportation problems as a major impediment to CBI trade and investment in many sectors, C/CAA has singled out this area for continuing involvement in a problem-solving mode. In 1988 this included efforts to resuscitate C/CAA's Transportation Task Force, cooperation with FEDEPRICAP in its transportation studies and projects, and case-by-case problem-solving involving individual companies.

These highly focused efforts were backed up by across-the-board business outreach activities including C/CAA business publications (the annual *Caribbean and Central American Databook,* country profile booklets, and the "industry feature" in CARIBBEAN ACTION) and a strong business element in the Miami Conference. The latter featured a return of the full Business Exposition—including country exhibits, business suites, and exhibits of service companies and agencies—and major program sessions on electronics, light manufacturing, micro-enterprise, telecommunications and transportation, in addition to the targeted sector tracks. An extensive pre-Conference marketing effort, supported by AID, brought an unprecedented number of business participants to the 1988 Conference.

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COUNCIL OF THE AMERICAS

AMERICAS SOCIETY

The Americas Society, founded in 1965, is the only national not-for-profit institution committed exclusively to educating United States citizens about all facets of their Western Hemisphere neighbors. Its purpose is to foster an understanding in the United States of the contemporary political, social and economic issues confronting Latin America, the Caribbean and Canada and to increase public awareness and appreciation of the rich cultural heritage of our neighbors and the importance of the Inter-American relationship. The Society strives to achieve its mission through a variety of programs offered by three major divisions: Latin American Affairs, Canadian Affairs and Cultural Affairs.

The Council of the Americas, a U.S. business association of multinational corporations with interests in Latin America and the Caribbean, is an affiliate of the Americas Society.

As a not-for-profit institution, the Society receives funding from a number of sources including corporations, individuals, federal and state agencies (National Endowment for the Arts, New York State Council on the Arts) and foundations. Its annual budget is approximately $2 million.

AMERICAS SOCIETY

Latin American Affairs

The Latin American Affairs Department is a major forum for the discussion of United States-Latin American policy issues, including the future of democracy, the role of the military, economic development strategies, regional conflict and cooperation, the environment, drugs and population. These topics are addressed in lectures by distinguished speakers and in conferences, study groups, special meetings for representatives of the media and publications aimed at educating and informing the public. High priority is given to providing information for the policy-making process toward Latin America and to developing channels of communication with governments and private groups and institutions in the region.

AMERICAS SOCIETY

Canadian Affairs

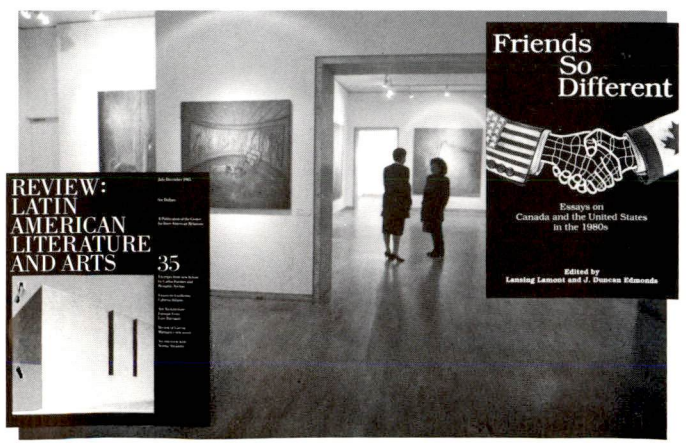
The goal of the Canadian Affairs Department is to foster greater understanding between Canadians and Americans. Canadian Affairs examines not only contrasting approaches by the two countries to such topical issues as health care, trade and investment, the environment, regional security and economic and energy development. Attention is paid to the fundamental differences between the two countries in their broader cultural, economic and political perspectives. The program, the leading one of its kind, examines the role of Canada in North America and the hemisphere and its contribution to economic progress and social and political stability in the region. It does this through a rigorous schedule of more than two-dozen events yearly: seminars, briefings, roundtable lectures and discussions, and an annual conference that draws wide media coverage.

AMERICAS SOCIETY

Cultural Affairs

Through its exhibition program, the Visual Arts Department exposes the U.S. public to a wide variety of cultural traditions in the Americas. Since 1967, the Americas Society Art Gallery has built a national and international reputation for presenting the outstanding artistic achievements of the Western Hemisphere. In conjunction with each exhibition, its education program organizes lectures, special outreach activities and gallery tours for public schools and community groups.

The Literature Department actively promotes awareness of Latin American literature in English translation through public programs featuring Latin American writers and scholars, major support for translations including Gabriel Garcia Marquez's *One Hundred Years of Solitude* and through its critically acclaimed biannual journal, *Review: Latin American Literature and Arts.*



AMERICAS SOCIETY

The historic neo-Federal townhouse at 680 Park Avenue is the home of the Americas Society, Inc. The building had been the residence of Percy R. Pyne, a prominent New York financier, and then housed the Soviet Mission to the United Nations from 1947 to 1965. In 1965, the Marquesa de Cuevas purchased the elegant building to save it from demolition. She donated it to the Americas Society, then called the Center for Inter-American Relations, in 1966.

McKim, Mead & White designed the classic structure in 1909, and, in 1966, the architectural firm of Walker O. Cain & Associates directed restoration of the interior in the style of the original building.

In 1970, the building was designated a landmark by the City of New York.

Americas Society
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Council of the Americas

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Council of the Americas

An Affiliate of the Americas Society, Inc.

The Council of the Americas is a U.S. business association of companies with interests in Latin America and the Caribbean. Since its founding in 1965, the Council has earned a reputation among hemispheric and U.S. officials as the most prestigious and credible private-sector organization reflecting U.S. business interests in the region.

"At Chase we find the Council to be important in providing a forum with key leaders and for sharing views with other major companies. It has also been helpful to me personally to meet with the leadership of the Council prior to some of my trips into the region."

Willard C. Butcher
Chairman and Chief Executive Officer
The Chase Manhattan Corporation

Membership

The Council of the Americas includes as members nearly 200 companies, largely Fortune 500 and Forbes 500 firms, drawn from all sectors of business. Membership distribution spans the continental U.S.

Mission

The mission of the Council of the Americas is to protect and advance U.S. investment's interests in Latin America and the Caribbean. The Council seeks to improve the business environment in the region, ensure the viability of commercial operations, and support the role of the private sector as an engine for national development.

Council of the Americas: Forum for Discussion

The Council is a forum for three types of discussion, all focusing on U.S. business' operations in Latin America and the Caribbean.

Business Discussions with Latin American Officials

Council member executives meet with Latin American officials—heads of state, principal ministers, agency heads—who determine policies affecting foreign investment, trade and finance. Council members also meet with officials of international financial institutions, like the International Monetary Fund, the World Bank, and the Inter-American Development Bank.

"[Council] programs have facilitated constructive interchanges between the private and public sectors, particularly on some very sensitive and controversial issues. We plan to continue to actively participate with the Council of the Americas...to improve understanding of the role that private enterprise can play in the economic growth and development within the hemisphere."

Sidney Taurel
President
Eli Lilly International Corporation

Business Discussions with U.S. Officials

Council member executives meet with U.S. government officials regarding U.S. policy towards Latin America and the Caribbean and the business implications of those policies. Through close contact with the executive and legislative branches of the government in Washington, the Council ensures that the viewpoints of U.S. business leaders are communicated to government policy-makers.

"Most companies find that their contacts with host governments and U.S. officials tend to be one-on-one discussions of narrowly defined topics. The wide-ranging discussions organized by the Council to involve government policy makers and a cross-section of the multinational private sector are invaluable in putting individual company concerns in perspective."

Joseph K. Linman
Staff Director, Latin American Automotive Operations
Ford Motor Company

Business-to-Business Exchange

The Council's member executives bring their operating concerns to roundtable discussions on specific problems affecting their businesses on a country- or sector-wide basis. The key vehicle for private sector discussions on Mexico is the U.S. Council of the Mexico-U.S. Business Committee, the American steering group of a binational private sector organization sponsored by the Council of the Americas, the American Chamber of Commerce of Mexico, and the U.S. Chamber of Commerce.

"The Council is a dynamic vehicle for exchanging views with senior executives representing every major industry with vital interests in Latin America. Council programs deal with substantive issues in a forthright and productive manner and provide direct access to opinion leaders in both the public and private sectors. I find this to be a unique and valuable advantage over other business associations."

Brower A. Merriam
President, Pfizer Latin America and Southeast Asia
Pfizer, Inc.

Council of the Americas programs are, with rare exception, off-the-record, and many Council programs are open only to members.

Publications

Ten times annually, the Council publishes its *Washington Report* on U.S. and international policy issues affecting investment in the region. The Council produces periodic reports of member surveys on key issues affecting U.S. investment in and trade with Latin America. Council activities are detailed in its annual report, and in the *Update*, the quarterly newsletter of the Americas Society, Inc.

Benefits of Membership

The Council of the Americas

- Assists in problem-solving by providing access to Latin American and U.S. government officials for discussion of company-specific issues

- Puts your company in touch with a network of executives from leading American companies who have accumulated long experience and broad knowledge in Latin America and the Caribbean

  "Because of the multilocal nature of the soft-drink franchise business and because of its local bottler network, The Coca-Cola Company is exceptionally well-connected with the host governments of the various countries in which we operate. However, I have found that membership in the Council of the Americas magnificently supplements our understanding of the business environments of the region, through exposure to different businesses and industries who share our interests. I know of no other organization which provides so valuable a service to U.S. companies operating in Latin America."

  H.T. Circuit, Jr.
  President, Latin America
  The Coca-Cola Company

- Offers new insights on doing business in Latin America through programs focusing on operating environments and tactics

  "IBM's participation in the Council of the Americas has proved invaluable in keeping us abreast of the political and economic environments in Latin America—information any multinational must have to operate successfully in the world marketplace."

  Paul J. Kofmehl
  IBM Vice President and Group Executive
  IBM World Trade Americas Group

- Provides corporate perspectives on the importance of Latin American operations in companies' world-wide strategic and tactical decision-making

  "We have found active participation in Council of the Americas' programs and activities to be a valuable input to the development of business strategy. Contacts with key decisionmakers, facilitated by the Council, have enabled us to better understand the environment in which we do business in Latin America."

  Robert E. Wilhelm
  Executive Vice President
  Exxon Company International

- Provides opportunities for learning from business colleagues how to operate in Latin American markets

  "With its numerous and well-diversified meetings, the Council continues, more than ever in this difficult period, to provide our Bank with the opportunity to test our Latin American experience with a variety of experts from the United States and Latin America in open exchange of ideas. This opportunity is practically unique."

  Adrian C. R. Verwey
  Executive Vice President
  American Express Bank

- Offers heavily discounted member rates for programs, invitations to members-only programs and special events, research and briefings tailored to companies' requests, complimentary copies of Council publications, and invitations to many Americas Society events.

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Annual dues are tax deductible as an ordinary business expense under Section 501(c) (6) of the Internal Revenue Code. For further information about joining, please contact Christine A. Craven, Director, Marketing and Membership, Council of the Americas, 680 Park Avenue, New York, New York 10021, telephone: 212/628-3200.

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- Specialized members-only briefings by experts on Latin America, Canada and the Caribbean.

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The Americas Society offers its membership a unique opportunity to participate in a wide range of innovative programs and activities while enjoying many special benefits.

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- Admission to all of the Americas Society art exhibitions.
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- Complimentary subscriptions to *Review*, the Americas Society's informative periodical on literature and the arts in the Western Hemisphere, as well as our bi-monthly newsletter, the *Americas Society Update*.
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COUNCIL OF THE AMERICAS

COPING WITH CRISIS:
U. S. INVESTMENT AND LATIN AMERICA'S CONTINUING ECONOMIC PROBLEMS

A Council of the Americas Survey
of Company Operations, Policy Reforms
and Investment Prospects
in Twelve Latin American Countries

COUNCIL OF THE AMERICAS, JANUARY 1987
(C) Council of the Americas
Second Printing, Corrected

This report was prepared by the Council of the Americas, a business association of approximately 190 U.S. companies with interests in Latin America and the Caribbean. Since its founding in 1958, the Council has earned a reputation as the most authoritative U.S. private sector organization reflecting international business interests in Latin America. The Council's activities bring its corporate member executives together with Latin American and U.S. Government officials and with members of the Latin American private sector to enhance the understanding and acceptance of the role that U.S. private enterprise plays in the region's economic development. Council of the Americas headquarters offices are located at 680 Park Avenue, New York, New York 10021. Washington offices are located at 1625 K Street N.W., Washington, D.C. 20006.

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COUNCIL OF THE AMERICAS
1986 MEMBERSHIP SURVEY

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A Council of the Americas Survey of Company Operations, Policy Reforms and Investment Prospects in Twelve Latin American Countries

EXECUTIVE SUMMARY

Respondents to the Council of the Americas 1986 survey appear to be coping with the continuing economic crisis in Latin America, but are not overly optimistic about the near- or mid-term. Companies do not appear to have plans for investments of sufficient magnitude to affect near-term economic growth in the region. However, they view the larger economies more favorably for long range planning and domestic market potential. A pessimistic assessment of the economic climate in most countries remains the key constraint on corporate planning.

Impact of the Continuing Economic Crisis on Operations

Of 307 operations reporting, **39 percent report "no change"** in operation size between 1983 and 1986. **35 percent report some expansion**, mostly slight, while **26 percent reported contraction** of operations, also mostly slight. Expansions tended to concentrate in Argentina, Brazil and Mexico. Looking to the next 24 months, companies see little change in operations, except for possible expansions in Brazil and Mexico. A majority of companies remained somewhat profitable during the 1980s, but nearly **one-quarter of the responding companies have been unprofitable** since 1981. Companies reporting profitable operations in Brazil, Colombia, Venezuela, Argentina and Chile showed improving profitability trends while in Mexico, Ecuador and Peru over half of respondents showed profitability declining. **Dividend remittances** have been reported by only slightly over half of the respondents since 1981 and those remittances have been increasing slowly due to the constraints imposed by low profitability of operations.

Foreign exchange for company dividends, royalties and debt service and trade payments is **more readily available** than three years ago but remains a constraint on business. Parent company financial support to Latin American affiliates is at the same or higher levels than the unusually high 1982/1983 levels for 70 percent of cases reporting. About the same number of companies find parent company financial support down since 1983/1983 as

find parent support increased. **Thirty percent of companies** report having **reached their limit of willingness to continue financing** operations in Latin America. Nevertheless, affiliates continue to depend importantly on parents rather than on bank sources for dollar loans. Trade financing with affiliates is back to largely unsecured (pre-crisis) terms while trade with non-affiliates still tends toward secured transactions.

Only a small portion of production is for export, though there has been a nominal shift toward greater export production over the last five years. Companies report **limited willingness to increase export production** in the future citing "more attractive sites," "economics" and high raw materials costs as reasons for lack of enthusiasm.

The Economic and Business Environment in Latin America

Only Africa, Eastern Europe, the Indian subcontinent and the Peoples Republic of China ranked below Latin America in a comparison of investment climates. Of Latin American countries, however, **Brazil clearly offered the "most attractive" investment climate** followed at a distance by Mexico. Peru was the least attractive.

Companies report a mixed assessment of the near term business outlook in Latin America, but expect improvements, some dramatic, in the future. Compared to 1983/84, companies view the **general economic environment** today as "much better" in Brazil, "better" in Argentina and "worse" in Mexico, Peru and Venezuela. Most companies regard the "rules of the game" as neutral toward foreign investment and fairly applied, especially in Colombia, Chile and Ecuador. However, a majority of respondents felt that rules are applied arbitrarily in Mexico and Venezuela, with mixed reporting for Argentina, Brazil and Peru. **Market reservation, lack of intellectual property protection, percent ownership limits and technology transfer limits** were mentioned as trade-related investment rules that have a negative impact on business by over half of all respondents in Brazil, Colombia, Mexico and Peru. In General, companies find treatment of foreign investment no better today than before 1982.

Responses indicate that the macro-economic considerations outweigh rules of the game as factors in planning. Companies can adjust to specific rules as long as they are not constantly being changed. However, improvements in either area could have a substantial impact on investment.

Policy Reform Prospects

There is virtually no interest in purchasing State-owned enterprises. Very few companies have purchased discounted debt to acquire local currency or engaged in debt-to-equity conversions.

By and large, **the role of the State is seen as unchanged or even more interventionist** than in the early 1980s. Perceptions were divided on whether structural reforms are currently being implemented, but, where they have occurred, respondents indicate that they have affected corporate planning. **Reducing the fiscal deficit, stimulating private investment and removing import barriers** were mentioned as the most important reform goals. Companies are evenly divided in their support for new lending (Baker Plan) vs. gradual write-downs and interest rate relief (Bradley Plan) as solutions to the debt crisis. There was **little support for a general write-down of the debt**, nor for major new capital infusions. Respondents indicate that new lending should be targeted first at the local private sector, followed by infrastructure financing and trade financing.

Other Policy Issues

Respondents do not view the use of mixed credits by competitors as a major obstacle; nor do many practice countertrade, though government pressure has caused some to do so. Non-commercial risk insurance is not important to investment decisions for responding companies. A majority of respondents perceive the U.S. Government and U.S. embassies abroad as "not involved" in assisting U.S. companies in Latin America. Finally, the informal sector is seen as large and growing by a majority of respondents, but most say it has no impact on operations except in Peru and Colombia.

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COUNCIL OF THE AMERICAS
1986 MEMBERSHIP SURVEY

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Part I. Introduction

The Council of the Americas is a business association of approximately 190 U.S. companies with interests in Latin America and the Caribbean. Since its founding in 1958, the Council has earned a reputation as the most credible U.S. private sector organization reflecting international business interests in Latin America. The Council's activities bring its corporate member executives together with Latin American and U.S. government officials and with members of the Latin American private sector to enhance the understanding and acceptance of the role that U.S. private enterprise plays in Latin America's economic development.

Council of the Americas member corporations are engaged in a variety of activities in Latin America, including agribusiness, extractive operations, industry, manufacturing, sales and product service, service (eg., accounting, consulting and insurance), banking and other activities. About 15 percent of the membership operates in each sector, with a slightly higher representation in sales and product service and manufacturing.

Background and Universe of Council Surveys

To provide information on the impact of the Latin American debt crisis on U.S. business operations in the region, the Council conducted surveys of its membership in 1983 and 1984. Those surveys reported the impact of the debt crisis on member operations in Argentina, Brazil, Mexico and Venezuela. In 1983, at the request of the Bipartisan National Commission on Central America, the Council conducted a survey of its members operating in Central America. In January 1986, the Council conducted a limited survey of its members operating in the Andean countries.

The present survey goes beyond previous surveys to assess not only the impact of the continuing economic crisis in Latin America on member operations, but also to explore attitudes toward and the impact of policy reforms being undertaken and proposed for the region. In addition, this survey asked member companies to report on their activities in each of 12 Latin American countries, the four major economies -- Argentina, Brazil, Mexico and Venezuela --, four Andean countries -- Colombia, Ecuador, Peru and Chile --, and four Central American countries -- Guatemala, El Salvador, Honduras and Costa Rica.

The 1986 survey was administered shortly after mid-year 1986 to all non-bank Council members, or approximately 150 companies. The Council received responses from 50 members who reported on over 300 operations (See Table 3) and over 500 sector involvements (See Table 2) in the twelve countries. The responses represent a slight bias in favor of Council members operating in the "manufacturing" and "sales and product service" areas in Latin America. A number of members, especially those in the service and miscellaneous categories (about 20 percent of Council membership) declined to respond because their operations were conducted entirely out of the United States. For the most part, the survey questionnaire was completed by principal officers of Latin American operations operating out of corporate headquarters. Their responses were received and compiled by the independent accounting firm, Arthur Andersen & Co., which holds the identity of the respondents confidential. The Council is grateful for Arthur Andersen & Co.'s continuing support for its survey efforts.

Seven Council member executives served on the Survey Task Team reviewing the questions and assessing the responses. This report reflects the Survey Task Team's interpretations of the responses from the member companies.

Quantitative data in this report are current as of mid-1986 with estimates for year-end 1986 and future performance. Not all companies answered all questions and the number of operations reporting is not constant over the period surveyed. Respondents to the

present survey did not necessarily respond to previous Council surveys, though the Council believes that the surveys are generally comparable.

Profile of 1986 Corporate Respondents

The United States Department of Commerce reports that U.S. foreign affiliates operating in Latin America held approximately $154 billion in assets in 1983 and $163 billion in assets in 1984 (U.S. Department of Commerce, Survey of Current Business, August 1986). Sales of those foreign affiliates totaled $102 billion in 1983 and $99 billion in 1984. Respondents to the present survey reported total assets and sales equal to about ten percent of the Department of Commerce total. Thirty-five of the companies providing complete data in the Council survey report that Latin America represented about 9.8 percent of their companies' worldwide assets in 1985, and 5.2 percent of worldwide sales.

Thirty companies provided complete data on worldwide and Latin American sales for the three year period 1984 to 1986. Estimated figures were requested for 1986. For these reporting companies, Latin American sales accounted for approximately 5.3 percent of worldwide sales in each of the years reported in the survey. In the similar but not directly comparable survey done by the Council of the Americas in 1984, Latin American sales represented about 7.5 percent of worldwide sales in 1981 and were projected to fall to below four percent of worldwide sales in 1984. Corporate commentators worried that Latin American sales were becoming too small to warrant the detailed attention of senior corporate management.

In the present survey, the companies report approximately 12 percent growth in worldwide sales between 1984 and year end 1986. Companies estimate about nine percent growth in sales in Latin America for the same period.

Table 1, line 1, reports total revenue (sales in Latin America by affiliates, plus parent sales to affiliates, royalty and other income) of Latin American affiliates for reporting companies for 1985, the year for which the most complete data were reported. Line 2 gives the average revenue values for the 1984-1986 period. The three year average value smooths some rather sharp variations in the annual figures reported in the raw data. The Table also includes data on expected revenue growth for these respondents and compares that growth with expected gross domestic product (GDP) growth for 1986 in each of the countries.

TABLE 1
REVENUE AND EXPECTED GROWTH IN REVENUE

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Hond'as
1985 Revenue ($ millions)	$1149	$3228	$2584	$691	$207	$550	$83	$1079	$131	$19	$103	$21
Average Revenue, 1984-1986	$1362	$3290	$2290	$682	$224	$589	$88	$1105	$140	$19	$99	$21
Number Reporting, 1985	(27)	(32)	(28)	(23)	(19)	(22)	(14)	(18)	(11)	(6)	(11)	(9)
Estimated Growth in Revenue, 1985 to 1986 (percent)	+23%	+9%	-10.6%	+1%	+11.6%	+21%	+8.4%	-1%	+21%	-10.5%	+9%	0%
Estimated GDP Growth, 1985 to 1986 (percent)	+5%	+9.9%	-4%	+0.8%	+5%	+4%	+1%	+7%	+1.9%	+2.5%	+0.2%	+2.4%

In aggregate, all responding companies report approximately $20 billion in Latin American revenue in 1985, and $19 billion average aggregate Latin American revenue for the three-year period. On examination of the raw data, the companies report rising business revenue in most countries over the three-year period, including a fairly sharp increase in estimated 1986 business. Exceptions are an expected sharp decline in revenue in Mexico in 1986 and a drop in revenues in three Central American countries, El Salvador, Guatemala and Honduras.

Sectors of Operation

Table 2 reports the sector or sectors in which the companies primarily operate in each country. Most companies operate in more than one sector and most respondents indicated more than one sector of operation. The majority of companies report activities in the Sales and Product Service sector (eg., wholesale trade, consumer products, heavy

equipment sales, etc.) and in Manufacturing. Agribusiness, Extractive and Service Industry (eg., engineering, consulting, accounting and legal services) representation is less strong. Manufacturing and Sales and Product Service represent about 20 percent of the survey universe and 30 percent of the survey responses. Banks and financial intermediaries were not included in the survey.

The percentage distribution of activities among countries should be noted. In three of the four major economies -- Argentina, Mexico and Venezuela -- at least one-third of total reporting company operations are in Sales and Product Service and, in Argentina and Venezuela, about one-third of operations are also in Manufacturing. In Mexico and Brazil, the manufacturing share of activities is about 40 percent. With the exception of Colombia and, possibly, Guatemala, over 50 percent of the reported operations are in Sales and Product Service in all of the other countries.

TABLE 2
MAJOR SECTORS OF OPERATION OF REPORTING COMPANIES
Percentage Figures
(Number of Companies Reporting in Parentheses)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Agribusiness	14 (8)	15 (10)	13 (8)	15 (8)	7 (3)	13 (6)	5 (2)	10 (4)	10 (3)	9 (2)	16 (5)	18 (4)
Extractive	11 (6)	7 (5)	6 (4)	5 (3)	7 (3)	11 (5)	8 (3)	13 (5)	3 (1)	-	6 (2)	-
Manufacturing	32 (18)	41 (28)	41 (26)	35 (19)	23 (10)	29 (13)	17 (7)	10 (4)	21 (6)	23 (5)	22 (7)	18 (4)
Sales and Product Service	33 (19)	28 (19)	33 (21)	38 (21)	49 (21)	36 (16)	57 (23)	55 (22)	59 (17)	68 (15)	47 (15)	59 (13)
Service Industry	7 (4)	6 (4)	6 (4)	5 (3)	9 (4)	9 (4)	8 (3)	10 (4)	3 (1)	-	9 (3)	4 (1)
Other	3 (2)	3 (2)	2 (1)	2 (1)	5 (2)	2 (1)	5 (2)	2 (1)	3 (1)	-	-	-
Number of Operations	57	68	64	55	43	45	40	40	29	22	32	22

Structure of Equity Investment

Companies were asked to indicate whether they had equity investment in the countries, its age, and the nature of its ownership. The responses reported in Table 3 indicate that the strong majority of reporting companies had equity investment in the various countries and, in more than half of the cases, the initial investment was made prior to 1960. A high proportion of the reported equity investment is 100% U.S.-owned. Mexico is a singular exception to this pattern with 51 percent of respondents reporting 100 percent U.S. ownership and 37 percent reporting minority U.S. owned joint ventures. Members of the Survey Task Team observed that the pattern in Mexico is a reflection of variations in Mexico's foreign investment rules.

TABLE 3
STRUCTURE OF EQUITY INVESTMENT IN LATIN AMERICA

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Number of Operations Reporting	36	42	39	37	32	31	27	29	22	20	23	21
Number with Equity Investment	29	39	35	27	20	23	16	17	10	6	13	8
Initial Investment Made Prior to 1960	25	25	27	21	6	14	5	9	2	3	4	4
Equity Investment is 100% U.S.-owned (%)	24(83)	33(85)	18(51)	19(70)	16(80)	18(78)	12(75)	12(71)	10(<100)	4(66)	13(<100)	7 (87)
Majority U.S.-owned	3	2	4	4	4	2	2	4	1	1	0	1
Minority U.S.-owned	2	4	13	5	1	4	1	2	-	1	1	1

PART II. IMPACT OF THE CONTINUING ECONOMIC CRISIS ON OPERATIONS

Expansion and Contraction of Operations Since 1983

Companies were asked to report how their operations had changed overall in each country since 1983, a low point in Latin American economic performance because of the 1981-82 global recession and the deepening impact of the debt crisis. Table 4 indicates that between 1983 and 1986 operations grew only slightly more than they shrank (a ratio of about 5:4). Nine operations closed down, while eight opened (four in Central America, three in Ecuador and one in Brazil).

TABLE 4
EXPANSIONS, CUTBACKS AND CLOSING OF OPERATIONS IN LATIN AMERICA
(Number of Companies Responding)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Opened or Expanded Operations	13	23	20	6	10	10	6	4	5	1	5	4
No Change in Operations	9	9	9	14	8	12	12	9	11	6	12	8
Cut Back or Closed Down	13	10	11	12	5	7	6	12	1	1	3	0
Number of Companies	35	42	40	32	23	29	24	25	17	8	20	12

The questionnaire asked respondents whether they expanded or cut back operations "a lot" or "a little". Table 4 aggregates "openings" and "expansions" into a single category and "close downs" and "cut Backs" into another. The vast majority of companies reporting expansions indicated that they had expanded "a little." A majority (57 percent) of respondents reporting "cut backs" indicated that they cut back "a little," but 43 percent reported cutting back "a lot". Examination of the raw data reveals that 41 operations cut back a little while 80 expanded a little; 31 cut back a lot and 19 expanded a lot. At the same time, and more importantly, perhaps, respondents reported that 119 operations, or 39 percent of operations reporting, remained unchanged over the four year period. The Survey Task Team noted that since the base year (1983) was a negative one, the "no change" response was worrisome. Despite overall improvement in Latin American economic performance since 1983, multinational corporations (MNC) operations have not seen improvements.

Companies reported that "improving local market demand" and "normal growth of business" were the principal reasons for expansions. In Brazil "new product success" was a frequent response. Lower production costs were mentioned as a reason for opening or expanding in Brazil and Mexico, and "improved political stability" was mentioned by several respondents for Brazil. "Local economic recession" and "depressed product demand" were mentioned as reasons for cutting back or closing down. "Political instability" was raised in the case of Peru as a reason for cutting back.

The Survey Task Team noted that, as would be expected in a sluggish economy, macroeconomic factors dominated the responses while issues like performance requirements were mentioned less frequently and only in Brazil, Mexico and Venezuela. The Task Team also observed that the "little" changes in operations may be attributable to reinvestment of local currencies, or bottle necks in operations, as well as normal response to recovery in the case of "little" expansions. The Task Team also emphasized that the majority of operations reported "no change". Since business in 1983 was not good for most companies, "no change" represents a continuation of relatively bleak performance. Most operations do not appear to have improved their situations. Argentina, Brazil and Mexico all report expansions about equal to "no change" and "cut back" responses. Central American countries by and large report "no change."

Anticipated Expansions/Contractions

TABLE 5
EXPANSIONS/CONTRACTIONS
ANTICIPATED IN THE NEXT 24 MONTHS
(Number of Companies Responding)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Expect to Open or Expand	12	25	19	10	9	14	6	5	3	1	3	2
Expect No Change	17	11	14	15	13	10	12	17	12	6	11	9
Expect to Cut Back or Close	2	3	2	3	0	1	2	1	0	0	1	0
Operations Reporting	31	39	35	28	22	25	20	23	15	7	15	11

Over the next 24 months, reporting companies by and large anticipate no change in their local operations. Examination of the raw data reveals that where change is expected, companies expect to expand "a little". Only in Brazil does the majority of respondents expect to expand "a lot". Four new operations are expected, one each in Argentina, Brazil, Chile and Peru. One operation is expected to close, in Brazil.

On balance, most companies expect "no change" in their operations in Latin America over the next 24 months. Expectations for expansion outnumber expectations of no change in Brazil (by more than 2:1), Mexico and Colombia. "Improving local market demand" and "normal growth of business" were cited as reasons for anticipated expansions in the region. Several respondents mentioned "positioning for the long term" in Brazil and Mexico. "New product success" was given as another frequent reason for possible future expansion or opening.

Companies did not respond in detail with reasons for cut backs or close downs. "Overvalued currency," "local economic recession" and, for Brazil, "price controls," were given as reasons for cutting back or closing down.

Profit Trends of Latin American Operations

In each of its surveys the Council of the Americas has sought to assess the impact of economic changes in Latin America on the profitability of U.S. company operations there. It is felt that poor profit performance has contributed fundamentally to the widespread perception that business is not doing well in Latin America. The 1986 survey asked companies to characterize local affiliates' profitability (expressed in dollars, as reported by local affiliates in local books) over the years. Respondents were asked to indicate whether their local affiliates generated a profit in each year since 1981, and to indicate whether profitability, if any, was "better", "the same as" or "worse than" in years prior to the recent economic crisis. The responses to the question are presented in Figure 1.

The responses suggest that most companies remained somewhat profitable during the 1980s. With the exception of Costa Rica, which was already experiencing economic difficulties in 1981, three-fourths of companies reporting in each country indicate profitability in 1981. At the same time, nearly a quarter of companies operating in many countries, notably Brazil and the Andean countries, were not profitable in 1981. Throughout the region, a number of companies report that the margin of profitability has declined since the 1981 base year. The trend of profitability in Mexico, Venezuela until 1986, Ecuador, and Peru is particularly negative. In each country, an equal or larger percent of responding companies report profitability to be no better than or worse than in 1981, and the pattern is fairly consistent over the five year reporting period. Companies operating in Central America tended to report profitability. It can be speculated that, since the Central American region was already experiencing serious economic trouble by the late 1970s, many companies had already adjusted their operations to that environment.

The Survey Task Team observed that the picture emerging from the data is not particularly encouraging. On the one hand, the Task Team recalled that operations in Latin America evidenced "profit difficulties" well before the impact of the debt crisis. Situations in which 20 to 25 percent of operations do not show a profit are not likely to be encouraging to new investors. Moreover, the reporting of profitability or lack of profitability does not speak to the question of magnitude of profits. Members of the Survey Task Team observed that local affiliates seek to remain profitable and will make adjustments in operations to accomplish this. Those adjustments may include reducing operations. At the same time, with a few exceptions -- Mexico, Ecuador, Peru -- the pattern of profitability seems to be evolving in a positive direction, with an increasing percentage of companies responding that profitability is improving over time.

Figure 1

Profitability Trends of Latin American Operations

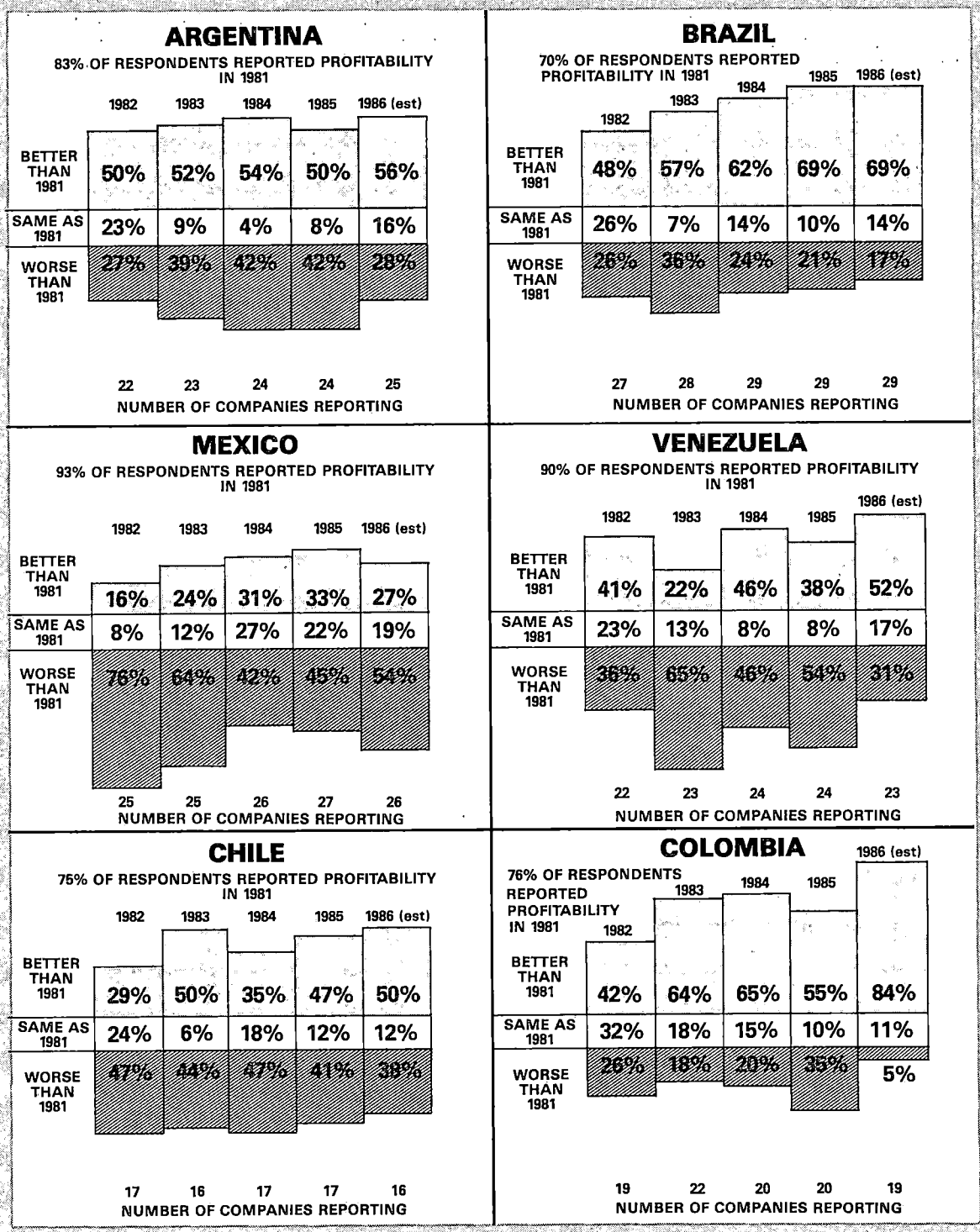
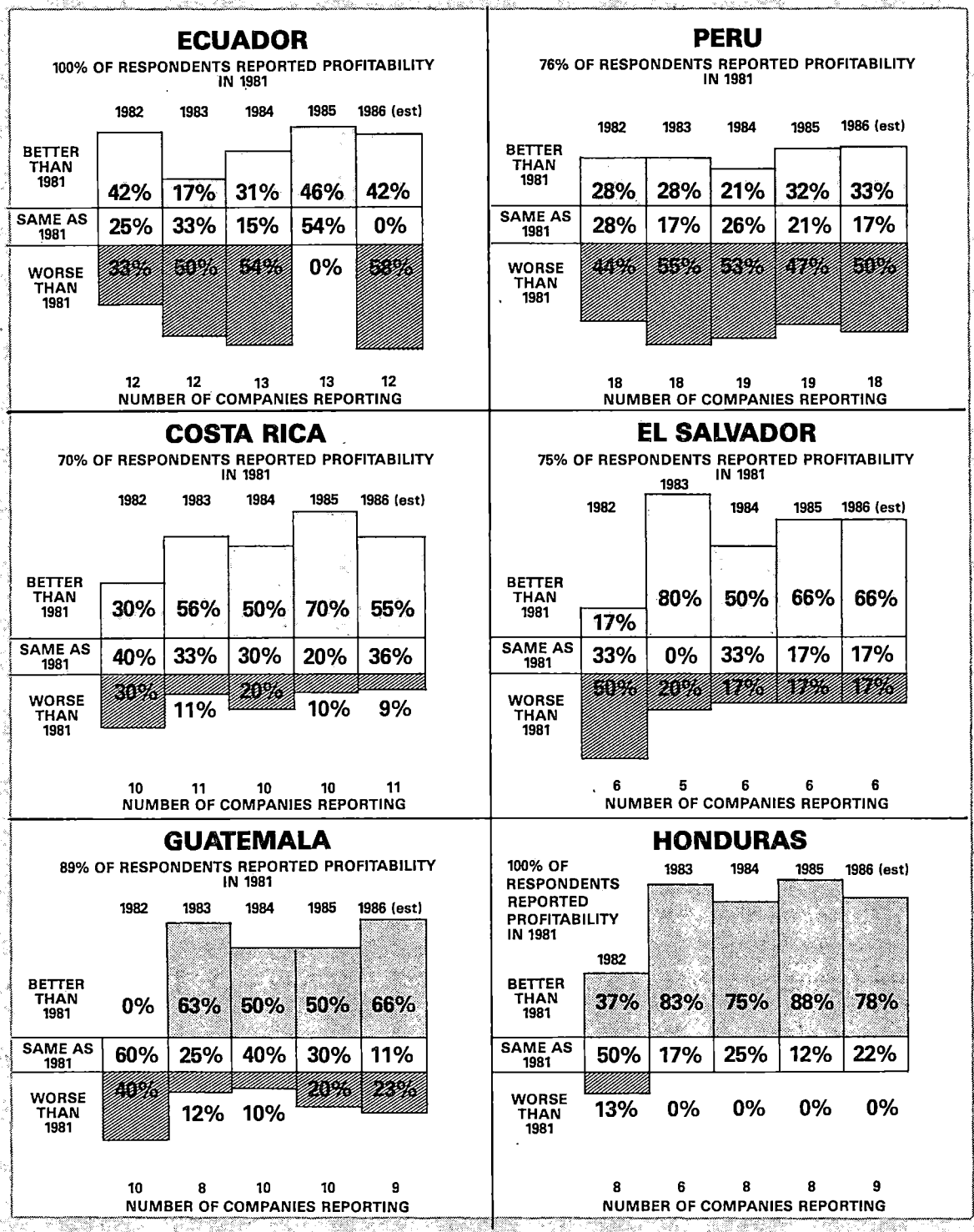


Figure 1

Profitability Trends of Latin American Operations



Dividend Remittance Trends

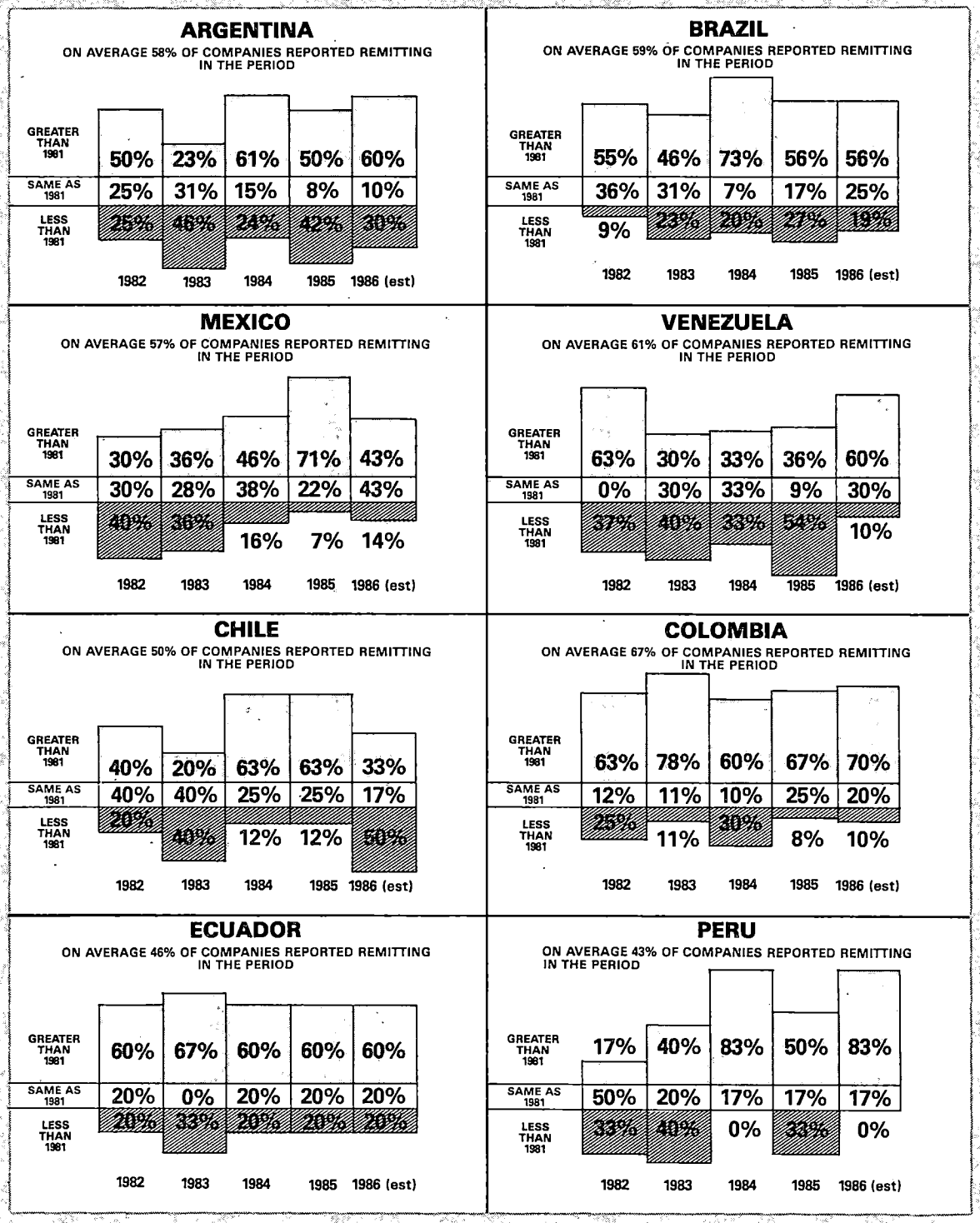
Companies were asked to report on dividend remittance trends for the period 1981 through 1986 and to indicate whether remittances were "greater than", "the same as" or "less than" 1981 and the previous year. The results are presented in Figure 2.

To remit dividends an affiliate must have equity in the country and have generated a profit. Responses to the Council's questioning suggest that approximately 40 percent of affiliates in Latin America are not remitting dividends to their parent corporations. There appears to be only slight change in the pattern from the base year. The number of companies remitting dividends has, on average, increased only slowly since the base year. No country stands out from the pattern.

While the questionnaire did not ask respondents to indicate why they were not remitting, the Survey Task Team observed that there generally are four reasons for not remitting: (1) no profits generated; (2) insufficient cash flow; (3) earnings retained for maintaining or expanding existing operations, and (4) no foreign exchange available. The Survey Task Team concluded that limited profitability of Latin American operations is the constraint. Very low profit levels discourage affiliates from making remittances to the parent. The Task Team reasoned first that the Council's survey seemed to be indicating that about 25 percent of reporting operations are not profitable in the current Latin American environment. Second, the outlook for expansion is not overly optimistic, so retention of earnings for reinvestment would not appear to be a major factor. Companies might not be expected to retain earnings for the modest expansions projected in the questionnaire. Finally, while in the Council's 1984 survey it was reported that lack of access to foreign exchange might have denied affiliates the opportunity to remit, responses to the present survey suggest that access to foreign exchange is not the problem today that is was in the recent past.

Figure 2

Dividend Remittance Trends in Latin American Operations



Access to Foreign Exchange Today

In the Council's 1984 report, evidence seemed to suggest that companies were experiencing severe lack of availability of foreign exchange to service dividends, to make royalty payments, and to repay loans of all types. The 1986 reporting presented in Table 6 suggests that foreign exchange is more readily available, especially for trade and debt servicing purposes, and to a lesser extent for dividend and royalty payments. Experience seems to vary widely by company and by country.

TABLE 6
ACCESS TO FOREIGN EXCHANGE
(Number of Companies Responding)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Access to foreign exchange for:												
Dividend Remittances												
Freely Available	-	14	8	5	7	4	2	-	3	-	2	1
Constrained	20	14	17	17	4	11	8	8	6	4	8	6
Not Available	4	2	1	1	2	2	-	8	1	-	1	1
Royalty Payments												
Freely Available	2	2	9	3	5	1	3	-	2	-	2	1
Constrained	9	4	10	4	3	2	2	3	5	4	6	5
Not Available	6	15	1	9	3	9	1	9	1	-	1	-
Loans to Affiliates												
Freely Available	3	4	3	2	3	2	3	3	2	1	1	1
Constrained	-	1	2	3	1	1	-	1	-	-	1	-
Not Available	1	1	-	-	-	2	-	1	1	-	-	-
Inter-Company Trade Acct												
Freely Available	8	8	17	9	8	9	7	7	7	1	5	3
Constrained	12	13	6	10	5	6	3	6	2	2	6	4
Not Available	-	2	-	-	-	1	-	2	1	-	-	-
Non-Affiliate Trade Acct												
Freely Available	5	6	10	4	5	6	3	5	3	-	2	1
Constrained	7	10	3	7	4	4	2	4	1	1	5	3
Not Available	-	1	1	1	-	1	-	2	1	-	-	-
Loans to Banks												
Freely Available	4	6	6	3	5	5	3	3	3	1	2	2
Constrained	4	4	3	8	2	3	1	3	-	-	3	2
Not Available	5	5	4	2	2	2	1	6	2	-	2	-

The Survey Task Team observed that the lack of foreign exchange availability, apparent in the 1984 Council survey, seems to have eased. Differences in exchange availabilities seem to reflect differences in the "rules" in various countries rather than endemic economic problems. At the same time, the Survey Task Team remarked on the large number of companies reporting "constrained" access, and therefore uncertainty, with respect to foreign exchange availability, which could cause difficulties for normal business practice.

Parent Company Support to Latin American Affiliates

Financial support by the parent corporation for overseas affiliates includes intercompany accounts, intercompany debt (short and long term), back-to-back loans, parent company bank guarantees, equity additions and foregoing dividends. Parent financial support has a cost, and higher than "normal" levels of support usually are not desirable. The Council's 1984 survey suggested that parent company financial support for affiliates rose substantially in the early "crisis years," 1982 and 1983. Companies responding to the present survey were asked to compare their Latin American affiliates' current (1986) requirements for financing from parents with their situation in 1982/1983. While the respondents to the 1986 survey may be different companies, their experience should be comparable to responses in 1984. The survey results presented in Tables 7 and 8 show that in 1986, support levels are the same or higher in 70 percent of the cases. The pattern does not differ sharply from one country to the next.

TABLE 7
LATIN AMERICAN AFFILIATES' REQUIREMENTS FOR PARENT FINANCIAL SUPPORT
(number of companies reporting)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Up a little/a lot	8	13	10	10	2	6	4	5	2	0	2	0
The Same as 1982/1983	12	14	10	7	9	8	7	5	6	3	7	5
Down a little/a lot	8	10	9	7	6	7	4	7	3	1	4	2

TABLE 8
PARENT WILLINGNESS TO CONTINUE FINANCING TO LATIN AMERICAN AFFILIATES
(number of companies reporting)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Willing to Continue Financing	13	25	15	12	12	12	9	9	6	2	8	5
Willing, but could Reach a Limit in Next 24 Months	4	2	7	2	-	3	-	-	1	-	1	-
Not Willing. Reached the Limit before 1985.	8	4	6	6	4	3	3	3	3	1	2	2
Not Willing. Reached the Limit after 1984.	0	2	3	2	1	2	2	4	1	1	2	1

Of a total of 214 reports, 128 or 60 percent indicated parent company willingness to continue to provide financial support to affiliate operations in Latin America. Of the balance, 20 say they expect to reach a limit of willingness within the next 24 months; 45 reached their limit before 1985, and 21 reached their limit in 1985 or 1986 (after 1984).

Responses to this question seemed to contradict tendencies reported in the 1984 Council survey. The Survey Task Team noted that this is a sign of continued but limited willingness to support operations in Latin America. Overseas affiliates are generally regarded as an integral part of the company. Moreover, the Survey Task Team observed that the economic situations in a number of countries -- Brazil, Colombia, and Argentina, for example -- look much better today than might have been expected in 1984. That could encourage parent companies to continue support. Those companies that have supported their affiliates to date are not likely to withdraw support at this point. At the same time, the unwillingness to further finance 40 percent of the reported operations is a sign of serious constraint. Moreover, where there is further willingness, there is presumably added cost. In either case, the continued high degree of parent company financing would be a discouraging or dampening factor when further investment is considered.

Dollar versus Local Currency Loans

In 1984 the Council asked about the distribution of affiliates' hard currency borrowing between parent corporations and banks, and the extent to which affiliate debts were overdue. The 1984 Survey indicated a high proportion of borrowing from parents rather than from traditional bank resources. Loans to parents were largely overdue while bank debts were being paid promptly. The question was phrased differently in 1986. The survey asked the proportion of dollar loans owed to parent, banks and others, and whether the parent had guaranteed the bank loan or not.

Responses presented in Table 9 reflect the number of companies reporting the percentage share of their affiliates' dollar loan portfolios owed to parents, banks and others. The Average Percent Value figures represent the average percentage of all companies' portfolios owed to each type of creditor. For example, in Argentina, 5 companies report that between 61 and 100 percent of the affiliates' dollar loans are owed to parents. The average percentage of all loans owed to parents in Argentina is 77 percent. The percentage figures are not intended to add to 100 percent.

TABLE 9
DISTRIBUTION OF DOLLAR LOANS OWED BY LATIN AMERICAN AFFILIATES*
(Number of companies reporting)

% Distribution of Loans owed to:	Argentina	Brazil	Mexico	Venezuela	Chile	Colombia	Ecuador	Peru
Parents								
0-60%	3	6	5	7	1	5	1	2
61-100%	5	6	5	3	1	0	2	2
Average Percent Value	77%	70%	66%	49%	50%	39%	77%	65%
Banks, without Guarantee								
0-60%	3	5	2	2	1	5	1	1
61-100%	2	3	5	3	1	0	2	2
Average Percent Value	54%	52%	82%	59%	55%	31%	73%	83%
Banks, with Guarantee								
0-60%	2	5	7	4	1	4	1	1
61-100%	6	3	5	3	3	4	0	3
Average Percent Value	77%	60%	64%	59%	86%	69%	50%	72%
Others								
0-60%	2	1	1	-	1	-	-	1
61-100%	0	1	0	-	1	-	-	0
Average Percent Value	36%	52%	-	-	49%	-	-	1%

*An insufficient number of companies reported on Central American countries to yield meaningful statistics.

The responses presented in Table 9 suggest that Latin American affiliates continue to depend importantly on parents for dollar loans, and that most affiliate bank loans are guaranteed by the parent. The preponderance of loans seems to be from parent to affiliates.

The Survey Task Team noted that a number of interpretations can be given to these results. On the one hand, the taking of U.S. dollar loans depends on availability of other resources. An affiliate often prefers to borrow in local currency, but may be denied that option and have to borrow abroad. The parent may have surplus cash and wish to use that in loans to affiliates. Similarly, the parent can often get a better rate on loans than can the overseas affiliate. On the other hand, while a company may prefer not to give a guarantee on a U.S. dollar loan, the guarantee is really moot in the case of large multinational corporations which are traditionally conservative in matters affecting their credit rating. The Survey Task Team also noted that today companies may not be asking for dollar loans from banks for their Latin American affiliates, if corporate liquidity is ample.

Trade Financing

In the Council's 1984 survey, it was reported that one consequence of the debt crisis was that many parent companies had shifted from unsecured to a high proportion of secured financing in trade with both affiliates and non-affiliates in Latin America. Secured trade financing is more costly than unsecured financing and is avoided, where possible, for that reason. Unsecured trade financing is one kind of support a parent may provide an affiliate. Companies again were asked to describe their trade practices today with affiliates and non-affiliates in the present survey.

The data presented in Table 10 suggest that to a high degree, trade financing with affiliates has returned to pre-crisis patterns, that is, to largely unsecured transactions. In contrast, trade financing with non-affiliates presents a mixed picture, but with a tendency toward secured transactions, particularly in Peru. The differences in treatment of affiliates and non-affiliates reflect the higher element of trust between affiliated companies.

TABLE 10
PATTERNS OF TRADE FINANCING WITH AFFILIATES AND NON-AFFILIATES IN 1986
(Number of companies reporting)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Trade Financing with Affiliates												
Same as Pre-Crisis	14	23	19	18	12	13	9	12	6	-	8	7
Partially Returned to Pre-Crisis	3	2	3	2	1	2	1	-	2	5	-	1
Still Shifted to Secured	6	4	5	4	2	2	4	4	2	-	3	-
Trade Financing with Non-Affiliates												
Same as Pre-Crisis	4	6	3	4	5	9	6	3	4	3	3	3
Partially Returned to Pre-Crisis	4	5	4	2	4	4	3	2	3	3	2	2
Still Shifted to Secured	7	4	7	7	6	3	6	12	6	5	8	7

The Survey Task Team noted that the data reflect changed circumstances in Latin America and the motivations to get secured financing for trade with affiliates has disappeared in large part. In the past, shifting to secured transactions was one way of exercising leverage over governments to obtain foreign exchange. In the early crisis years, banks were being paid, but equity investors were denied access to foreign exchange. Therefore, bank debt was preferred in the years of the previous survey and secured transactions qualified as such.

Local versus Export Production

A number of policy analysts have expressed the desire that invested multinationals make greater use of existing facilities to expand the export base of countries in which they operate. Council member companies were asked to describe the percentage of their local production that was destined for export in pre-crisis years and presently. Companies were also asked to explain why they shifted production orientation if they had done so.

The data reported in Table 11 suggest that production for export is only a small portion of total production for the reporting companies in the countries surveyed. A nominal shift toward greater production for export has taken place over the last five years.

TABLE 11
LOCAL VS EXPORT PRODUCTION ORIENTATION; PRE-CRISIS AND PRESENT
(Number of Companies Responding)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Production for Local Market												
Pre-crisis												
0-20%	1	1	-	-	-	-	1	-	-	-	1	-
21-80%	5	6	7	2	2	1	1	1	1	-	1	2
81-100%	16	24	24	16	9	12	6	8	3	2	5	3
Present-day												
0-20%	-	1	1	-	-	1	1	1	-	-	-	-
21-80%	5	13	10	2	2	2	1	1	2	-	1	2
80-100%	17	20	19	17	9	11	6	6	3	3	6	3
Production for Export												
Pre-crisis												
0-20%	11	12	9	1	-	1	1	-	-	2	-	-
21-80%	2	8	4	1	2	1	1	1	2	--	2	2
81-100%	-	1	2	-	-	1	-	1	1	-	1	1
Present-day												
0-20%	12	17	12	4	1	5	1	1	1	-	3	-
21-80%	-	7	7	2	2	2	1	1	2	-	1	2
81-100%	-	1	2	-	-	2	-	1	1	-	1	1

The majority of companies responding to the survey produced for the local market in the past and continue to do so at present. Moreover, relatively few companies produce primarily (over 80 percent) for export. Most of the responding companies that have shifted some production to export have done so with a modest share of their total

production. Members of the Survey Task Team noted that 0-20 percent of production for export represents a very small commitment.

In the few cases in which there has been a shift to greater production for exports, the reasons given, chiefly for Brazil and Mexico were: "profit opportunity," "need to earn foreign exchange for imports," "competitive world sourcing location," and, for Mexico, "performance requirements."

Respondents were also asked whether they would be willing to convert local production facilities to source more exports than at present. The data presented in Table 12 indicate that responses varied by country, with the strongest positive responses given for Brazil and Mexico, a small positive bias in the cases of Venezuela and Colombia, and a negative response in other cases. Reasons given for unwillingness to convert local production to export included "other sites offer more favorable investment climate;" "not economical," and "raw materials costs too high."

TABLE 12
PROSPECTS FOR CONVERSION OF LOCAL PRODUCTION TO EXPORT PRODUCTION
(Number of Companies Responding)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Could/Would Convert to Export												
yes	9	23	19	11	2	8	3	2	2	1	2	1
no	17	10	12	9	8	7	6	7	4	3	6	5
Why not willing to convert												
Not Economical	10	4	5	5	3	2	3	1	1	1	2	1
Earnings Unprotected	2	1	1	2	1	1	1	1	-	-	1	-
More Attractive Sites	7	3	6	3	3	3	2	3	3	2	4	3
Political Instability	3	-	-	-	-	-	-	1	-	-	1	-
Input/Labor Costs too High	4	3	3	2	3	2	-	1	-	-	2	1
Taxes too High	-	-	-	-	-	-	-	1	-	-	-	-

Part III. The Economic and Business Environment in Latin America and Rules of the Game

The results of earlier Council surveys emphasized that the deteriorated economic situation in the region had had a decisive impact on U.S. companies' operations. The region began to recover slightly in late 1984 and in 1985, however, and the Council was interested in assessing the impact of that growth on member operations. In addition, recent debate on economic growth models has emphasized the effect of the business environment and the rules of the game on attitudes toward investment sites. While Latin America experienced overall negative growth in the 1980s, Asia, including Korea, Taiwan, Singapore and other enclave economies, experienced a boom. U.S. Department of Commerce data suggest that substantial amounts of new investment are being channeled to Asia at the expense of Latin America today. As a consequence, Latin American governments are being urged to "follow the Asian example" in providing a friendly environment for private investment, both domestic and foreign.

To tap these various issues and to evaluate the likely impact of current policy recommendations on member investors in Latin America, the Council devised a set of questions that would provide insight into member attitudes about the business environment in Latin America. This section describes the results of those questions.

Comparing Investment Climates

Companies were asked to compare the investment climate in Latin America for their business with other areas in which the company operates. Not all companies operate in all of the areas, so the comparisons were specific to each company.

Table 13 shows that Latin America generally is viewed as less attractive for investment than the United States, Canada, the Middle East and the Asia-Pacific region. However the area is considered more attractive than Africa, South Africa, Eastern Europe and, to a lesser degree, the People's Republic of China and the Indian Subcontinent. The comparison with Western Europe was mixed. Thirteen companies reported feeling that Latin America is a better climate than the Western European climate, 18 said it is worse and seven held it about the same.

TABLE 13
COMPARISON OF THE LATIN AMERICAN INVESTMENT CLIMATE WITH OTHER WORLD REGIONS
(Number of Companies Responding)

	Latin America is Better Than	Latin America is the Same as	Latin America is Worse Than
United States	2	2	40
Canada	2	3	35
Western Europe	13	7	18
Middle East	5	8	21
Africa	20	8	1
South Africa	25	3	2
East Europe	18	2	1
Asia-Pacific	3	6	29
Peoples' Republic of China	12	5	7
Indian Subcontinent	13	7	5

Companies were also asked to rank Latin American countries in terms of the attractiveness of their investment environment. Brazil was clearly indicated as the Latin American country with the most attractive investment environment, with 31 nominations to first place. Mexico was the second most preferred investment environment with slightly more than half as many nominations as Brazil. Colombia and Argentina ranked next in order of preference by investors.

Peru emerged as the country with the least attractive investment environment with 32 nominations as the least or second least attractive locale. El Salvador received 20 first or second nominations as least attractive country. Mention of other countries was haphazard.

Respondents cited "improving local market demand," "positioning for the long term," "improved political stability," "lower production costs" and "normal growth of business" as reasons for preferring Brazil's investment environment. Mexico was chosen because of "lower production costs," "positioning for the long term" and "normal growth of business". Colombia was attractive for its "improving local market demand," "improved political stability", "favorable currency rates" and "normal growth of business".

Peru's poor ranking was explained by "local recession", "political instability", "better investment opportunities elsewhere", "sector specific regulations", "low product demand", "government red tape", "price controls" and "overvalued currency". El Salvador appeared unattractive because of its "political instability", "better investment opportunities elsewhere", "low product demand" and "local recession".

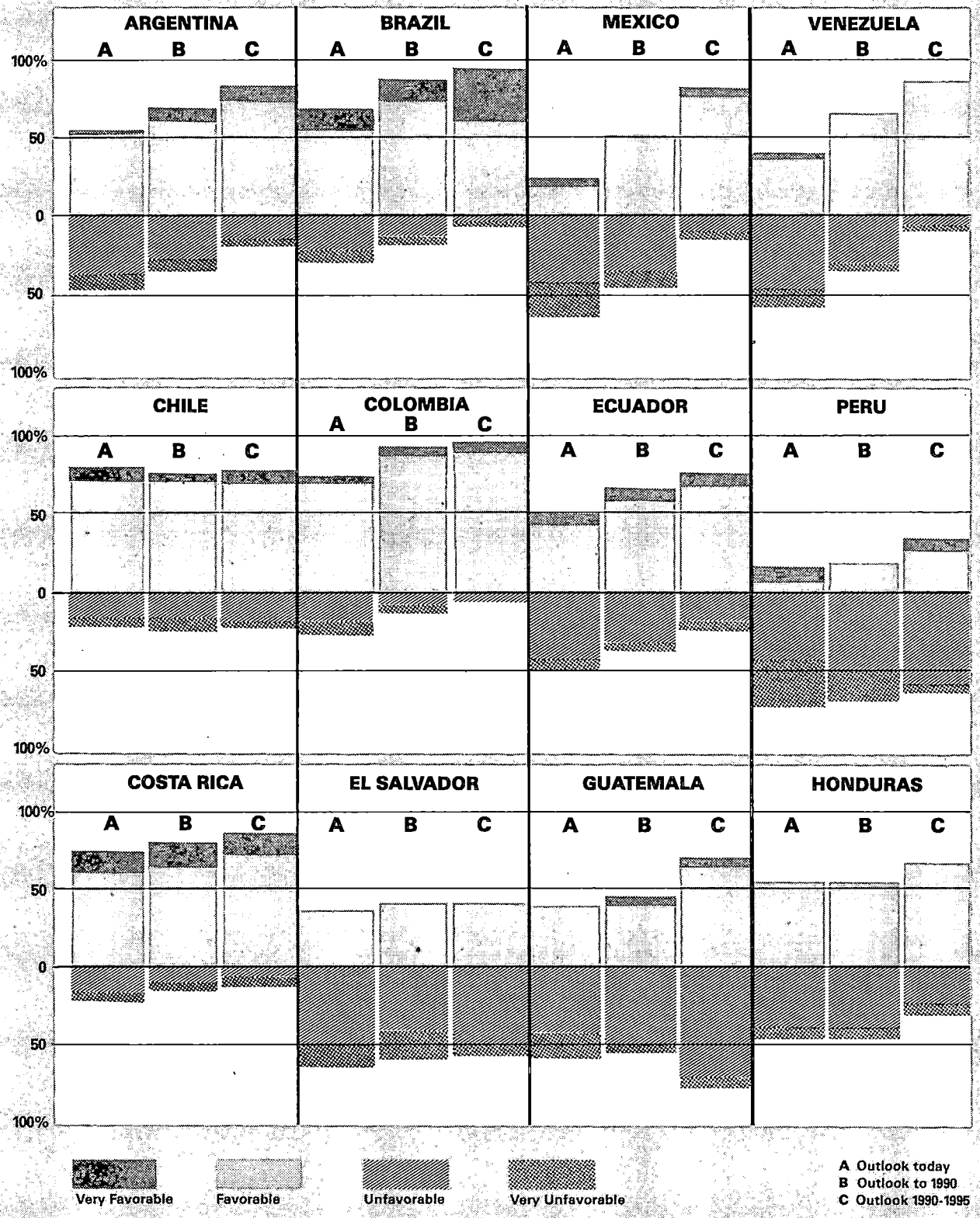
The Survey Task Team observed that Mexico's ranking as the second most attractive business environment seemed contrary to responses to other questions that pointed up problems that companies had doing business in Mexico. The Task Team also remarked that it was necessary to keep Latin America's overall unimpressive ranking within the world comparison in mind when assessing the rankings of countries on the attractiveness dimension. On the overall rankings, Latin America did not fare well.

Business Outlook

Companies report that they foresee a steadily improving business outlook in Latin America over the next ten years. Figure 3 indicates that the outlook for the current year (1986) is about evenly divided between favorable and unfavorable in most countries. The prospect shifts toward more favorable through 1990 and to even more favorable from 1990 - 1995. Peru is the single exception in that companies predict an increasingly unfavorable outlook over the period. The outlook for Brazil today is seen as favorable to very favorable by 96 percent of respondents, with 36 percent of the responses indicating a very favorable outlook in the 1990-1995 period.

Figure 3

Outlook for Business Through 1995



Rules of the Game

The Council sought to probe the distinction between economic environment and rules of the game as the impact on corporate decision-making. Respondents were instructed to regard "economic environment" as involving macroeconomic factors such as GDP growth, trade balance, debt burden, inflation, devaluation, and so forth. "Rules of the game" were to be interpreted as regulatory rules and practices such as price controls, investment rules and remittance regulations. Companies were asked to specify whether the rules in each country are favorable or unfavorable to foreign investment and whether they are applied fairly.

TABLE 14
PERCEPTIONS OF THE RULES OF THE GAME IN LATIN AMERICA
(Percentages)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Rules are												
pro-foreign investment	15	26	14	18	56	32	35	7	50	36	42	20
neutral	67	44	43	48	44	54	65	25	50	46	42	73
anti-foreign investment	18	30	43	33	-	14	-	68	-	18	16	7
Number Reporting	(33)	(39)	(37)	(33)	(25)	(28)	(23)	(28)	(18)	(11)	(19)	(15)
Rules are applied												
fairly	53	50	39	37	95	62	67	23	76	90	61	79
arbitrarily	37	24	52	50	1	27	29	42	24	-	33	14
unfairly	10	26	9	13	-	11	4	35	-	10	6	7
Number Reporting	(30)	(34)	(33)	(30)	(22)	(26)	(21)	(26)	(17)	(10)	(18)	(14)

The data in Table 14 indicate that most respondents regard the rules of the game as neutral toward foreign investment. However, a substantial number of respondents reported an anti-foreign investment bias in the rules in Peru and Mexico, and, to a lesser extent in Brazil and Venezuela. Rules are viewed as strongly pro-foreign investment in Chile and Costa Rica and pro-foreign investment in Colombia, Ecuador, El Salvador and Guatemala. The rules in Central America are generally viewed as neutral or favorable to foreign investment.

By and large the reporting companies also feel that the rules are applied fairly in the Latin America countries. This is especially the case in Central America and in Chile, Colombia and Ecuador. In contrast, the perception of arbitrariness in applications of the rules in Mexico, Venezuela and Peru is striking. While a majority of respondents believe that the rules are applied fairly in Argentina and Brazil, an almost equal number of respondents believed that they are applied arbitrarily or unfairly.

The Survey Task Team observed that the perception of arbitrariness or unfairness in application of the rules is especially unfortunate given the general feeling that the rules by themselves are neutral.

Trade-Related Investment Rules

To test the degree to which forward planning is being affected by investment rules, six sets of rules commonly mentioned by businessmen were selected. The companies were asked to indicate by country and for each set of rules whether they perceived the rules to hurt their operations "a lot," "a little," or "not at all". The responses presented in Table 15 suggest that in the larger economies, trade related investment rules affect planning negatively for a significant number of companies.

"Market reserve", "lack of intellectual property protection", "percent ownership limits" and "technology transfer restrictions" were the key negative trade-related investment rules mentioned. In Table 15, more than half of the companies responding in Brazil, Colombia, Mexico and Peru reported a negative impact from these specific rules. Companies reported little impact from trade-related investment rules in the Central American countries and Ecuador.

TABLE 15
IMPACT OF TRADE-RELATED INVESTMENT RULES ON CORPORATE PLANNING IN LATIN AMERICA*
(Percent respondents reporting that trade-related investment rules "hurt")

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru
Market Reservation	32	58	39	25	12	18	17	29
Performance Requirements	24	46	46	40	12	41	23	25
Lack of Intellectual Property Protection	30	58	39	35	25	61	38	53
Percent Ownership Limits	17	27	54	41	12	30	31	39
Technology Transfer Restrictions	21	55	32	38	17	55	43	47
Limits on Expansion	9	20	27	18	6	23	8	29

*An insufficient number of companies reported on Central American countries to yield meaningful statistics.

Impact of the "Rules of the Game" on the Business Environment

Companies were also asked to consider whether foreign investment was receiving different treatment today in Latin America than prior to 1982 and whether that made a difference in corporate planning. The data presented in Table 16 reveal that, by and large, companies feel that there has been no change in the treatment of foreign investment by Latin American countries. One-quarter of respondents for Brazil, 30 percent of respondents for Argentina and 36 percent of respondents for Venezuela report that treatment is worse today than before 1982. Companies reporting for Mexico are almost evenly divided in their assessment that treatment is the same, better or worse. In Chile, Colombia and Ecuador, companies report that treatment is the same or has improved. However, 65 percent of companies report that in Peru treatment is worse today than before 1982. The dominant perception in Central America is that there has been no change in the treatment of foreign investment.

TABLE 16
PERCEPTIONS OF CHANGES IN THE TREATMENT OF FOREIGN INVESTMENT IN LATIN AMERICA
(Percentages)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Treatment is Better	10	3	32	21	26	23	21	4	14	-	-	-
There has been no Change	60	72	36	43	63	59	68	30	86	88	87	100
Treatment is Worse	30	25	32	36	11	18	10	65	-	12	13	-
Number Responding	30	36	34	28	19	22	19	23	14	8	15	12

Impact of the Economic Environment on Business

Companies were asked whether the general economic environment in countries in which they operate had gotten better or worse for them over the past two years. Responses reported in Table 17 indicate that in Chile, Colombia and the Central American countries, the economic environment has not changed much. Companies reported better economic operating conditions in Argentina and Brazil, with 29 percent indicating a lot of improvement in the economic environment in the latter country. Eighty-six percent of respondents reported worsened conditions in Mexico. Eighty-nine percent reported worsened conditions in Peru with 57 percent saying that the economic environment was "a lot worse."

TABLE 17
PERCEPTIONS OF IMPROVEMENTS
IN THE ECONOMIC ENVIRONMENT IN LATIN AMERICA
IN THE PAST TWO YEARS
(Figures in Percentages)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
The Economic Environment is												
a lot better	12	29	3	-	4	7	10	4	-	-	5	-
a little better	53	39	3	20	28	29	30	4	28	9	11	-
the same	6	16	9	33	56	39	35	4	61	64	68	87
a little worse	12	8	40	30	12	21	15	32	11	18	5	13
a lot worse	16	8	46	17	-	4	10	57	-	9	11	-
Number Responding	32	38	35	30	25	28	20	28	18	11	19	15

Companies were asked to indicate whether the economic environment or the rules of the game would have the dominant influence on the planning for the next five years. Better than 72 percent of the respondents in each country indicated that the economic environment would be the dominant influence. In Brazil and Peru, while the majority of respondents (63 percent and 55 percent, respectively) indicated that the economic environment was their major concern, the rules of the game had an importance not found to the same extent in other countries. Respondents agreed strongly that improvements in either the economic environment or in the rules of the game could make a substantial difference to business prospects in Latin American countries.

The Survey Task Team observed that the responses indicate that most multinationals have become accustomed to working with the rules in Latin America though they may not always be satisfied with that situation. What is troublesome, however, are major or frequent changes in the rules or the environment. For these reasons, changes in the economic environment have an even greater impact on business planning for the region. At the same time, the Task Team remarked on the apparent continuing importance of the rules of the game in Brazil and in Peru.

Part IV: The Prospects for Economic Policy Reforms in Latin America

Introduction

Many current policy recommendations assume that the changes being urged upon Latin American and other third world governments will result in greater private sector investment in the various countries and regions. Many recommendations to governments presume domestic or multinational interest in purchasing state-owned enterprises or local currency for investment. Because of the importance of private sector attitudes in most of the policy formulae being discussed today, the Council sought to use its survey to tap responding members' reactions to current policy recommendations.

A. The Outlook for Structural Reforms in Latin America

Interest in Privatization of State-Owned Enterprises

Companies expressed an overwhelmingly negative reaction (98%) when asked if they would have any interest in purchasing all or part of a country's State-owned enterprises. Nevertheless, at least one company expressed interest in State-owned enterprises in each of the four major economies, the Andean countries and Chile.

Purchase of Debt at Discount to Acquire Local Currency

Companies were asked whether they had purchased debt to acquire local currency in any of the countries. Responses suggest that some discounted debt is being purchased to acquire local currency. Nineteen such purchases were reported, predominantly in Argentina (8), Brazil (5) and Mexico (3). However, the majority of respondents reported that they had not made purchases of discounted debt and would not be interested in doing so. One-third of companies responding on Brazil and Mexico indicate that they either had plans or could be encouraged to purchase debt at a discount in the future. A smaller percentage of companies indicated that they could be persuaded to purchase discounted debt in the Andean countries and in Chile.

Not all companies reporting that they had made purchases of discounted debt revealed the size of their purchases. Those reporting indicated purchases ranging from $1 million to $50 million. The Survey Task Team observed that these are relatively small amounts in relation to the size of the reporting multinational companies.

Debt-to-Equity Conversions

By and large companies reported that they had not converted and had no plans to convert debt to equity. Nevertheless, one-third of the companies reporting indicated that they had converted some debt to equity in both Brazil and Mexico. One-fourth of the companies responding on Peru indicated they had converted some debt to equity in that country.

The Council's 1984 survey reported a similarly low incidence of debt-to-equity conversions. Nevertheless, members of the Survey Task Team suggested that the debt-to-equity market only became very active in 1986. Current reporting in the media seems to suggest more debt-to-equity conversions that are reflected in the Council's survey data. The Task Team noted, however, that banks and financial institutions have completed the majority of such conversions and their activity is not reflected in the survey.

Role of the State

Latin American countries have experienced pressure from a broad spectrum of authorities to take steps to reduce the role of the public sector (the State) in their economies as a means to stimulating growth. A number of countries have taken concrete action to reduce State involvement in the local economy. Others have expressed the intention to make changes, but have not implemented them vigorously.
Companies were asked whether they are experiencing more or less government intervention at present, compared to the early 1980s. The data in Table 18 indicate that responses

varied dramatically from country to county. All four of the major economies, Argentina, Brazil, Mexico and Venezuela, were reported to be experiencing about the same, or more intervention. Responses were about evenly divided for Argentina, Brazil and Mexico. In the case of Venezuela, over half of reporting companies perceived more intervention by the State in 1985 compared to the early 1980s.

In Chile, Colombia, Ecuador and the Central American countries, the predominant perception was that government intervention was "about the same." Two-thirds of the companies reporting indicated they found more government intervention in Peru.

The Survey Task Team noted that companies very likely believe that the role of the State has increased in Latin America due to the prolonged debt crisis. Moreover, even responses indicating that the degree of State intervention is about the same as in the early 1980s refer to a period of high degree of State intervention in Latin American economies . The Task Team noted that very few respondents felt that there was less state intervention. At the same time, it recognized that initiatives were so new that they might not have had an impact on the investor sector yet.

TABLE 18
PERCEPTIONS OF STATE INTERVENTION IN THE ECONOMY
(Number of companies reporting)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Compared to the early 1980s there is:												
More Intervention	16	18	16	18	1	6	3	19	3	1	9	3
About the Same	14	19	19	10	20	17	13	8	14	9	9	4
Less Intervention	3	2	2	2	5	4	4	-	-	-	-	-

Perceptions of Structural Reforms

Because of the current policy emphasis on structural adjustment as a means to create a better business environment in Latin America, companies were asked whether they perceived structural adjustments to be taking place in the countries in which they operate. Structural adjustment was defined as, among other things, reducing fiscal deficits, adjusting exchange rates, removing import barriers, eliminating obstacles to exports, changing tax structures, increasing credit to the private sector, stimulating private investment, eliminating bureaucracy, reducing the size of the public sector and privatizing State-owned enterprises.

The data presented in Table 19 indicate that, with some exceptions, companies were about evenly divided in their assessments of whether structural adjustments were or were not taking place. The dominant viewpoint of companies operating in Venezuela, Peru and in the Central American countries was that structural adjustments were not being made. A similar view was expressed in the case of Chile.

TABLE 19
PERCEPTIONS OF STRUCTURAL ADJUSTMENTS
(Number of companies reporting)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Structural Reforms are Being Implemented												
yes	17	19	17	9	10	14	13	6	6	2	7	3
no	17	20	19	23	16	14	10	23	12	9	12	12

For companies that noted reforms, better than half reported that the adjustments have already made a difference in both their operations and planning. Companies were also asked to check three structural adjustments that would have the most favorable impact in each country. Reducing fiscal deficits, stimulating private investment and removing import barriers were the most frequently mentioned. Reducing red tape was mentioned frequently for Brazil, Venezuela, Chile and Colombia. At the same time, all of the listed reforms received some mention in most countries. The least interest was shown for reducing export obstacles, changing tax structures and privatizing state-owned enterprises.

Policy Approaches: Baker versus Bradley

A variety of approaches, ranging from total write-off to continued austerity without new money, have been proposed for dealing with Latin American countries' continued severe indebtedness. The key goal in all approaches is to restart growth in the region. In addition to the peoples of Latin America itself, investors, as well as banks, have a profound stake in an early return to growth. The Council of the Americas' 1983 and 1984 survey's indicated that equity investors had lost billions of dollars of sales because of the Latin American recession. Those earlier surveys and the present one all indicate the region's poor economic performance is the key factor affecting business performance and investment prospects.

The two most recent widely discussed approaches to the Latin American debt are those proposed by Secretary of the Treasury James A. Baker, III and U.S. Senator Bill Bradley (D-NJ). In October 1985 Secretary Baker proposed a "Program for Sustained Growth" for fifteen major debtor nations (10 in Latin America). The program was intended to end austerity and fuel growth through a commitment of $29 billion in new loans over a three-year period. New loans would be contingent on countries' commitment to structural economic reform. Commercial banks were expected to provide $20 billion in new lending, and the multilateral development banks would provide $9 billion in structural adjustment loans.

Senator Bradley proposed his alternative in June 1986. The Bradley plan called for three points of interest rate relief and a write-down and forgiveness of three percent of principal annually for debtors undertaking serious structural reforms. Three billion dollars of new multilateral lending would also be made available to eligible countries. Bradley's approach is intended to address the concerns that new debt is unhealthy for both debtors and creditors, and that ongoing debt servicing requirements prevent debtor countries from devoting foreign exchange earnings to imports, thus contributing to the U.S. trade deficit.

The Council's survey sought businessmen's assessments of the assumptions underlying the various debt proposals, particularly Baker and Bradley. Respondents expressed a wide diversity of opinions when asked what approach to managing the debt crisis is likely to have the greatest effect in improving business prospects in Latin America. The majority of respondents indicated support for a Baker- or Bradley-type program, with a slight bias in favor of the adjustment in interest burden and payback schedules of the Bradley proposal. There was very little support for major new capital inflows without strings or for the case-by-case approach that has been followed to date which has meant severely constrained access to foreign exchange for MNC equity investors. Very few respondents believed it would help to write off the debt altogether and start over.

Companies were also asked to indicate the three most promising areas to which new lending should be targeted in order that growth be restored more efficiently. From a list of nine options, the clear first choice in each country was the local private sector. Funding for infrastructure was the leading second choice and trade financing ranked third. Project financing and debt repayment were also mentioned frequently.

The Survey Task Team observed that interpretations of responses on approaches to the Latin American debt need to take into account that no Council bank members participated in the survey and that member banks very likely would not be supportive of a program involving write-offs of the debt or programs of reduction in interest payment. At the same time, the Task Team acknowledged a widespread feeling among the equity investor community that countries' heavy obligations to the banking community have a direct impact on their ability to present attractive investment opportunities.

B. Other Policy Issues

Use of Mixed-credits by Non-U.S. Competitors

Tied aid credit, or "mixed credit" is a government export financing loan that contains a subsidy or grant element. The permitted grant element portion is set by the OECD Arrangement on Export Credit, the international agreement governing official export credits. The Arrangement sets the minimum interest rates for official export credit and provides a formula for computing the "grant element" contained in tied aid credit. The Arrangement prohibits tied aid credit with a grant element of more than 25 percent.

Policy makers are concerned that the use of mixed credits by the United States' competitors prejudices U.S. competitiveness in international trade and investment. To

test this assumption, the Survey included a question probing the extent to which companies encounter the use of mixed credits by their competition in Latin America.

The Council's 1984 report found that nearly 40 percent of the operations in the four large economies were encountering predatory trade practices, including use of mixed credits, to some degree. Companies responding to this year's survey indicated no change in the level of use of mixed credits by non-U.S. competitors as compared with the early 1980s. Responses by and large indicate that the use of mixed credits in Latin America has not changed, or is not practiced. In any case the strong majority (85 percent) of reporting companies indicated that the use of mixed credits has had no negative impact on their operations in Latin America.

The Use of Countertrade

The Survey also contained a question on the practice of countertrade in Latin American countries. By a very large factor, the respondents reported that they do not engage in countertrade. The very few that do engage in countertrade, report that use has increased since the early 1980s, largely due to direct or indirect Latin America government encouragement.

The Use of Non-Commercial Risk Insurance

The Council's 1984 survey seemed to indicate that non-commercial risk insurance was not important to member investors in the major economies. Because the U.S. Overseas Private Investment Corporation (OPIC) did not have agreements with Argentina, Mexico or Venezuela, it was thought that the 1984 responses may have underestimated the importance of OPIC insurance programs to investors in Latin America. The question therefore was asked again for the larger pool of countries included in the present survey. Respondents were advised that OPIC presently offers non-commercial risk coverage to 28 countries in Latin America and the Caribbean, including Argentina, Brazil, Bolivia, Colombia, Chile, Uruguay, Belize, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama and most of the Caribbean island countries. A similar program, the Multilateral Investment Guarantee Agency (MIGA), is being organized by the World Bank. Chile, Colombia, Ecuador and Uruguay have signed the MIGA convention.

TABLE 20
PERCEPTIONS OF THE UTILITY OF NON-COMMERCIAL RISK INSURANCE TO COUNCIL OF THE AMERICAS MEMBERS OPERATING IN LATIN AMERICA
(Percentages)

	Argentina	Brazil	Mexico	Venez'la	Chile	Colombia	Ecuador	Peru	CostaR	El Sal	Guat'la	Honduras
Non-Commercial Risk Insurance												
-is essential	10	3	3	6	7	4	4	16	-	8	6	7
-is helpful, not essential	23	22	23	25	30	33	39	28	41	25	33	33
-is too costly, given the coverage, so not used	13	14	14	12	11	11	9	16	12	8	17	7
-provides insufficient $ coverage	3	-	3	-	4	-	-	-	-	-	-	-
-is not relevant to investment decisions	52	61	57	56	48	52	48	40	47	58	44	53
Number Reporting	31	36	35	32	27	27	23	25	17	12	18	15

The data presented in Table 20 indicate clearly that, in general, respondents find that non-commercial risk insurance is "not relevant to investment decisions." The second most frequent response was that such insurance is "helpful, but not essential" to investment decisions. The Survey Task Team observed that an important point behind the responses may be that an investment decision must be based on an evaluation of simple merits. Companies like Council of the Americas members do not factor "incentives" or "risk coverage" into their investment decisions. The investment must stand on its economic merits. Availability of risk insurance is not a factor in that judgement. At the same time, a company might purchase risk insurance if it were available. However, in most cases, insurance is not available on the scale of most Council member investments. The Survey Task Team recognized that non-commercial risk insurance might be more important to smaller investors or to investors that did not have the experience of the Council membership in operating in Latin America.

Tactics for Achieving Better Foreign Investment Rules

Companies were asked to indicate what they believed are the best tactics to use with Latin American countries to achieve better rules on foreign direct investment, technology transfer and intellectual property protection. From a list of eight possible tactics, the companies indicated a clear first preference for "high level, government-to-government discussion." "Reasoning with local officials" was the second preference and "Council of the Americas meetings between members and government officials" was the third most-mentioned choice. Table 21 shows the responses received to this question.

TABLE 21
RANK ORDERING OF BEST TACTICS FOR ACHIEVING BETTER FOREIGN INVESTMENT RULES
(Number of companies responding)

	First Choice	Second Choice	Third Choice
Reason with local officials	**11**	**10**	1
Section 301 "fair trade practices" cases	4	2	3
Council of the Americas meetings with government officials	5	6	**11**
U.S. industry-specific trade associations	1	5	3
High level, government-to-government discussion	**19**	**13**	2
Mid-level, government-to-government negotiation	3	6	**10**
Internat'l organiz'n efforts	3	3	9
Specialized consultants/ law firms	-	1	4

U.S. Government Support for U.S. Investors

Companies were asked whether the scope of U.S. government assistance and backing to U.S. private firms in Latin America should be greater, the same as or less than at present. Companies were also asked to rate the quality of assistance provided them by the U.S. Embassy in the countries in which they operate and by the U.S. Government in Washington.

By a margin of two to one, respondents indicated that U.S. Government assistance should be greater than at present. Respondents rated both the U.S. embassies and the U.S. Government in Washington as "not involved" in helping companies operating in Latin American countries. Embassies in Argentina and Venezuela got more positive ratings than those in Brazil and Mexico, while the Andean country and Central American embassies were generally rated as "not involved." The remaining responses tended to concentrate in the "good" and "fair" categories with a few "excellent" and "poor" ratings. The ratio of "good" and "fair" ratings for embassies as compared to the "not involved" assessment varied on average from 2:3 and 1:3. Companies rated the U.S. government in Washington as less helpful than embassies.

Informal Sector

Considerable attention is being given to the importance of the "informal" sector (non-registered small business or underground economy) in Latin American countries. It is suggested that many country economies are considerably better off than their national accounts would suggest because of the entrepreneurship and employment generation in the informal sector. Hernando de Soto of the Instituto Libertad y Democracia in Lima, Peru, reports that 40 percent of the Peruvian economy is in the informal sector. Another observer suggested that a poor country like Bolivia had not experienced more disastrous effects from uncontrolled inflation because most economic activity had moved into the informal sector. Whatever the causes, the presence of a large and growing informal sector in Latin American countries has potential implications for the operation of multinational firms. The Council asked members to estimate the size of the informal economy in the countries in which they operate and to comment whether they deal with elements of the informal sector (a possible indicator of the pervasiveness of the

informal sector) and what had been the impact of the informal sector growth on their operations.

Responses concerning the size and presence of the informal sector in the various economies provide insight into the respondents' assessments of the poor health of the various economies. Table 22 shows that slightly more than half of the companies reported that the informal sector is either large and growing or substantial in countries where they operate. The remainder report the informal sector as a minor factor.

TABLE 22
ESTIMATES OF THE SIZE OF THE INFORMAL SECTOR
(Number of companies responding)

	Large and Growing	Substantial	Minor Factor	Non-Existent
Argentina	2	8	14	-
Brazil	5	9	12	-
Mexico	3	14	7	-
Venezuela	2	11	10	-
Chile	-	7	10	-
Colombia	7	10	4	-
Ecuador	1	6	8	-
Peru	9	10	1	-
Costa Rica	1	3	5	2
El Salvador	1	4	2	-
Guatemala	1	8	2	2
Honduras	1	6	3	-

By and large respondents indicated that their affiliates did not deal, either directly or indirectly, with the informal sector of the economy. Only 15 percent of respondents reported dealing with the informal sector, and most respondents believed that the growth of the informal sector had no impact or a neutral impact on their operations in the countries. A higher impact was perceived in Peru and in Colombia.

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Avon Products, Inc.

BHP Petroleum (Americas) Inc.
BP North America Inc.
Bankers Trust Company
Bank of America NT & SA
Bank of Montreal
Bechtel Group, Inc.
Becton, Dickinson and Company
Belco Petroleum Corporation
Borden Inc.
Bristol-Myers Company
Brunswick International, Inc.
Business International

CPC International Inc.
Campagna & Perez-Medina
Cargill, Incorporated
Castle & Cooke, Inc.
Caterpillar Americas Co.
Celanese Corporation
Central National Bank of New York
The Chase Manhattan Bank, N.A.
Chemical Bank
Chevron International Corporation
Citibank, N.A.
The Coca-Cola Company
Colgate-Palmolive Company
Combustion Engineering, Inc.
Container Corporation of America
Continental Grain Company
Continental Illinois National Bank and Trust Company of Chicago
Coopers & Lybrand
Corning Latin America/Asia Pacific, Inc.

Deere & Company
Deloitte Haskins & Sells
Dow Chemical Latin America
Dow Corning Latin America, Ltd.
Dow Jones and Company, Inc.
Drexel Burnham Lambert
E.I. duPont de Nemours & Company

Eastern Air Lines Incorporated
Eastman Kodak Company
Eaton Corporation
Electronic Data Systems Corporation
Eli Lilly International Corporation
Enron Corporation
Exxon Corporation

The First Boston Corporation
The First National Bank of Boston
The First National Bank of Chicago
Florida National Bank, N.A.
Ford Motor Company

General Cable International, Inc.
General Electric Company
General Foods Corporation
General Mills, Inc.
General Motors Corporation
Gerber Products Company
The Gillette Company
Gold Fields Latin America, Inc.
BFGoodrich Company
Goodyear International Corporation
W.R. Grace & Co.
GTE, Inc.

M.A. Hanna Company
H.J. Heinz Company
Honeywell, Inc.
Thomas L. Hughes
Hughes Drilling Products
IBM World Trade Americas Group
Ibec Inc.
Inco United States, Inc.
Ingersoll-Rand Company
International Multifoods Corporation
Irving Trust Company
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Johnson & Johnson International
S.C. Johnson & Son, Inc.
Jones, Day, Reavis & Pogue

Kaplan, Russin & Vecchi
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Liquid Carbonic Corporation
Los Angeles Times

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Manchester Associates, Ltd.
Manufacturers Hanover Trust Company
Marine Midland Bank
Marsh & McLennan Incorporated
McCann-Erickson Worldwide
Mellon Bank, N.A.
Mercantile Bank, N.A.
Merck Sharp & Dohme International
Milstein Properties Corporation
Mobil Oil Corporation
Monsanto Company
Morgan Guaranty Trust Company of New York
Morrison-Knudsen Engineers, Inc.
Motion Picture Association of America, Inc.
L.A. Motley Company

NCR Corporation
Nabisco Brands Inc.
Nalco Chemical Company
The Northern Trust Company
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Owens-Illinois, Inc.

Paine Webber International Capital, Inc.
Pan American Life Insurance Company
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Pennzoil Company
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Pet, Incorporated
Pfizer International, Inc.
Phelps Dodge International Corporation
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The Quaker Oats Company

Ralston Purina Company
Revlon, Inc.
Rockwell International Corporation
Rohm & Haas Company
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St. Joe Mineral Corporation
Scallop Corporation
Schering-Plough Corporation
J. Henry Schroder Bank & Trust Company
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Sears, Roebuck and Co.
Security Pacific National Bank
Shearson Lehman Bros.
Shell Oil Company
Southeast Bank, N.A.
Southern Peru Copper Corp.
E.R. Squibb & Sons, Inc.
Standard Oil Company
Stauffer Chemical Company
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TRW Inc.
Techint, Incorporated
Teleconsult Inc.
Tesoro Petroleum Corporation
Texaco Inc.
Texas Eastern Corporation
Texas Instruments Incorporated

Union Carbide Pan America,Inc.
Uniroyal Latin America
Unisys Corporation
United Brands Company
United Technologies Corporation
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Vicks Americas/Far East Division of Richardson-Vicks Inc.

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AN AFFILIATE OF THE AMERICAS SOCIETY INC

20th WASHINGTON CONFERENCE

May 1 and 2, 1989

PRESIDENT BUSH ADDRESSES WASHINGTON CONFERENCE

Left to right: President George Bush greets Council of Americas Chairman David Rockefeller and President Ambassador George Landau.

President Bush honored the Council of Americas by choosing its Twentieth Annual Washington Conference to deliver his first major address on U.S. relations with Latin America. The 19 minute address on Tuesday, May 2, in the Loy Henderson Auditorium at the Department of State was delivered before an audience that included Council of the Americas Chairman David Rockefeller and President Ambassador George Landau and some 400 Council members and guests. The speech was covered by over 15 television and cable networks and the major press associations and newspapers.

The President called for a new partnership for the Americas based on mutual respect and mutual responsibilities. "There's a place in this new partnership for all of you in the Council of the Americas," said the President. "Your efforts contribute directly to the greater prosperity of all of the nations of the Americas. ...You in the business community are among the pioneers and partners in these changes. And you're contributing to Latin America's increased productivity — you're helping the region to fulfill its potential for progress."

The twin concepts of free government and free enterprise are now increasingly accepted in the Hemisphere, the President continued. Elections — a key ingredient in the institution of democracy — are increasingly routine in many countries in the Hemisphere. But, for elections to play their role in democracy, they must be free and open. Should election fraud occur in countries like Nicaragua and Panama, the results would not be recognized by the United States, declared the President.

The principle of economic freedom was not yet as fully implemented in Latin America as that of political freedom, the President continued. Statist and protectionist economic philosophies still were followed in some countries. Reform efforts were underway in many countries, with Mexico and its entrance into the GATT leading the way.

International debt impeded rapid economic progress and slowed the implementation of reforms. For this reason, the President said, the United States had made a series of proposals designed to reduce the debt burden for those countries which self-elected a clear commitment to economic reform. Such efforts were based on each individual country's actions — on a case-by-case basis — to improve its investment climate and thus be attractive for foreign investment and voluntary commercial bank lending as well for the repatriation of the large amount of flight capital held outside Latin America.

(continued on page 3)

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Secretary of State James Baker opens the Washington Conference in the Department of State's Loy Henderson Conference Room.

SECRETARY OF STATE OPENS WASHINGTON CONFERENCE

Secretary of State James A. Baker, III, delivered the opening address to the Twentieth Annual Washington Conference on Monday morning, May 1. Secretary Baker listed the common challenges that the countries of the Hemisphere—which need each other as never before—must face together to shape our shared destiny; democracy, debt, development, trade, drugs, migration, environment, and nuclear proliferation.

Democratic Latin American leaders are reaching out to the United States for a new partnership based on mutual respect and shared responsibilities, and President Bush's administration is, in turn, reaching out to Latin America's democratic leaders, continued the Secretary. The United States has become the fifth largest Spanish speaking nation. We have much to learn from each other as we face these challenges with candor, courage, and commitment.

Secretary Baker said that, "Some look at the crises and problems facing Latin America today and they despair. I am not one of them. ...I believe that the Hemisphere can become a model for the rest of the planet for a true partnership between the developed and developing nations, where trade is free and prosperity is shared and the benefits of technology are harnessed for all."

The failed vision of dictatorship, state control, and missed opportunity is being replaced by freedom, economic development, and opportunity, said Secretary Baker. "We have watched far-sighted democratic leaders take the first vital and often politically difficult steps to shed layers of state regulation and special preference that for too long have held in check the creative, productive energies of the Hemisphere."

With the democratic wave now sweeping Latin America, the Secretary said the question had become: Can democracy deliver? "Clearly, the countries of Latin America and the Caribbean must begin to grow again, and the fruits of that growth must be more widely shared."

"To grow, the region cannot continue to be a net exporter of capital," said the Secretary. The Administration has announced a new approach to help reduce Latin America's debt burden, which has been positively received by international financial institutions, and needs the support of the private sector and the commercial banks. Debt is a problem, but it is also a symptom of a larger problem. Now the details of that debt policy must be negotiated on a case-by-case basis to ensure continued economic reform, a real reduction in existing debt burdens, and new capital in the future, while attracting flight capital back to the region.

"If we ask Latin Americans to strip away the layers of protection that shield their economies from the free flow of trade in goods and services, then we, too, must confront protectionism in the United States and steadily reduce the barriers to products from the rest of the Hemisphere," continued the Secretary.

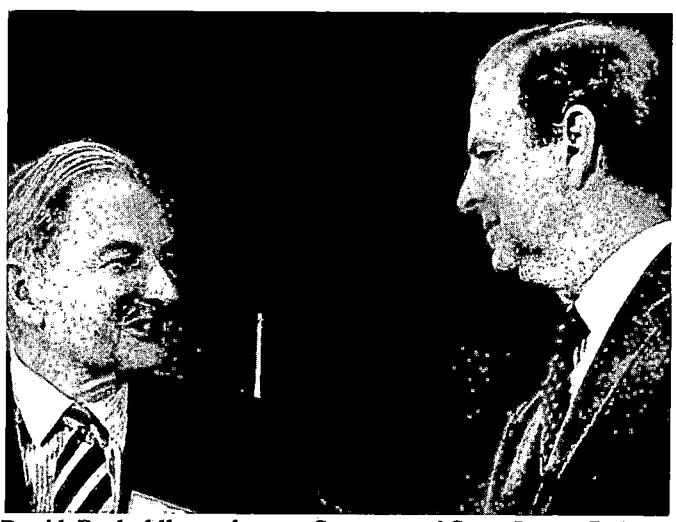
During a question and answer period with Council members, Secretary Baker noted that:

—while it was premature to discuss the future operation of the Panama Canal, there would be no normalization of relations by the Bush administration as long as General Noriega remained in power;

—although new legislation to improve the Caribbean Basin Initiative had originated in the Congress, it was fully supported by the Administration with the exception of proposed preferential sugar quota allocations which would conflict with the GATT waiver permitting the U.S. sugar program;

—all countries in the Hemisphere must do what they could to attack the growing drug problem from both a supply and demand perspective;

—while the Administration may appear to have focused its energies on the Central American region where the security problems were urgent, it was also aware of the importance of Mexico and the countries of South America which were also facing both economic and political crises.



David Rockefeller welcomes Secretary of State James Baker.

PARTNERSHIP IN THE AMERICAS

The Bush Administration's search for partnership with Latin America as described by the President and Secretary of State was further elaborated by the Acting Assistant Secretary of State for Inter-American Affairs, Michael Kozak. (Assistant Secretary-designate, Bernard Aronson, assumed this position when confirmed by the Senate on June 15.) The watch words were partnership, cooperation, dialogue—to provide a framework to make progress possible. The partnership of "democracies working together for democracy" characterized the Bush Administration's new approach to Central America which had been well received in the Congress.

The Organization of American States (OAS) could be particularly helpful in implementing this new partnership since it is an established regional forum, Kozak said. "The OAS is useful when we use it."

During the question period, Kozak acknowledged that part of the critical budget problem facing the OAS was a result of the arrears in U.S. assessments due to Graham-Rudman budget reductions. The U.S. Government faced an ever-shrinking budget which imposed severe limits on our resources, and reinforced the need for a partnership approach to the Hemisphere's problems. The State Department was, however, seeking full funding for the OAS in the current budget.

Kozak emphasized that the Brady initiative for debt reduction was not a "plan" but a process. A difficult dialogue was involved, with "no magic formula." It depended upon the political will of the elected governments such as in Argentina and Brazil to adopt responsible economic policies and "self-elect" to participate. Kozak estimated that capital flight was equivalent to debt service in many countries. He encouraged debtor governments and commercial banks not to wait for the U.S. Government but to sit down and talk.

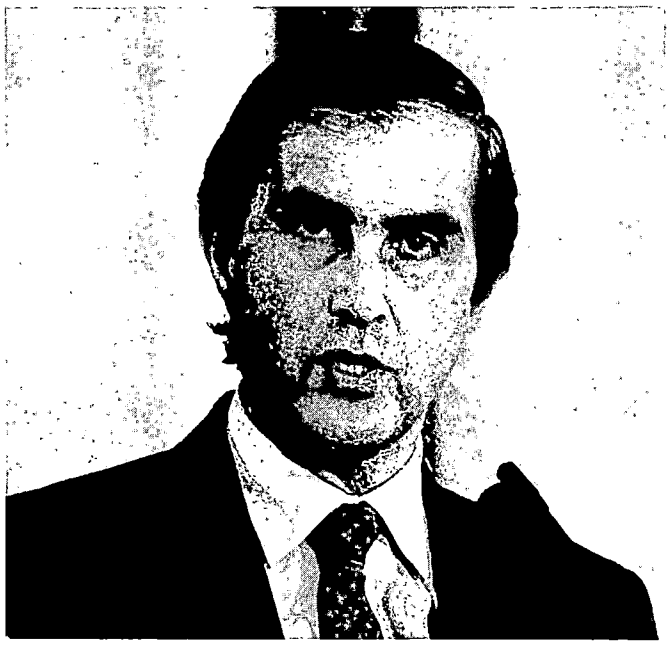
Concerning Cuba, Kozak said the U.S. policy was a reaction to the Cuban support of insurgencies both within and without the Hemisphere. While the United States would welcome a Cuban pull-out from Angola and had dealt with Castro on specific issues, there would need to be a fundamental change across-the-board before there was any normalization of relations.

PRESIDENT BUSH. . .

(continued from page 1)

The President emphasized that the new partnership must confront a common enemy; international drug traffickers. There is today a better understanding throughout the Hemisphere, the President said, that drug abuse is a problem of both supply and demand.

In closing, the President noted that responding to the challenge in the Hemisphere would not be easy. "... But all of us — north and south, in government and in the private sector — can work together to meet the challenges and master them...to ensure that all the Americas enjoy the peace, the freedom and the prosperity that we cherish."



Reinaldo Figueredo, Venezuelan Minister of the Presidency.

VENEZUELAN ECONOMIC RESTRUCTURING NEEDS EXTERNAL ASSISTANCE

The democratic process throughout the Hemisphere is being subjected to severe tests according to Venezuela's Minister of the Presidency, Reinaldo Figueredo Planchard. The economic crisis is the underlying cause of the threat to the democratic process, of which the debt burden is a key element.

The government of President Carlos Andres Perez accepts that it is primarily responsible for undertaking the positive structural adjustments needed to restore economic growth. However, these efforts could fall short without significant help from the country's creditors. Figueredo warned that the riots of February 27 and 28 were both a signal and a symptom and could happen again anywhere in the Hemisphere.

Latin America must cease being an exporter of capital to the developed world, Figueredo continued. The last seven years of the debt crisis had not resulted in an international financial crisis as the burden had been carried by the debtor countries. Venezuela had paid some $27 billion during this period. The Brady plan now recognized that the debt problem was not a liquidity problem primarily requiring new loans, as the Baker plan had posited, but a structural problem requiring debt reduction as well as increased capital inflows.

To complement Venezuela's economic restructuring, Figueredo said two actions had to be taken. Debt service had to be reduced by a "very significant level" and capital outflows replaced by a permanent financial inflow.

Asked if Venezuela was happy with the development of the Brady plan, Figueredo reiterated the Perez administration's commitment to undertaking economic reforms. Speaking frankly, however, he said that to resolve tensions there must be specific, concrete actions soon. He believed that the February riots had been primarily caused by adverse internal economic circumstances and had not been foreign inspired.

Senator Richard Lugar (R-IN), Ranking Minority Member, Subcommittee on Western Hemisphere and Peace Corps Affairs, Senate Committee on Foreign Relations.

VIEWS FROM CAPITOL HILL

The second day of the Washington Conference opened with representatives from the Congress reviewing Latin American relations from their perspective. Senator Richard Lugar (R-IN) of the Foreign Relations Committee gave a broad overview of the legislation affecting Latin America that was on the Congress' plate. He characterized the drug control law requiring the Administration to certify annually that countries were "fully cooperating" with U.S. drug control efforts as unfortunate, leading to a "disastrous process." Public debate of the issue often served to embarrass officials of other governments, many of whom were doing the best they could under the circumstances.

While we were encouraging Latin American countries to work out their debt problems, we were becoming less inclined to accept their exports, Senator Lugar said. New farm legislation was expected this year or next, and would include the issue of the extension of the sugar program which has adversely impacted on the Caribbean Basin.

Responding to questions, Senator Lugar agreed that the government appeared preoccupied with Central America. News coverage ignored important South American countries like Brazil and Argentina; the priorities were all wrong.

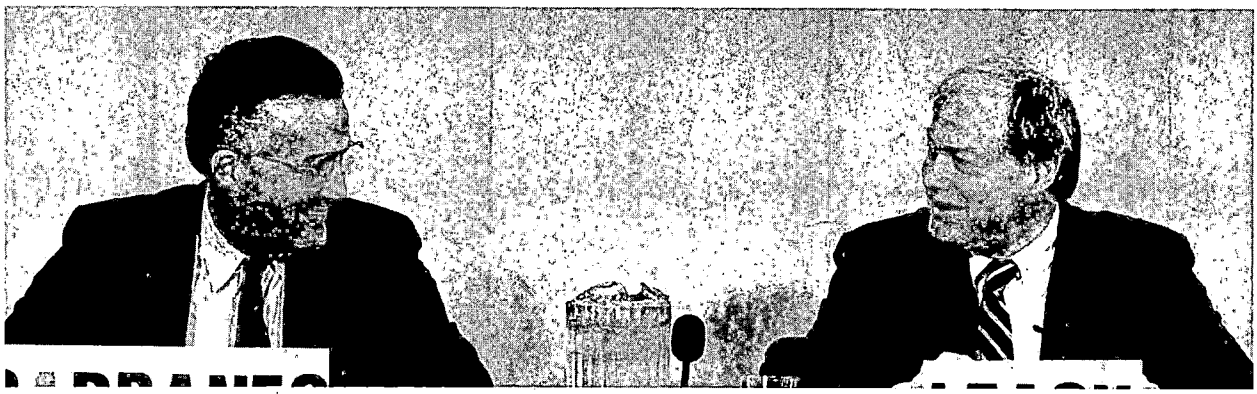
Debt issues were discussed by Congressman Jim Leach (R-IA) and Senator Paul Sarbanes (D-MD). Congressman Leach said there should be no false expectations of new money from the United States to solve the debt problem, but the transfer of resources from the poor to the rich must be stopped. "We have will, but no wallet." This puts the burden on the commercial banks; there would also be a greater role for IMF and World Bank financing. The situation had improved so that now the international financial system was not threatened nor even any individual banks; what was at jeopardy was bank earnings.

Congressman Leach said that the notion that legitimate LDC debt be reduced was radical, and generous. "The articulation alone of the idea has set in motion a force that will be hard to stop," Leach continued.

Senator Sarbanes said that a breakthrough on the debt issue had been needed and that Secretary Brady had done it. The 20 percent figure mentioned for the amount of debt reduction was, however, inadequate; what was needed was sufficient reduction to get the debtor countries back on a growth path—to "restart growth." It was particularly important that the surplus countries—Japan, Germany, Taiwan—find a method to circulate their surpluses, and the international financial institutions must play a larger role.

The Congress did not have any immediate role to play in providing additional funds, Senator Sarbanes continued. Larger IMF quotas, however, may eventually be needed. As a first step, it was necessary for the United States to fund its overdue obligations to international institutions.

Trade issues were discussed by Congressman Sam Gibbons (D-FL). He noted that the Caribbean Basin Initiative legislation, for which he was principally responsible, could be improved and he was working to that end. He invited suggestions from both U.S. and Latin American businessmen as to possible improvements. It was not clear if Section 301 of the 1988 Omnibus Trade Act, which provided for trade sanctions against countries with major trade barriers to U.S. exports, would work in practice.



From left to right: Senator Paul Sarbanes (D-MD), Chairman, Subcommittee on International Finance & Monetary Policy, Senate Banking Committee and Chairman, Subcommittee on International Economic Policy, Senate Foreign Relations Committee; Congressman Jim Leach (R-IA), Ranking Minority Member Subcommittee on International Development, Finance, Trade & Monetary Policy, House Banking Committee.

THE TRADE AGENDA OF THE BUSH ADMINISTRATION

Ambassador Carla Hills, the United States Trade Representative, outlined the Administration's trade policy for the Washington Conference. The $130 billion U.S. trade deficit is largely a result of the low level of U.S. public and private saving. The resulting budget deficit requires the United States to correct its macroeconomic situation. "We could open every trade market in the world and not end the trade deficit without an increase in savings," said Mrs. Hills. In seeking sustained, world-wide growth, the goal is to seek to reduce the U.S. trade deficit by expanding and liberalizing trade leading to export expansion, rather than through import contraction. Recent import liberalization in Chile, Mexico, and Venezuela have been welcome.

The current Uruguay Round of multilateral trade negotiations is seeking to expand the coverage of GATT disciplines beyond trade in goods — in which the GATT has been successful — to include agriculture and services, which make up an increasingly large share of international transactions. GATT protection of intellectual property rights is a key area that the United States believes should be included. Current U.S. unilateral trade sanctions against Brazil for inadequate protection of pharmaceutical patents is a good example, according to Ambassador Hills, of the dilemma poised when GATT does not have a charter to include intellectual property rights and other services as well as trade in goods. While it was recognized that Brazil currently was in domestic turmoil making it difficult to take corrective actions, USTR had the responsibility for upholding U.S. laws. USTR was, of course, in continuing discussions with Brazilian trade officials.

The Administration — through USTR — enthusiastically supports the Caribbean Basin Initiative (CBI) to increase trade with that region, continued Ambassador Hills. It also supports the congressional initiative to improve that program — CBI II — currently under consideration in the Congress. The only exception is the preferential sugar provision which would violate the GATT waiver authorizing the U.S. sugar import program. As for increased textile quotas for CBI countries, Mrs. Hills said it was not possible to move these quotas about in a preferential manner.

Ambassador Carla Hills, United States Trade Representative.

Concerning the possibility of the development of a regional trading bloc in the Hemisphere, Mrs. Hills said that attention was now focused on the world-wide Uruguay Round negotiations. In general, she observed, free trade areas, such as that with Canada, worked best among countries of relatively similar levels of development and where there is a common culture and language.

Congressman Sam Gibbons (D-FL), Chairman, Subcommittee on Trade, House Ways and Means Committee (right), introduced by Stephen Lande, President of Manchester Trade, Ltd. (left).

MEXICO'S ECONOMIC RESTRUCTURING

Mexico's Secretary of Finance Dr. Pedro Aspe recounted the achievements in restructuring the economy since 1983 and called upon developed countries and foreign commercial banks to promptly lend assistance to ease the foreign debt burden during his remarks to the Washington Conference. Per capita incomes have fallen by 20 percent in the last six years, and increased investment, both public and private, is needed to increase the rate of economic growth. An overhaul of regulations concerning private foreign investment will soon be announced. The sectorial approach in automobiles, pharmaceuticals, and computers and electronics will be phased out over the next year, and those industries will have to compete with others in the marketplace.

New private investment is discouraged by the foreign debt overhang which in turn creates a vicious circle of lower than desired rates of economic growth, argued Aspe. The IMF and World Bank have approved of the many economic reform measures Mexico has taken and are supporting those programs with their resources. It is now up to the developed countries to make the tax, accounting, and other regulatory changes governing commercial banks they had proposed so that commercial banks located in those countries could negotiate the debt reductions already recognized by the market. Delay only prolongs the crisis, and further damages the best interests of the commercial banks and the developed countries. Negotiations would continue, however, as Mexico received more from that route than from confrontation.

Among the economic restructuring measures cited by Aspe were the following:

- the import regime had been liberalized with import licenses formerly required on nearly all imports now required on less than 20 percent, while tariffs had been reduced from maximums of 100 percent to 20 percent (with an average below six percent) and Mexico had entered the GATT;
- of 1155 public enterprises in 1982, some 650 had been privatized, merged, or liquidated;
- the stabilization program had lowered inflation from annual rates of 159 percent in December 1987 to 21 percent in March 1989;
- the basic budget deficit (excluding debt servicing) had gone from a 7 percent deficit of the GDP in 1982 to a 7 percent surplus in 1988. When debt service was included, however, there was a 10 percent deficit in 1988, which the government hoped to reduce to 7 percent in 1989.

Responding to questions, Aspe agreed that clearer rules on foreign investment were needed and said the Government was undertaking to do so. Commerce Secretary Jaime Serra was preparing new liberalized regulations which would be announced in a month or so. It was planned to phase out over a one year period market reserve agreements which had been part of sectorial agreements. Now was the time for all companies to compete which would stimulate the transfer of technology.

Mexico remained opposed to nearly all debt-swap exchanges because of their expansionary effect on the money supply at a time when Mexico was implementing a severe anti-inflation program. Debt-swaps were, however, a helpful tool when they did not result in an expansion of the money supply such as occurred when a government-owned real asset was privatized. Mexico was seeking a much greater reduction in the foreign debt than the 20 percent target mentioned initially in the Brady plan; the net transfer of resources from Mexico had to be reduced from above six percent of GDP to below two percent if growth was to be accelerated.

Concerning capital flight, Aspe said this had occurred in the 1976 to 1982 period. He did not believe there had been net capital flight in the last six years due to high domestic interest rates and monetary stringency. The problem remained, however, of restoring confidence so that the earlier flight capital would be attracted back.

Left to right: Rodman Rockefeller, Chairman, U.S. Council of the Mexico-U.S. Business Committee, David Rockefeller, Dr. Pedro Aspe.

David Mulford, Treasury Under Secretary for International Affairs, takes question from Lawrence Theriot, President of Lawrence Theriot & Associates, following the luncheon address in the State Department's Benjamin Franklin Diplomatic Reception Room.

DEBT STRATEGY UPDATED

The rapidly evolving Latin American foreign debt situation was the subject of the Monday, May 1 luncheon address by Treasury Under Secretary-designate David Mulford to 250 Council members and guests in the Department of State's eighth floor Benjamin Franklin Diplomatic Reception Room. Dr. Mulford was introduced by Council Chairman David Rockefeller who had known the speaker since Mulford first entered government service as a Presidential intern. In his present position at Treasury, Dr. Mulford is the principal official under Treasury Secretary Brady responsible for "working" the foreign debt problem.

Dr. Mulford noted the continuing actions on the debt issue taken by the Bush Administration during its first weeks in office. It had become evident that added debt did not solve the problem, but that added resources were needed for growth to be resumed in the indebted countries. In a significant addition to the 1985 Baker plan, Secretary Brady had on March 10 announced recognition of the need for voluntary debt reduction as part of the program to manage the foreign debt problem. Debt reduction was needed to capture the discount on the debt for the benefit of the indebted countries.Three years of controversy on the capital replenishment of the Inter-American Development Bank (IDB) had been resolved in a meeting of the Board of Governors several weeks later which would allow the IDB to play an important role in the long-term solution to the debt problem. And the April 1 and 2 meetings of the IMF and the World Bank had resulted in general agreement that part of the financial resources of those institutions would be used to assist countries undertaking economic reforms to finance debt reduction packages.

The debt situation was very fluid, and changing rapidly day by day according to Mulford. Time was of the essence and the need for rapid action apparent. Mulford did not believe that the 1982-88 period had been completely lost. Commercial banks were now in better shape (lending from multilateral institutions to the indebted countries had permitted commercial bank debt to be reduced) and the international financial system was not threatened with financial collapse; even though total Latin American indebtedness had increased, ratios of debt servicing to export earnings had improved in most countries.

The "workout" of the debt negotiations was incredibly complex involving numerous commercial banks in many countries; many government entities in both debtor and creditor countries; and the international financial institutions (IFI's), Mulford commented. What was underway was the movement of a complex process to a new format. The United States has about 18 to 20 percent of the capital of the IFI's, while U.S. commercial banks have about 25 to 30 percent of the debt. The negotiations were extremely delicate as Latin America needed to negotiate reductions in existing debt at the same time as they were seeking new borrowing from many of the same commercial banks, as had occurred with the 1988 Brazilian refinancing. The IFI's needed to detail as soon as possible the conditions under which their funds could support debt reduction programs to allow the commercial banks and the indebted countries to know the size of the negotiating table.

Broad international consensus was developing, according to Mulford, on the following principles:

- strengthened economic policy reforms were needed in the indebted countries to accelerate rates of economic growth;
- capital flight must be reversed in the long term and the large amount of funds held abroad repatriated (Chile had used its debt-swap program for this purpose);
- foreign direct investment was a key element and an open investment climate should be cultivated (the existence of debt-equity swap programs would be "an important test" of a country's receptiveness to foreign investment); and
- voluntary debt reduction schemes in which the debtor country benefited from the loan discounts needed to be increased.

During the question and answer period, Mulford said the process of the transfer of credit risk from the commercial banks to the IFI's had already been underway and would continue, using the financial resources presently available in the IFI's. Direct guarantees of commercial bank lending were not in the cards, but "interest support arrangements" were possible by the IFI's. As to whether the Brady plan had raised expectations too high, Mulford believed debtor fatigue and demoralization was being replaced by realistic expectations.

Left to right: Secretary of Commerce Robert Mosbacher closes conference with David Rockefeller and Ambassador George Landau.

ADMINISTERING U.S. TRADE LAWS

The Chairman of the International Trade Commission (ITC), Anne Brunsdale, described the role the ITC plays in helping administer U.S. trade laws. The six member Commission, three Democrats and three Republicans, is a non-policy making, independent, fact-finding agency. It seeks to determine, with the Department of Commerce, if imports are being subsidized or "dumped" in the U.S. market at prices below the cost of production or below their price in the home market. If so, then the ITC seeks to determine if injury is or is likely to be done to U.S. producers of these products. If injury is found, the ITC can recommend that a countervailing import duty be imposed to offset the effects of the subsidy.

The ITC has examined a number of imports from Latin America. Aluminum rods from Venezuela were found to be subsidized by the Venezuelan government. Orange juice from Brazil was also found to be underpriced and dumping duties assessed. Other Latin American products to receive ITC attention were cut flowers from Columbia, Peru, and Venezuela; steel pipe and tubes from Argentina; and cement from Venezuela. The ITC is also studying whether a number of countervailing duty charges which predate Mexico's entry into the GATT are still required.

OUTLOOK FOR THE U.S. ECONOMY

The Chairman of the Council of Economic Advisors, Dr. Michael Boskin, briefed the Washington Conference on the outlook for the economy. He found no reason why the current period of sustained economic growth — the longest in peacetime history — should come to an end. The budget deficit was a problem but was being reduced over time; personal savings levels were low, but had begun to increase; interest rates had peaked and would start down with the next budget agreement that lowered the deficit.

Dr. Boskin noted that all countries — including the United States — indulged in "unfair" trade practices. Such practices are the cause of only a small portion of the U.S. trade deficit, however, and should not be used as a justification for a protectionist trade war that could have serious consequences for the world economy.

Foreign investment in the United States was welcomed by Dr. Boskin. Fears of increased foreign investment were troubling and were not based on economic justifications. It would, of course, be better if increased investment was financed from increased U.S. savings, but in the end the United States was better off with foreign investment than without it. Ultimately, the United States would have to stop borrowing from the Japanese and the Germans to finance its budget deficit, but this could be worked out over the next two to four years.

Michael Boskin, Chairman of the Council of Economic Advisers.

Washington Conference Photography by Larry Glatt

POLICY STMT. SUMMER 1988

THE RE-DISCOVERY OF AMERICA: A NEW INTER-RELATIONSHIP IN THE WESTERN HEMISPHERE

POLICY STATEMENT SUMMARY

Serious economic and political problems beset many of the countries of the Western Hemisphere. The United States must develop fresh, innovative and dynamic approaches toward our neighbors. New initiatives are called for. There is a sense of urgency in the air. That is the essential message of a policy paper issued by the Americas Society.[1]

Urging the new Administration assuming office in January, whether Democratic or Republican, to immediately take steps aimed at nurturing a broad-based bipartisan policy, the Society says that the policy should have two intertwined goals:

-- to preserve and advance vital political, economic and security interests of the United States in the region, and

-- to respond positively to the equally vital economic and special needs of the nations of the Western Hemisphere.

The basis for such a policy of partnership must be one of realism and mutual respect and be marked by continuous consultation on the full range of issues of concern to the hemisphere.

Too often in the past, such consultation and respect have, quite frankly, been little more than lip service. A deep and abidingly respectful relationship between the Americas must be fostered and based on shared values, mutual interests and friendly, reciprocal relations.

The Americas Society outlines a number of concrete steps that should be taken quickly by the new U.S. Administration in Washington:

-- To work to engender a mature, working partnership between the democratic nations of the Hemisphere characterized by frequent, routine consultations on all important subjects, especially issues of peace and economic development.

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[1]The Americas Society is the only national not-for-profit institution devoted exclusively to informing Americans about all facets of our Western Hemisphere neighbors. Its missions are to foster an understanding of the contemporary political, social, and economic issues confronting Latin America, the Caribbean and Canada, and to increase public awareness and appreciation of the rich cultural heritage of our neighbors and in this Hemisphere.

-- To promote respect for human rights, including free elections and free participation in pluralistic democratic governments throughout the Hemisphere.

-- To join with all the leading countries of the Hemisphere in supporting peace and democracy, the objectives of the Arias Peace Plan for Central America. And to promote the necessary and related economic and social development throughout the region.

-- To encourage greater economic growth based essentially on efficient, market-oriented policies which do not overlook an appropriate governmental role in achieving growth and development.

-- To support reciprocal trade and investment liberalization and to seek to minimize protectionism.

-- To discover new ways to ease the debt burden in Latin America and the Caribbean by boosting their exports and by finding new methods of funding Latin American development.

-- To launch a twin-pronged assault on drugs, most importantly on drug consumption in the United States, but also, and in cooperation with Latin governments, on drug production and the interdiction of flow from Latin America.

-- To provide greater bilateral economic assistance to the poorest countries as well as population planning information when sought by Latin America, particularly when administered by multilateral agencies.

-- To increase U.S. support of the multilateral lending institutions, especially the World Bank and the Inter-American Development Bank.

-- To protect Latin America's environment, especially its tropical rain forests, from unnecessary destruction and from the ravages of man-made pollution.

-- To increase the quality and quantity of educational and cultural exchange between the United States and the countries of the Hemisphere.

-- Finally, the new President should direct his Administration to conduct on an urgent basis, a high-level, in-depth study of the inter-American relationship for the purpose of making recommendations as to how to improve the relationship.

The full report, with explanatory material, is attached to this brief summary.

Note: a multinational group composed of citizens representative of many countries in North, South and Central America contributed to the ideas expressed in this Americas Society Policy Paper.

THE RE-DISCOVERY OF AMERICA:
A NEW INTER-RELATIONSHIP IN THE WESTERN HEMISPHERE

The community of nations comprising the Western Hemisphere is clearly a vitally important area of the world for the United States. This basic imperative of U.S. foreign policy is sometimes forgotten in an era of big-power, East-West rivalries and the emergence of the Pacific Basin region. Yet the utmost importance of Canada, Mexico, the countries of Central and South America, and the Caribbean to the United States can be overlooked only at peril to our long-run national security interests.

We share the common values of Western Civilization, together with the uniqueness of our common experience in the New World. There is a resultant interdependence that is essential to all the nations of our Hemisphere. The United States cannot be secure unless those nations are safe from hostile interference. Moreover, our social problems are immeasurably complicated by the flow of drugs from Latin America and mounting migration from the area. At the same time, the economic and social prosperity of our neighbors and even the stability and development of their democratic institutions, are influenced by the policies and behavior of the United States.

The large and growing Hispanic-American community within the United States has helped to focus U.S. public attention on Latin American issues. It is not widely recognized that the United States has become the fifth largest Spanish speaking country in the world. As the Hispanic community grows in self-awareness and political influence, this ethnic group will pay even closer attention to how U.S. foreign policies affect Latin America.

Given this background which underscores the interdependent nature of the inter-American relationship, it is essential that the United States develop fresh and dynamic approaches toward our neighbors in the Western Hemisphere. The basis for such a new policy, which seeks partnership within the Hemisphere, must be one of attention and respect for individual countries of Latin America, the Caribbean, and Canada -- and their peoples.

To often in the past, such attention and respect has, quite frankly, been little more than lip service. A deep and abidingly respectful relationship among the Americas must be kindled.

Toward this end, the Americas Society asks the new Administration in Washington, whether it be Democratic or Republican, to take the lead in forging a renewed sense of partnership with the other nations of the Hemisphere, including Canada -- allowing all Americans, from North and South, to pursue our common destiny within the context of respect for the sovereignty, independence and cultural uniqueness of individual nations.

The Americas Society further urges the United States to acknowledge the essential importance of inter-American relations, and to formulate and pursue a comprehensive Hemispheric policy in close cooperation with our neighbors and allies. Such a purposeful U.S. policy, aimed at achieving a mutually supportive, mature partnership, includes action across the entire range of political, economic, environmental and cultural issues. Here are some of the areas of priority concern:

The Crisis of Debt and Growth

Latin America remains in serious economic difficulty -- this despite the efforts of many countries to cut back consumption, free up trade and investment, and move away from the post-war model of import-substitution and dependence on commodity exports. Even those countries that have moved the furthest towards open economic policies face tremendous problems. Substantial new resources have simply not been attracted. Worse still, the region has suffered a net outflow of resources, including flight capital, since 1982, with no prospect of an imminent turn-around. Meanwhile, some economies are close to hyper-inflation and economic development in most countries is at a standstill. Absent palpable progress, there is the danger that public opinion may once again swing toward populists who advocate state intervention and default on the debt.

Latin America's future development depends in large measure on two factors: the general health of the global economy and that of the United States, in particular, and long-needed reforms in the policy approaches of the countries themselves.

It is our view that steady, responsible U.S. economic policies, resulting in consistent growth in the U.S. economy are the best tonic for the emerging, export-oriented economies of Latin America and the Caribbean. But a strong U.S. economy must be accompanied by the adoption throughout Latin America of complementary free-market economic policies designed to maximize exports; harness the productive energy of private initiative, and stimulate vitally needed domestic saving, in order to stem capital flight. Support for increased capital flows from both international financial institutions and commercial banks will boost this process and conditioned support should be a key tenet of U.S. international economic policy.

Latin America's debt burden obviously cries out for solutions. Flexibility is essential, but debt forgiveness is not the answer. Such an approach would reward those who have done least to find answers to the problem and, at the same time, would compromise the future growth of the region. That growth is dependent to a significant degree upon imported capital. Imaginative approaches are urgently needed. Those countries that

adopt responsible policies should be offered new financing as well as the means of credit enhancement in order to transform existing debt into more viable obligations. The creditor nations including the United States, Japan and West Germany, debtor nations and creditor banks should continue to propose innovative, voluntary market techniques aimed at reducing debtor nation debts.

While debt burden reduction would significantly boost the prospects of the larger Latin economies, smaller countries, particularly in Central America and the Caribbean, will not gain access to world financial markets without at least some, well-targeted, direct, concessionary economic assistance. But, if the world has learned only one thing about economic development, it is that it can occur only when the people of the developing society itself are sufficiently motivated to undertake the underlying attitudinal and institutional changes necessary for sustained economic growth.

The economic success of the newly industrialized countries of the Pacific rim suggest that economic development is possible as a willful act of national self-motivation coupled to a large degree of individual economic freedom and a circumspect role for the state. No amount of foreign aid can prompt this dynamic circumstance. Nevertheless, assistance can be helpful to an indigenous process already underway. Given the vital importance of Latin American and Caribbean countries to the United States, it is regrettable that the level of available resources has not been more generous.

An example of effective self-help is the private micro-business credit movement in the Hemisphere which has come to represent a positive force for development. It should be encouraged. The Americas Society recognizes and applauds the pioneering efforts of Hernando de Soto in this respect.

Trade

Freer trade can be a great engine of growth, both for Latin America and for the United States. For Latin America, the transition to export-oriented, competitive economies will not succeed without enhanced access to the U.S. market -- or, for that matter, to the markets of many other countries. Therefore, above all else, the U.S. must avoid the temptation of protectionism -- and encourage trade liberalization by the OECD nations and Japan, as well as in the newly developing and recently industrialized countries. To the extent possible and consistent with international agreements, the U.S. should extend maximum trade benefits to our neighbors in this Hemisphere, particularly those in greatest need and those whose policy

reforms are such as to take advantage of greater market access and liberal quotas.

Three new trade measures suggest the sort of creative thinking needed in this field. They are the Caribbean Basin Initiative, the new bilateral agreement with Mexico, and above all the U.S.-Canada Free Trade Agreement. A top priority of the new Administration should be to use new trade negotiating authorities to bargain for greater reciprocal access through both the Uruguay Round of Multilateral Trade Negotiations, and through a series of bilateral, most favored nation deals in accordance with the GATT. Eventually, bilateral free trade agreements with and among Latin American countries may be desirable, such as that which already exists between Brazil and Argentina. The establishment of a Central American and Caribbean Common Market would be a welcome development.

As the largest market in the world, the United States must play a central role in any increase in trade in the Western Hemisphere, by both accepting more imports and sharing in increased market access to its Hemispheric trading partners. But for the United States, there are a number of problems which limit the potential for expansion and must be addressed in order to derive maximum mutual gains from a dynamic, multilateral trading relationship. These include the stagnation of the current decade, restrictions on services and high technology imports, and inadequate protection for intellectual property.

It should be expected, too, that the United States will vigorously pursue redress for unfair trade and foreign investment practices through Section 301 negotiations when, upon request and consultation with the U.S. business community, it is deemed that such action is necessary and appropriate.

Private Investment

Latin America accounts for the bulk of U.S. foreign direct investment in developing countries. But the level of new domestic and foreign investment in Latin America has fallen precipitously in the 1980s. Yet because of net, negative foreign credit flows and low domestic savings, Latin America needs both domestic, private and foreign investment now more than ever. Efforts should be made to encourage Latin American governments to accept and acknowledge the benefits of direct private investment, both domestic and foreign -- and to recognize the intensifying global competition for such investment. This competition is evident in other developing countries, and in the United States itself.

Toward this end, Latin governments should be encouraged to minimize legal and bureaucratic impediments to investment and to enact policies that promote stability and transparency in regulatory regimes.

Debt, trade and investment are inter-related aspects of the overall economy and as such are keys to the solution to the problem of how to re-start economic growth. Consequently, these three facets must be treated so as to take into account the effect of one upon the others. For example, dynamic export growth seems possible given new investment. But in turn, the level of new investment is a function of general confidence and also depends on such practical issues as progress in reducing foreign debt as well as government economic policies conducive to saving and entrepreneurial risk-taking.

Illegal Narcotics

Illegal drug use threatens human health, educational achievement, and economic productivity, as well as the moral fiber of our societies and the social order of our communities. Long an acute problem for the United States, drugs now have a pernicious and destructive influence on many Latin American countries as well, undermining democratic government and destroying the rule of law as embodied in established judicial systems.

While all the cocaine and much of the heroin and marijuana that enters the United States are produced in, and transit, Latin America and the Caribbean, the tremendous pull of the U.S. market is the driving force of this illicit trade. Therefore, aggressive and effective measures to suppress the consumption of illegal drugs in the United States are even more important than efforts to stop production and to interdict the flow from abroad.

The Americas Society calls upon the United States to greatly improve law enforcement and educational efforts to combat illegal drug use at home. Moreover, the United States should pursue a mutually supportive relationship with other countries afflicted with the problem. Such a relationship demands cooperative action and public policies respecting each countries integrity.

Foreign Affairs and National Security

In the last decade, Latin Americans have made enormous progress in restoring democratic government. In the 1970s, less than one third of the people of Latin America and the Caribbean enjoyed democratic government. Today, the vast majority do.

These gains, however, are still fragile. U. S. policy should help new democracies develop durable institutions in strengthening permanent democratic, pluralistic, and representative government.

Respect for and support of generally recognized human and civil rights are solid principles of democratic government. In this regard much progress has been made in recent years. The Americas Society urges that all countries of the Hemisphere make concern for human rights a key matter of concern.

Concomitant with the return of democratic government, Latin American leaders are working for greater regional and international political and economic cooperation. The Contadora Group and the five governments of Central America have sought to bring about a peace settlement in Central America. Similarly, new economic relationships such as the previously noted bilateral trade agreement between Brazil and Argentina are coming into existence.

The Americas Society calls on the United States to provide appropriate support for these and other Latin American and Caribbean multilateral initiatives for peace and development. The need for serious, regular consultations, on the issues of concern and impact to both the United States and Latin America, has never been greater.

Security is a topic of vital, mutual concern. Traditionally close relationships between the U.S. military and the professional armed forces of the countries of the Hemisphere have markedly diminished in recent years. With civilian, democratic governments now in power in most countries, the time is appropriate for the United States to revive cooperation and training exchanges aimed at enhancing professional military development within the context of these civilian democratic governments.

The need for cooperative security relationships is pressing. Terrorist groups, often in alliance with criminal drug traffickers, pose a real and immediate threat to some democratic governments. But the issue is larger. It is essential to address the absence of any meaningful collective self-defense and peace-keeping mechanisms among the American States such as NATO provides for the Western Alliance. There is an appropriate role for U.S. military assistance which does not infringe on sensibilities in regard to sovereignty, independence and non-intervention, and which could foster a necessary hemispheric security arrangement.

As for economic assistance, it should be noted that the United States currently provides substantially more help to other areas of the world than it does to the nations of our own

Hemisphere. The Americas Society calls upon the new Administration in Washington to review its global economic assistance policy with an eye to the strategic importance of the countries of our own neighborhood. Our friends in this Hemisphere need our assistance too, and should not be taken for granted in regard to either their security or their economic well-being.

The World Bank can play an increasingly important role in resolving the economic crisis in Latin America with U.S. participation in the long-delayed General Capital Increase that has been approved by the other members of the World Bank. The Americas Society urges the Congress to approve this funding expeditiously. Also, there is an urgent need to overcome the impasse between former IDB management and the U.S. government in regard to IDB lending procedures. The Americas Society calls upon all parties to resolve this question.

Making Peace in Central America

An end to the suffering of the peoples of Central America remains elusive. To be sure, much has been achieved in this decade: efforts of the Sandinistas to export the Nicaraguan revolution have been contained; new democracies have been established; economic and social reconstruction has begun.

But the conflicts go on. Moreover, the involvement of the Soviet Union and its allies continues to threaten the security of the Americas. We note that Soviet military assistance to Nicaragua continues even as peace efforts struggle to gain momentum and long after the U.S. has ceased providing arms to the Democratic Resistance.

The August 1987 agreement among the five Central American presidents, better known as the Arias Plan, produced some of the essential elements for an enduring solution. It contains commitments to democracy and the protection of political freedoms under each country's constitution; to refrain from aggression against each other; and to end support for insurgencies on neighbors' territory. But subsequent events show that Central America needs support and cooperation from others in the Hemisphere to bring full settlement of the region's conflicts.

The Americas Society believes that what is needed now is for the leading nations of the Hemisphere to join together in a concerted, cooperative movement to achieve democracy, peace and economic development in Central America. The Americas Society calls upon the community of Latin America nations to take the lead in bringing into being the peaceful settlement envisioned by the Arias Plan. What is most needed now is implementation and follow-through.

The critical element is a definition of the essential prerequisites to reduce the conflict. Among them would be a commitment to eliminate all foreign military advisors and strict limits on military assistance. Overall arms and force level reductions, particulary for Nicaragua, is basic to bringing the Central American countries back into a peaceful relationship with each other. It may be necessary for the Latin American countries to call for placing a Hemispheric peace-keeping force in the region with a goal of building a Central American security framework to deter further conflict and insurgency.

The economic and social reconstruction and development of the Central American region is, of course, a critical and integral part of the problem. The Americas Society calls for a concerted international effort to stabilize and improve the economies and social infrastructure of these long-suffering countries, traumatized by division and conflict. Improving all aspects of communication between the countries of Central America and between the region and North and South America would be a particularly worthy objective.

Population/Environment

The rate of population growth in these countries has put enormous pressure on scarce resources and available employment. The United States should, when called upon, support family planning efforts, excluding abortion, designed to help bring population growth into line with reasonable development expectations. Such assistance would be particularly appropriate and welcome if administered by multilateral health and development agencies.

Recognizing that there are always trade-offs inherent in the relationship between economic development and protection of the natural environment, the United States should encourage environmental protection -- particularly in tropical forests. The United States would be helpful in providing scientific knowledge and expertise to assist in the development of projects with minimum adverse environmental consequences.

Education

Official cultural interchange has declined in recent years--both in quantity and quality. Private exchanges remain important, and it should be noted that many Latin Americans attend grade and high school as well as university in the United States. Nevertheless, there is an obvious need to focus on this area of our inter-relationship.

The Americas Society believes that educational, scientific and cultural exchange programs between the United States and Latin American countries should be significantly expanded. This would ensure that our society is in touch with all parts of the Hemisphere's emerging leadership, and that this core of young people has an opportunity to build mutual understanding and lasting ties with the United States.

Conclusion

In conclusion, the Americas Society calls for a re-discovery of the Americas - both North and South - in the sense that all the countries of the Hemisphere acknowledge the special inter-American relationship that binds them together and resolve to create an abiding, consultative partnership based upon mutual interests and neighborly reciprocity. In the U.S., a principal task is to re-focus public and political interest on Latin America as a whole as an area of the world which is a source of strength for the U.S. and not merely of problems. It is equally important that Latin and Caribbean societies come to appreciate that enhancing relations with the U.S. is their own best alternative for the future. Opportunities for realistic cooperation between all the countries of the Hemisphere abound. We need only make the effort to discover them.

The advent of a new Administration in Washington will present a timely opportunity for the United States to focus attention on the Hemisphere. Given the serious nature of the problems we face together, the moment is opportune. The Americas Society calls on the new President of the United States to direct the highest levels of his Administration to immediately prepare an in-depth study of the inter-American relationship for the purpose of making specific recommendations in regard to U.S. policies which could help to engender a truly effective partnership of nations in the Hemisphere. In compliance with the President's directive, concerned, senior Administration officials should consult broadly with the most knowledgeable people from private business and academic life, including notable citizens from countries of the region. The problems we face are serious and complex, and require urgent attention. The Americas Society believes this effort warrants the highest priority of the new Administration.

Remarks by David Rockefeller
Chairman's International Advisory
Council of The Americas Society
Caracas, Venezuela
February 16, 1989

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approaching, and we must face the challenge they present to us: "...the resulting changes must not be simple, cosmetic changes with no lasting impact. What Latin America requires is a turn of the wheel to arouse the forces of society that are now dormant or silent because of indifference and lack of bold initiatives."

* * * *

There is much for the Congress of the New World to do, much we can only do together, from protecting our democracies from the encroachment of foreign ideologies and the scourge of drugs, to protecting our world ecosystem, without condemning our Hemisphere's poor to even greater suffering and privation.

It may all seem a tall order, but not an impossible one, I believe, for a generation of Americans that in one decade, wrought a Hemisphere-wide democratic revolution. Not an impossible or even implausible one for the inhabitants of a New World, for the descendants of Columbus.

In the words of Bolívar, "The veil has been torn asunder. We have already seen the light and it is not our desire to be thrust back into darkness..." No, we will not be thrust back, by debt or political violence, by unhelpful pride or apathy or any other means. We will continue to pursue the voyage of discovery Columbus began 500 years ago, the discovery of a new world of freedom, a new home for man's finest and most generous dreams of peace and liberty and, yes, prosperity as well.

It is a great pleasure to be with you today for the Chairman's Council Meeting of the Americas Society. And, as we are meeting this week in Caracas, let me just congratulate the people of Venezuela on the Inauguration of your new President, Carlos Andrés Péréz. The attendance of some 22 heads of state is an indication of the respect in which he is held around the world. He gave an especially eloquent speech, an indication that such respect is well founded — that this is a man whose wide experience and profound appreciation of history give him the opportunity to play a leadership role in bringing this Hemisphere together.

* * * *

Anniversaries are always a time for thought, reflection and celebration, and perhaps none is so resonant for those of us who call ourselves *Americanos*, whether *del norte o del sur*, than the approaching anniversary of Columbus's first voyage of discovery 500 years ago. In school, we were taught that he sailed to find a new trade route to the Orient — instead he discovered something infinitely more precious, a route to the future, to a New World of new hopes and new dreams.

I think you know that the Americas — our friendship, cooperation and common cause — have been not just a passion of mine, but of my family for several decades. You may know that my brother, Nelson, was chosen at a comparatively young age by Franklin Roosevelt to be Coordinator of Inter-American Affairs during World War II. During that time he helped forge a unity in our hemisphere — one built largely on the strength of personal relations and good will among our leaders — which was one of the building blocks of the new United Nations.

It is that harmony, that unity of purpose that we emulate and try to recapture today in the Americas Society. It has always been my belief that the countries of the Western Hemisphere are more than just accidental neighbors, we are a community of nations and of peoples dedicated to a common ideal — an eminently practical ideal, known as democracy.

We are united by our heroes, who shared a *common* vision of freedom — Washington, Bolívar, San Martin, Artigas, to name only a few — and by a people, the discoverers, refugees and immigrants from other lands, who shared an *uncommon* faith and courage in their quest for liberty and new life. There have been setbacks along the way, and there will likely be more in the future. But here in this Hemisphere, when dictators grab power, they always know they are living on borrowed time — because this Hemisphere belongs to the free.

* * * *

Today, as we approach the anniversary of Columbus's discovery, we are also entering a new era of hope. Thanks in part to the heroism and commitment of many of you here today, we have witnessed in the Americas in the last decade one of the most dramatic and profound political transformations in the history of man. Ten years ago, only 25 per cent of the people of Latin America and the Caribbean lived in democracies. Today, well over 90 per cent have the freedom to choose their own government in free, fair and democratic elections.

This political liberation is happening at a time of unprecedented change, and I would say, possibility, in the world economy as we move into what has become known as the technological, or information revolution. It is, in fact, an entrepreneurial revolution, powered not by governments, but by individuals, a revolution of progress and productivity for those that embrace the potential of economic freedom.

economy, as indeed has happened repeatedly throughout history.

* * * *

These ideas and the possibilities that they hold for the future remind me of those famous lines from the poem by Jose Martí. He spoke them in a different century and with, no doubt, a different political view, but those words seem just as appropriate today in this context:

> With the poor ones of the earth
> I wish my lot to be:
> The mountain's brook to me is worth
> More than the mighty sea.

Like the sea, the government may be massive, and in a raw sense, impressive in its power, but it is the millions of little rivers, the millions of common people whose dreams and hopes and labors flow together that make fertile the plains of economic growth.

* * * *

There is, as I have said, an important and necessary role for government — it is in large part to expand and protect the realm of freedom and private activity. And that, too, should be one of the first focuses of the Congress of the New World: to pull down the trade restrictions — I'm thinking especially of those in the United States — which stand as barriers on the road to development.

Today, as we look forward to "1992" and what some fear may become a "fortress Europe," and as we watch, on the other side of the world, the surging growth of the "tiger economies" of the Pacific Rim, perhaps it is time for our Hemisphere to draw together, to create, if not an entire free trade zone, then a *freer* one. We might think again of ways in which we could begin, on the economic plane, at least, to realize Bolívar's vision of a unified America that would be "a center of relations between Asia and Europe."

As President Péréz said in his eloquent Inauguration speech a few days ago, new times are

studies and conclusions of his distinguished countryman, the economist Hernando de Soto.

Striking out into new territory, beyond the official statistics of the formal economy, de Soto has discovered in his native Peru an "informal economy" of substantial size and vitality which exists entirely outside the purview of government. For a country in as difficult a situation as the one Peru presently is in, this energetic "informal sector" certainly provides part of the answer to the problems of debt and stagnation. De Soto points out that this spontaneous informal sector is no minor phenomenon. Existing, as it does, without the protection of the law — at least with its neglect, often its active hostility — the informal economy provides food, shelter and employment to millions. Literally 95 per cent of the surface transportation in Lima, to give one example, is provided by "informal" businessmen.

This wide-spread entrepreneurial response to over-regulation and excessive government control found so extensively in Peru but in other countries as well, also provides a potential political base for the resurgence of formal market-oriented policies. In fact, de Soto's point was confirmed in a study sponsored by the Americas Society and called "Toward Economic Growth in Latin America" that calls for "substantive de-regulation to encourage and support entrepreneurial forces."

De Soto titled the book he wrote on this subject, *El Otro Sendero*, implying that by freeing this entrepreneurial spirit we could find an alternative to the cycle cf economic decline and political unrest that inevitably lead to more and more violent outcomes. This clearly is not the complete answer to our current situation. But, it does suggest that less regulation may lead to the desirable end result of fuller integration of the "informal sector" into the broader economy. Then, the spirit, energy, and enthusiasm of the risk-taking small businessman and farmer may very well help generate strong, stable governments *and* a growing

These are the great opportunities of the moment, opportunities that we must not let fall through our grasp.

• Of course, there are immense difficulties confronting us. Most immediately, and urgently, is the crushing burden of foreign debt that, if not dealt with wisely, soberly, and imaginatively, could very well threaten our political and economic progress.

• Then, too, there is the problem of illegal narcotics — fueled by demand in the North and causing increasing havoc, both social and political, in the South. lt is a tragedy we suffer together, and only together can we find a solution.

• The destruction of our rain forests — forests which literally provide our ecosystem with the substance of life — is not just a Hemispheric, but a global concern.

• And finally, there are the legitimate security concerns of our democratic nations in the face of terrorism of both left and right.

In a sense, then, it is both the best and the worst of times, a time of uncertainty and of opportunity — a time, therefore, when we must not delay. We must seize the moment.

✱ ✱ ✱ ✱

Recently, a number of new administrations have come into office: President Borja in Ecuador, President Salinas in Mexico, President Bush in Washington, President Péréz only a few days ago here in Caracas, and most recently of all Michael Manley in Jamaica. Prime Minister Mulroney has just embarked on a new term of office in Canada, and soon scheduled elections will be taking place in many other nations, including Argentina, Brazil, Bolivia, Uruguay, El Salvador, Chile — and let us all hope that the recent changes in Paraguay will lead there also to true democracy and respect for human rights.

✱ ✱ ✱ ✱

This period of change and renewal is a good time to take a fresh look and to explore new approaches. It is a good opportunity to convene what I would call a *Congress of the New World*, a pan-Hemispheric summit that would include every one of the democratic nations of the Americas.

Twenty-five years after the Alliance for Progress, fifty years after the Good Neighbor Policy, the time is ripe for new initiatives. Five hundred years after Columbus's voyage of discovery, it is time to come together to rediscover America and to rededicate ourselves to the promise of our Hemisphere.

On this occasion, perhaps, the impetus shouldn't come from Washington. It would seem to me the Group of Eight, now for the time being reduced to seven, might be the appropriate forum to call for such a Congress. One of the purposes would be a reassessment of Hemispheric relations. Among other things, it should examine the role of Canada which has always been important economically but which has stayed aloof in terms of political involvement. Another priority would be to take a look at the present effectiveness of the Organization of American States with a view to seeing how it could be strengthened. And maybe this time we shouldn't look only to our elected leaders to provide all the initiative. Perhaps the Congress of the New World should include not just government officials, but business and other private sector leaders as well.

* * * *

But whatever the origin, whatever the make-up, the emphasis of the Congress of the New World should be on the *new*. We must start with a clean slate, rather than return to the strains, problems and difficulties, many of them perennials, which have so often confounded our attempts at cooperation in the past. We must start off on the premise that we have all made mistakes, that there are serious problems we must face, and we must face them together, in a new partnership that

central planners will never be able to keep pace with the frenzy of invention and technological progress that is only in its beginning stages today. They can never match the ingenuity of millions of free minds, inventing, imagining, dreaming, not only creating new technologies but the almost infinite uses and applications they will be put to. There is, of course, an important, even indispensable role for government in our modern complex society. But the need for the kind of drive, creativity and initiative which come from a properly motivated private sector is equally essential.

* * * *

I have heard it argued that statism and central planning are necessary for Latin America; that our "North American" model of development is not applicable here in the Southern half of the hemisphere. I am a great believer in appreciating the diversity and uniqueness of our individual cultures. We *are* very different in many ways. But there is one thing in which we are not different, and that's the spirit of enterprise.

There are no more enterprising people to be found anywhere than in Latin America. We see that in the United States when Latin Americans come to our country to start businesses. They work fantastically hard, and often end up, even in the first generation, surpassing others who have lived in the U.S. for several generations. Differences between our nations are to a considerable extent the product of the economic and political systems in which we live and work. But where private initiative is suppressed and discouraged by government, private initiative tends to take on other forms. Peru is a case in point.

In this regard, we are fortunate to have with us today as a prominent Peruvian member of the Chairman's Council, a man who is not only one of this Hemisphere's great novelists, but also a public figure of increasing note — Mario Vargas Llosa. For the past several years, Mr. Vargas Llosa has been working to bring to the world's attention the

and international organizations on a different basis than we have seen until now.

I am very hopeful that some new approaches within the parameters I have suggested can be explored during our meetings in Caracas.

* * * *

The debt problem is closely related to a broader question of the relationship between the public and private sectors in our present day social order.

Around the world, men of all political persuasions have become disillusioned with the romance of big government. Like many of the enthusiasms of our youth, it left us with nothing more than memories and big bills to pay off. One of the most dramatic intellectual developments of our time has been the growing tendency of communist governments to abandon in practice many of the precepts of communism. While still paying lip-service to a return to "pure Leninism," they struggle, more or less ambivalently, to embrace the productivity of free markets. A remarkable article published recently in the official organ of the Soviet Foreign Ministry, no doubt with Eduard Shevardnadze's blessing, stated not only that the "international class struggle was anachronistic," but that the developing countries, and this is a quote, "...suffer not so much from capitalism as a lack of it."

If such is the quality of what Mr. Gorbachev calls "new thinking" in the Soviet Union, perhaps it's time for some new thinking here at home. The fact is, the need for our Hemisphere to embrace the free market, entrepreneurial models of development has never been more urgent. I spoke earlier about the technological revolution, and the new potential for a better life it represents. That revolution also poses a direct challenge to statist economies.

A centrally planned economy might be able to dig metals from the ground. Though less efficiently, it may be able to run the giant factories and assembly lines of the industrial revolution. But the

enables us, as sovereign, independent and culturally unique nations, to pursue our common destiny in this Hemisphere.

From the perspective of this *Norteamericano*, there are at least three important developments that make me optimistic about the potential for success of a Congress of the New World.

• The first — one that is not widely recognized — is the fact that the United States has become the fifth largest Spanish speaking country in the world. Our "Euro-centrism" of the past, a preoccupation that had as much to do with heritage as with history, has already begun to shift. Our growing Hispanic population will certainly cause us to focus more seriously, and I would hope, with more constancy and with a broader mind, on relations with our Southern neighbors.

• The second is what I believe to be one of the greatest foreign policy triumphs of the Reagan-Bush Administration — the Canada-U.S. Free Trade Agreement. Although the objectives of this Agreement have been misinterpreted in some quarters, and although a similar treaty in the same form would clearly not be appropriate for other nations in the Hemisphere, many of which are at different stages of development, the Canada-U.S. Free Trade Agreement does serve as a model for how two nations with many economic interests in common can create a cooperative community that preserves the sovereignty and cultural diversity of its members. It would seem probable that other forms of economic cooperation could be worked out to the mutual benefit of the U.S. and Latin American nations.

• The third development, and perhaps the most immediately encouraging, is the new approach I sense in the new administration in Washington. I had the pleasure of meeting with President Bush shortly before his Inauguration and we had a substantive and, I felt, extremely fruitful discussion. I could tell that the points I made about increased cooperation and improved consultation, at all lev-

els and on the full range of issues, hit a responsive chord.

Too often in the past, my country has created unnecessary strains in our relationships throughout the Hemisphere by giving the impression that we do not treat our neighbors as equal partners and that we enter into consultations only when we want something from them. George Bush is, in my view, a man deeply aware of the importance of Latin America and concerned not to repeat the mistakes of the past. His pre-inauguration visits with Presidents Salinas, Alfonsin and Péréz are, I believe, indications of the level of interest and involvement he will continue to take in this area.

Furthermore, George Bush is a man who knows how vital it is to establish personal relations with other world leaders, and that in itself can go a long way to clearing some of the obstacles and improving cooperation among our nations.

So I believe that the climate is right and the stage is set for our nations to come together in a Congress of the New World. There has rarely been a more fertile opportunity for diplomacy, for statesmen and for individuals in the private sector to join with each other to tackle the problems of our Hemisphere.

* * * *

If I might, I'd like to take a moment to sketch out some of the approaches we must take, here at the Chairman's Council and, indeed, in any future Hemispheric gathering. The problem that weighs most heavily on our minds, and now seems to drive almost every other consideration, is the massive foreign debt that has helped create what some call "the lost decade" of economic development in Latin America and could, if not handled correctly, turn our hopes for the 1990s to dross.

Debt is more than just an economic problem. Soaring unemployment, hyper-inflation in some countries, slow or stagnant growth and declining

living standards in which the poor grow poorer and austerity means foregoing not luxuries, but the very necessities of life — these are the fuels that fire political unrest and that can threaten our Hemisphere's democratic future.

Much has been written about this debt. I dare say much will be said about it during our deliberations here in Caracas. We all can agree it is not a problem that admits to easy solutions.

Some time ago, then Secretary of the Treasury, now Secretary of State Baker put forward the debt-plan which became known by his name. The Baker plan as instituted relied mainly on new infusions of foreign lending, both public and private, together with insistence on the adoption of disciplined domestic policies by the debtor nations to avert crisis and spur growth. While it served an important function at the time, it's clear that the problem has not yet been resolved and that new initiatives are now required beyond the proposals originally outlined by Secretary Baker.

Specific proposals on what to do are legion. I shall not try to evaluate them this morning. Let me just suggest that there are two criteria which must be satisfied by any plan if it is to have lasting benefits to the debtor nations.

• First, enough relief must be provided in the servicing of the debt so that nations encumbered by heavy debt can generate sustained growth.

• Second, no plan will be beneficial to either creditors or debtors unless there is an ongoing incentive to extend new credits and make new investments. Among other things, this will require the continuation of domestic economic reforms which some countries have already undertaken.

The problems and requirements of debtor nations vary from country to country. Universal panaceas will not work. Solutions must still be found on a case-by-case basis, painful and frustrating though that may be. But that does not preclude the further involvement of lenders, governments

COUNCIL OF THE AMERICAS
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WASHINGTON REPORT

A SUMMARY OF ISSUES OF INTEREST TO U.S. CORPORATIONS ACTIVE IN LATIN AMERICA JANUARY-MARCH 1990

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This conference will be particularly important to you and your company as we will look ahead to the now discernable trends that will affect how the United States and Latin America will interact in the global economic environment of the 1990s. Newly elected democratic governments throughout Latin America and the Caribbean are burdened by crushing foreign debts, stagnant economies, and rising political, demographic, environmental, and social tensions. In many countries, democratic leaders are urgently seeking to implement reforms that are needed if the economic stagnation of the 1980s is to be halted and reversed. Their success — or failure — will have dramatic implications for U.S. business, national security, and global environmental and humanitarian interests.

Will these Latin American economies relate positively to the changing global trading and investment patterns that are emerging in the 1990s, or will Latin America be marginalized and ignored with some academics predicting "A New Dark Age for Latin America?" What are the implications for U.S. multinationals? The prospect of EC 1992 raising additional barriers to Latin American exports has already caused apprehension in the region. This is compounded by the amazing events in Eastern Europe which have resulted in additional competitors for limited world capital investment resources. The imminent conclusion in December 1990 of the Uruguay Round of multilateral trade negotiations in Geneva, and the implementation of the U.S.-Canada free trade area, have raised the possibilities of other trading relationships in the Hemisphere.

At the Washington Conference, we will learn how Bush policy makers plan to react to this unfolding situation. We will be able to share with them our perception of the great economic importance of Latin America to the U.S. economy — a reality that is often overlooked given the front-page events happening in other parts of the world.

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The View From Embassy Row

VENEZUELA-UNITED STATES ECONOMIC RELATIONS AT A TIME OF RISK AND OPPORTUNITIES

By His Excellency Simon Alberto Consalvi
Venezuelan Ambassador to the United States

Venezuela and the United States enjoy a long-standing relationship nurtured by common values and shared interests. Their scope is generally not in the forefront of public perceptions nor has Venezuela made this a salient feature of its relationship with the United States. We have preferred, as we still do, a discreet but systematic approach to Washington.

Nevertheless, these are times of great changes; of shifts in priorities and policies. Neither Venezuela nor the United States can escape reality. It is a time of risk and opportunity. A mutual understanding of our national priorities and circumstances is critical.

Today, Venezuela is striving to lay the foundations for a new stage in its political and economic development. Democracy and development, our two most salient national objectives, must be consolidated and expanded. Risks to their stability and long term perspectives must be averted or overcome. In this endeavor, how our undertakings are perceived by the people and Government of the United States is important to us. A role is theirs to play in the many issues that currently involve both our nations. Among these, trade, investment, and finance deserve a very special consideration.

Since the beginning of President Carlos Andres Perez's Administration early last year, Venezuela has been implementing a comprehensive program of economic adjustment that involves major structural reforms. Positive results have been achieved in the fiscal, trade, and financial policy areas. However, the absence of medium-term financing from foreign commercial banks is threatening to become a major stumbling block for the overall success of Venezuela's economic reforms and for renewed growth.

We face what we perceive as a critical issue and one in which both the United States' Government and the American banking and business community have a major role to play. Venezuela welcomed President Bush's commitment to an early and growth oriented solution to the debt crisis. It also deeply involved itself in the implementation of the initiative undertaken by the Secretary of the Treasury, Nicholas Brady. Support from the U.S. Government has been forthcoming and steady, as illustrated by the role played by the Administration in the IMF and the World Bank's Board of Directors. Venezuela highly appreciates this leadership and counts upon its continued commitment at this critical juncture.

On the national economic front, Venezuela's current policy of economic reform was initiated with the rapid implementation of market oriented policies. A single floating, market-determined, freely-convertible exchange rate has been adopted. Interest rates set by the market are maintained at positive levels in real terms, and almost all price controls have been eliminated. The tariff system has been simplified and unified. Moreover, a decision has been made to remove non-tariff barriers to foreign trade. The government's discretionary authority to regulate foreign trade is under review. Venezuela's overall commitment to market-oriented policies is well demonstrated by current negotiations to join the GATT and by Venezuela's inclusion as an observer in the Uruguay Round of multilateral trade talks.

Venezuela is also undertaking an ambitious program of reforms in the field of foreign investment. Regulations are being simplified and a liberal debt-to-equity swap program has already been implemented. Indeed, foreign investment is now welcomed in almost every sector of the economy, including the petrochemical and other basic industries.

The economic policy adjustment reform has produced almost immediate beneficial results in the redressment of macroeconomic disequilibria. The public sector deficit was reduced from 9.9 percent of GNP in 1988 to 1.7 percent in 1989. The external value of the national currency has shown a relative stability since the adoption of the new exchange rate system. In 1989, a current account surplus of $0.8 billion was reported, a $5.5 billion improvement from the previous year's deficit of $4.7 billion. International reserves increased by $750 million to $7.4 billion.

Nevertheless, this adjustment program has also entailed significant economic and social costs. The overall standard of living of Venezuelans has declined significantly. As the unemployment rate increased to 8.7 percent in 1989, from 6.9 percent the previous year, the real growth rate shifted from 6.3 percent in 1988 to a negative rate of 8.1 percent. Inflation reached an all-time record high of 80.7 percent in 1989. (By December, however, the inflation rate was reduced to 19.2 percent.) Domestic interest rates are currently 43 percent.

Undoubtedly, as long as Venezuela's external debt burden is not resolved, substantial restrictions on the economic reform strategy will persist, and social pressures will be increasingly difficult to restrain. It is our hope that negotiations with the commercial banks, under the Brady Initiative, will soon be successful and the path towards growth and development cleared. We strongly feel that only through mutual cooperation in this issue, will a positive and constructive meaning be given to the social and political costs of the economic adjustment process.

As Venezuela and the United States work closely towards a mutually satisfactory resolution of the debt issue, the furthering of our bilateral investment and trade relations is recognized as the other most important area in which joint efforts are to be stressed. The very significant two-way trade and economic relationship existing to date must not only be consolidated but also enlarged, taking into account the new opportunities that are arising.

We should remember that Venezuela is the largest export market for the United States in South America, and that U.S. suppliers hold a 40 percent share of Venezuela's import market. Conversely, Venezuela holds a relatively strong position in the U.S. oil import market. Accounting for approximately 13 percent of total U.S. petroleum imports, Venezuela is, in fact, the primary U.S. energy supplier outside of North America. Although this important role allows for an approximate balance in our bilateral trade account, Venezuela is intent on consolidating and expanding its position.

It is generally known that Venezuela's oil reserves are the most important in the Western Hemisphere. This fact, combined with our oil industry's technically advanced capabilities and with its marketing strategy of joint-ventures in refining and distribution networks in foreign countries including the United States, places Venezuela in a unique position as regards the energy security of the United States. Just as the debt issue is critical, the evolution of the oil market will determine our capacity to sustain economic adjustment and development processes. Our oil industry's investments in the United States are geared toward assuring needed market stability. For Venezuela, it gives access to, and the stability of, mature markets for its main export. For the United States, it contributes to increased energy security by creating a partnership through actual market integration. A new and very promising scenario is thus open to both countries. We believe we must continue to work for the enlargement and success of this relationship.

At the same time, Venezuela wishes to diversify and expand its other trade and investment relations with the United States. Investments by U.S. firms account for more than 50 percent of all foreign investment in Venezuela. New regulations, as well as a revision presently underway of intellectual property legislation, are undertaken to compete competitively for international investment flows. We hope the United States will take advantage of these changes to expand its participation in our industrial and service sectors.

This is also a new scenario for American business. We must all strive for increased development of trade and investment. We are convinced that this is the basis not only for our participation in the integrated world economy, but also for our own well being and progress.

But let us not forget that the timing is critical. If we are to take advantage of the present opportunities, a strong and sustained effort must be made by both countries. Venezuela is, as President Perez's administration demonstrates, determined to move ahead and build the foundations for a prosperous future for the Venezuelan people. As our main economic partner, the United States' role is critical to our success. We are confident that both countries will understand this to be an opportunity for common efforts towards common goals.

VENEZUELA MODIFIES INVESTMENT REGULATIONS

In January the Venezuelan Government adopted long-awaited new foreign investment regulations substantially liberalizing the rules in effect since 1986. The modifications open more sectors to foreign investment, loosen regulatory controls, and relax remittance, reinvestment, and technology transfer rules.

The communications media (press, radio, and television) and professional services (consulting, law, engineering, and design) will continue to be restricted to national investors only. Most other areas will now be open to foreign investment. Foreign companies will be permitted to invest in areas previously reserved for national investors including telephone, telecommunications, drinking water and sewage, domestic marketing and distribution of goods. Prior cabinet approval is necessary for investment in the nation's basic industries.

All limitations on dividend remittances have been eliminated. Authorization will no longer be required from the Superintendency of Foreign Investment (SIEX) for dividend repatriation or reinvestment. In effect, SIEX has been converted into an agency for monitoring foreign investment, not regulating it.

Foreign investors may purchase shares on the Venezuelan stock exchange and foreign companies may establish branches without SIEX approval. Foreign owned companies will also be allowed to issue bonds and stocks on the local stock market.

—**Lowell Fleischer,** *Deputy Director, Washington Office*

Photo credit Elsa Ruiz

C. Fred Bergsten, Director of the Institute for International Economics; John Williamson, author of The Progress of Policy Reform in Latin America; *David Rockefeller, Chairman of the Board of the Council of the Americas; and Ambassador George Landau, President of the Council, at a Council luncheon marking publication of Dr. Williamson's study.*

Restructuring Latin American Economies

"A profound movement of policy reform is under way in Latin America," writes Dr. John Williamson in a new study published by the Institute for International Economics entitled "The Progress of Policy Reform in Latin America." The reform consists of replacing the statist populism of the past with the new economic realism that began in the 1980s through a policy of prudent macro-economic stabilization, outward orientation of trade and investment, and domestic liberalization. These are the policies that initially benefited the developed countries, and later the Far Eastern NIC's. The transition from statist authoritarianism to free-market democracy was made successfully in the last two decades by Spain and Portugal, with Latin American countries recently joined in this goal by Eastern Europe. The implementation of reforms presents a ray of hope for a region where much of the recent economic news has been grim.

"Few countries have undertaken comprehensive reforms, and some have undertaken no reforms at all, but a lot more is happening than Latin America is being credited with in the industrial countries," concludes Dr. Williamson. "The success of this historic effort is by no means assured, however. It is therefore important that the industrial countries do what is needed to increase the probability that policy reform will succeed. By far the most important contribution they can make at the present time is to ensure that countries with a solid record of policy reform get a definitive restructuring of their debt."

Policy reform takes time to produce results, and the process will need external help from the industrial countries in its critical early years. A new "Marshall Plan" could actually be a disincentive to implement reforms, however, if it meant an indiscriminate, region-wide program. The Brady Plan, as did the Baker Plan before it, calls for just such a selective program aimed at those countries that have implemented significant reforms. This would offer a visible, early benefit of reform to help sustain domestic political support, as well as encourage lagging countries to initiate reform.

Dr. Williamson's comprehensive, country-by-country analysis resulted from a conference held at the Institute for International Economics last November. Individual papers were presented at the conference by economic experts on eight Latin American countries—Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Perú, and Venezuela—and two groups of countries in Central America and the Caribbean. (These studies will be published in April by the Institute for International Economics as a separate background volume entitled "Latin American Adjustment: How Much Has Happened?")

The U.S. Government and the international financial institutions in Washington (notably the IMF and the World Bank) have come to a common view in recent years on the policy requirements for sustainable economic growth in Latin American countries. Dr. Williamson labels this the "Washington Consensus," but he notes that since the consensus is shared by development economists worldwide, it might just as appropriately have been called the "Universal Convergence."

The 10 areas that Dr. Williamson identifies as making up the "Washington Consensus" are:

—trade liberalization;

—establishment and maintenance of a competitive exchange rate;

—tax reforms, to broaden the tax base and cut marginal tax rates;

—the restoration of fiscal discipline;

—privatization;

—removal of obstacles to foreign direct investment;

—deregulation;

—financial liberalization of the domestic monetary system resulting in largely market determined interest rates;

—reordering of public expenditure priorities away from indiscriminate subsidies, defense, and administration and toward education, health, and infrastructure improvement;

—the establishment of secure property rights.

Dr. Williamson then evaluated ten Latin American countries on the basis of their performance in implementing the various components of economic reform that comprised the "Washington Consensus." (Not enough information was available on the issue of secure property rights, which had been the key issue in Peruvian Hernando de Soto's "The Other Path.") The results are contained in Table 1, with the countries reordered by the *Washington Report* to list them in order of those that have implemented the most significant reforms.

Economic performance of Latin American countries is shown in Table 2. While the results have been spotty, those countries that made the most progress in implementing reforms (or were not in need of reform) were among the better economic performers during the decade, with the converse true as well. The best outcomes were achieved in Chile and Costa Rica; both started the reform process early, have undertaken very broad-ranging reforms, and have now recorded four years of solid growth. Colombia also has a good record, with a very effective macroeconomic stabilization program but with little liberalization. Other countries that have made substantial reform efforts—most notably Mexico, but also Bolivia, Jamaica, and Uruguay—have stopped their decline but have not yet achieved robust growth. In contrast, countries like Peru that have moved in the other direction have performed disastrously.

The *Washington Report* notes that the success of many Latin American countries in moving towards "freer" trade is especially important if Latin America is to play an increasing role in the globalization of international trade that is taking place. The conclusion of the Uruguay Round of multilateral trade negotiations this December could open significant new opportunities for Latin America in the world trading community.

(continued on page 13)

TABLE I

LATIN AMERICA: SUMMARY OF POLICY REFORM IN THE 1980s
(Ordering by *Washington Report*)

	Trade Liberal-ization	Competitie Exchange Rate	Tax Reform	Fiscal Discipline	Privatiz-ations	Foreign Direct Investment	Deregul-ations	Financial Liberal-izationa	Public Spending Priorities
Bolivia	$$	$	$$	$$	0	$	$$	$$	$$
Chile	$$	$$	$	$	$$	$	$	$$	0
Mexico	$$	$	$$	$$	$$	$$	$	0	0
Jamaica	$$	$	$$	$	$	$	$	$	0
Costa Rica	$	$$	$$	$$	$	$	$	0	0
Colombia	$	$$	0	$$	$	0	0	$	0
Venezuela	$$	$	0	0	$	$	$	$	0
Argentina	0	$	$	$	$	$	$	0	0
Brazil	—	$	0	0	$	—	—	0	—
Peru	—	—	—	—	—	—	0	—	—

$$ Substantial Reform
$ Some Reform (or no need to reform)
0 No significant change (or mixed change)
— Retrogression

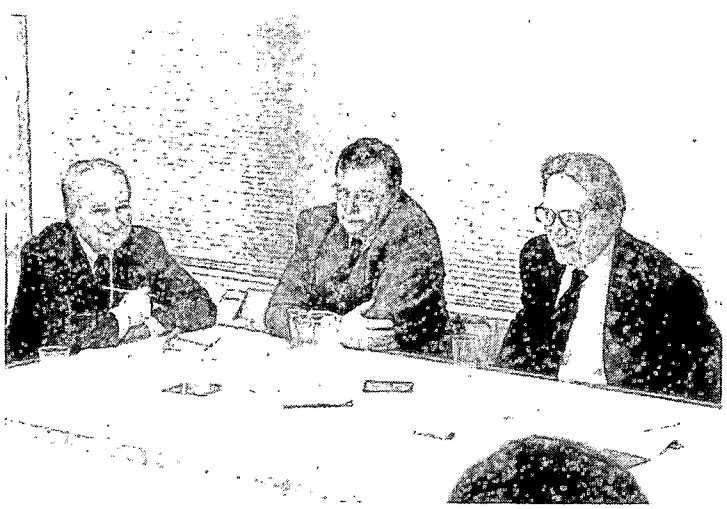

Photo credit Bill Knepper

Ambassador Robert Sayre, Assistant Secretary General for Administration of the Organization of American States and former U.S. Ambassador to Brazil, CoA Managing Director Kim Flower, and Ambassador Luigi Einaudi, U.S. Ambasssdor to the OAS, during Ambassador Einaudi's discussion of the "Political and Economic Environment in Latin America in the 1990s" at a February 8 session of the Washington Policy Dialogue.

TABLE II
LATIN AMERICA: GROWTH IN THE 1980s
(PERCENTAGES)

Country 1989	Growth in GDP per capita[1] 1981-1989	1988-
Growing Countries		
Chile	9.6	12.0
Costa Rica	-6.1	2.4
Colombia	13.9	2.5
Barbados	8.1	4.8
Paraguay	0.0	6.2
Stagnating countries		
Bolivia	-26.6	-0.4
Mexico	-9.2	-0.3
Jamaica	-5.8	-1.5
Uruguay	-7.2	-0.5
Guatemala	-18.2	1.6
Brazil	-0.4	-1.5
Dominican Republic	2.0	0.0
Honduras	-12.0	0.0
Venezuela	-24.9	-8.7[2]
El Salvador	-17.4	-3.5
Ecuador	-1.1	12.1[3]
Declining countries		
Trinidad and Tobago	-40.8	-10.2
Peru	-24.7	-23.3
Nicaragua	-33.1	-17.5
Argentina	-23.5	-11.1
Guyana	-33.1	-8.2

[1] cumulative
[2] 1.6 percent in 1987-88
[3] -2.0 percent in 1989
Source: Economic Commission for Latin America and the Caribbean (1979)

The European Community and Latin America: Are We Shaping A Common Future?

Excerpts from an address by the EC Commissioner for North-South Relations with special responsibility for Latin America, Abel Matutes of Spain, London, October 23, 1989. Given the interest expressed in Latin America's relations with the EC after 1992, the Washington Report believes its readers will find the following speech of interest.

Latin America has not so far been a priority in the foreign policy agenda of the European Community. Things are changing. A Community committed to the defence of freedom and human rights has an obvious interest in supporting the gradual consolidation of democracy in Latin America. Slowly, Community consciousness of Latin America has awakened.

The challenges

The Community is moving speedily towards a future which is already close at hand and which will see the barriers to the free movement of goods, services, and factors of production come tumbling down. With regard to external affairs, what has been happening in Eastern Europe cannot leave us indifferent.

We live in a global economy and are beset by global problems. From financial market movements to environmental and drugs issues, very few important questions, if any, can be confined today to single countries or regions. How will Latin America eventually fit into this global economy? Will it be able to make a creative contribution to a momentum fuelled by interdependence, accelerating technological progress and substantial changes in the protagonists involved? Will it become a marginal actor bogged down in its own problems and relegated to a position in the world where it would stand condemned to the sort of weakness Africa is experiencing today?

What have we learnt?

We have learnt that the relationship which has developed between Latin America and the Community does not put Latin America in a favorable position for the future. Its exports to the Community are mainly agricultural products, raw materials and semi-manufactures. But this is no basis for growth! Unlike the dynamic countries of Asia, Latin American has been unable to achieve much market penetration in the Community for its manufactures. Sale to the Community of Latin American high-technology products are minimal. Sales of these products from Asia continue to grow.

We have learnt that the growth strategy of inward-lookingness and import substitution without any consideration whatsoever being given to economic efficiency has done nothing to reduce the continent's dependence on the outside world. This dependence has instead broadened and deepened.

We have learnt that Latin America will have to map out its future in a very difficult international context. Latin America will not be able to rely on extraordinary capital inflows to balance out its external accounts in the volume necessary to surmount its balance of payments problems. The already unbearable burden of debt will be compounded by the scarcity of new money in the form of repayable loans.

The first lesson

Latin America cannot give up in the short and medium term the comparative advantages available to it in its relations with the Community. The Community market will have to remain as open as possible to Latin American products. There are, alas, many problems: the CAP has been damaging to Latin America. This is obvious. We are reforming the policy.

However, even with guarantee prices getting ever closer to world prices, Latin America will be unable to play a dynamic role in the Community market on the basis of agricultural products only. However much we Europeans may wish to help Latin America, we will not eat much more meat or drink much more coffee. It would also be an illusion to devise a solution in the Community's system of general preferences in customs duties. Except for a few specific products, its significance is gradually diminishing, and it will never be able to make up for shrinking competitiveness of high cost goods whose export is hampered by high cost inputs due to excessive protection in the producing countries.

The second lesson

The trading mechanism which needs to be boosted is the multilateral one.

The Uruguay Round is not a bilateral exercise between the Community and Latin America, but Latin America can derive from it far greater advantages than it would achieve by trying to force concessions out of the Community in particular market areas for a limited array of goods. Since protectionism is an insidious disease and the Community advocates its gradual removal as a recipe for growth, Latin America would do well to negotiate with the Community on its own ground. The Uruguay Round and the single market of the 1990s are inspired by the same economic logic. The considerable economic, political, and diplomatic weight Latin America could wield in the Uruguay Round could enable it to succeed in getting round obstacles where it would perhaps fail to do so in a purely bilateral framework.

The third lesson

The Community's experience has shown the validity of the old adage that there is strength in unity. Latin America would be better served if it could develop more concerted action, particularly in its relations with the Community.

Latin America has reached a historic watershed: it will either move on into the twenty-first century, or it will stagnate. The onus is on Latin American leaders who must adopt the right strategy.

It is encouraging to see that some countries have already

chosen the correct path. It is now up to us to help them in their efforts to modernize.

We must therefore ask what Latin America should do and what we ourselves should do to shape a common future. In my opinion the Latin American countries must begin by putting their own house in order.

We could do little for the continent if its people do not decide to do away with their archaic social, economic, and political structures and embark energetically on the task of modernizing their countries.

In political terms, democracy is a must for Latin America since the sheer scale of the social change needed is such that it cannot be imposed in an authoritarian fashion.

Democracy must penetrate all political levels in Latin America: political parties, trade unions and trade associations, are of necessity the channels for dialogue, both political and social.

The key aspect of this process will be the growth of a truly representative middle class.

In my opinion the priorities are as follows:

—to reduce state intervention in the economy, while improving the quality of public services from the point of view of efficiency, professionalism, and ethics;

—to do away with the policy of import substitution at all costs and to open up the economies so as to increase the competitiveness of the modern industrial base;

—to reform taxation. According to Professor Dornbusch of MIT, taxes account for less than 8 per cent of GDP; an extreme case is that of Argentina, where the figure is 0.5 per cent;

—to promote diversification and high added value industries and boost foreign investment.

The aim is to bring about that essential ingredient of economic success — **confidence:**

—confidence on the part of business and industry in the stability of political and legal institutions;

—the confidence needed to bring back capital which has fled abroad;

—the confidence needed to improve the attitude of the industrialized nations.

A fusion of interests

Latin America must improve its interaction with the Community. The key factor here is a new pattern of **advanced cooperation.**

Such advanced cooperation entails joint efforts between Europe and Latin America on economic, scientific, technological, and cultural matters. Above all, we must involve those who play an important part in economic life, such as private firms and the public sector, in a solid and lasting cooperation of interests. Private firms because they alone are able to detect the signals given out by the market. The public sector because of its regulatory role.

Latin America needs technology, organizational and business know-how, access to markets and a knowledge of the special features of European demand for goods and services. It cannot acquire these by itself. One way for it to do so is in cooperation with European firms. Fortunately, Latin America has an excellent basis of natural and human resources.

Latin America is in a position today to absorb modern technology dynamically and creatively, and to develop the continent's human resources. There is an opportunity to build a huge *"joint venture"* between Europeans and Latin Americans which I am convinced could be immensely profitable to both sides.

The Commission is developing a strategy aimed at bringing businesses from both continents closer together. Businessmen in some Member States have become aware of the opportunities that Latin America offers, even in its present state of over-indebtedness, recession, and crisis.

Some of you may have been surprised by having so far heard no mention of the DEBT problem.

Imagine for a moment what would happen if debt magically disappeared in 1990. If nothing else had changed, and particularly if the way in which the economies of Latin America operate had not changed, I am afraid that before long a somewhat similar situation would recur. The international strategy for solving that difficult problem has been piecemeal and has trailed behind events.

This strategy has also imposed an extremely heavy burden on debtors and has proved complicated for creditors.

American banks, in spite of President Bush's recommendations, are not in a position to provide Latin American countries with the fresh money they need. In all likelihood, without direct intervention from Capitol Hill, the United States banking system will not make any substantial contribution towards the reduction of the debt burden.

The Brady Plan is a step in the right direction, but it is not enough.

Nevertheless we must continue both to intensify our own efforts and to support those of countries such as Mexico, Uruguay, Bolivia, and even Chile, which are putting their economies in order.

A European strategy geared towards the transfer of technology, risk capital, and organizational and managerial inputs could be, and must be, the focal point of a battery of policies combining closely a sense of reality with a vision of the future.

This blend of realism and vision has been the great secret of the Community's success over these last few years.

"Are we, the European Community and Latin America, shaping a common future?"

My answer is yes. Yes, if Europe chooses to play the leading role that the current dynamics of international relations offers us. Yes, if both Latin America and Europe take the necessary strategic decisions in good time. Yes, if politicians and businessmen join forces in this common enterprise.

BRAZILIAN PRESIDENT-ELECT SETS GOVERNMENT'S GOALS

Implementing democratic government and resolving the economic crisis are the two basic tasks facing his new government, President-elect Fernando Collor de Mello told a sold-out audience of over 700 in Portuguese at a luncheon at the Waldorf-Astoria on January 25. The President-elect was the honored guest of the Americas Society, the Council of the Americas, and the Brazilian-American Chamber of Commerce. He was introduced by David Rockefeller, Chairman of both the Americas Society and the Council of the Americas. Among those participating were: Ambassador George Landau, President of the Americas Society and the Council of the Americas; Ambassador Marcilio Marques Moreira, Ambassador of Brazil; Ambassador Carlos Augusto Santos-Neves, Brazil's Consul General in New York City; Roger Smith, Chairman, General Motors; Robert D. Kennedy, Chairman, Union Carbide Corporation; G. Richard Thoman, President and CEO, American Express International; Dr. Henry Kissinger; Robeli Libero, President, Latin America, IBM; and Peter McPherson, Executive Vice President, Bank of America.

President-elect Collor was beginning a pre-inaugural multination consultation trip that started with the United Nations in New York. He then traveled to Washington to visit President George Bush, who invited him to an informal dinner in the White House family quarters, attended by Treasury Secretary Nicholas Brady. While in Washington, Collor addressed the Organization of American States and the National Press Club. He later visited Tokyo, Moscow, Bonn, Rome, Paris, London, Lisbon, and Madrid.

Collor's inauguration on March 15 marks the return of democracy to Brazil. Seeking to end the economic crisis facing his country would be the number one priority for his government, the President-elect declared.

Brazil's economy must be reformed with "profound structural changes" to enable it to have a broader and deeper integration and participation in the rapidly changing global economy. Reform would need to attack three basic problems which had served as the basic market economy platform on which Collor had been elected. These included:

—an inhibiting and inefficient state;

—inflation and financial speculation; and

—a system of privileges that reward and protect inefficiency.

Inflation must be fought with rigorous fiscal adjustment to end the budget deficit, Collor said. A process of deregulation and liberalization of the economy must be begun. Private investment must be increased, repatriation of flight capital sought, and foreign private investment welcomed.

The foreign debt of $110 billion—the largest of any developing country—was a problem requiring joint action by both debtor and its creditors said Collor. Developing country foreign debt concerns had lost their "dramatic impact" in the developed countries in recent years, Collor observed. This problem continues, however, to have "devastating effects" on developing countries, and has "...increased the risk of social unrest to critical levels." Brazil's negotiations on the debt would be based on its macro-economic plans for development, and could not include impositions that "...by stunting our growth, would condemn us to backwardness and poverty."

Brazilian President Fernando Collor de Mello (while President-elect) at a luncheon at the Waldorf Astoria, January 25, 1990, sponsored by the Council of the Americas, the Americas Society and the Brazilian-American Chamber of Commerce.

There was a general tendency in world affairs today to relegate the concerns of the developing countries to second place, Collor observed. There was special concern of a growing "perception of Latin America as an isolated area, removed from considerations and projects of global scope. Brazil resolutely wants to reach a level of social and economic development so that we will be definitely qualified as a fully developed nation, and an equal partner in the decisions relating to the major international issues."

FLOWER NAMED MANAGING DIRECTOR; CHANGES IN WASHINGTON OFFICE

Ludlow (Kim) Flower, III, who has been Director of the Washington Office of the Council of the Americas since July 1988, has been named Managing Director of the Council. Kim replaces Oswaldo Liang, who has completed his detail with the Council and returned to Xerox. Kim has also been named Vice President of the Americas Society.

Remaining Director of the Washington Office, Flower will divide his time between the Council's New York and Washington offices. Kim is a career Foreign Service Officer who has held senior diplomatic posts in the Caribbean and Latin America as well as high-level policy positions at the Department of State and the National Security Council.

Dr. Lowell R. Fleischer, who has been a Program Officer in the Council's Washington Office since October 1988, has been named Deputy Director of the Washington Office. Susan Ebner has been named Assistant Director for Management of the Washington Office. Gary Springer, Director of Programs for the Council and Deputy Director of the U.S. Council of the Mexico-U.S. Business Committee, has accepted a position as Senior Legislative Representative for International Trade with Shearman and Sterling, a corporate member of the Council. His replacement is expected to be announced in the near future.

U.S., Mexico Are Not-So-Distant Neighbors Now

by Sidney Weintraub
Dean Rusk Professor in the Lyndon B. Johnson School of Public Affairs, at the University of Texas at Austin. Adapted from a study presented at a conference on "U.S.-Mexican Industrial Integration" held at The Woodlands, Texas, December 7-10, under the auspices of the Center for Growth Studies of the Houston Area Research Center. Reprinted from The Houston Chronicle, November 24, 1989.

The stereotype of the United States-Mexican relationship is of distant neighbors, countries whose friendship is limited by differences in culture, aspirations, and stages of development. The reality is increasingly otherwise, marked by widespread cultural integration and extensive economic cooperation. This is especially evident in the industrial arena, where the border has become more of a nuisance than a barrier: costly for trade, as a result of restrictive transportation regulations and tariffs, but otherwise open.

For more than two centuries, efficient industrial production has been typified by a division of labor, the best modern example of which may be the automobile, whose thousands of parts are manufactured not in one factory, but in hundreds. Mexico is a leading producer of engines, which end up at the Big Three U.S. automakers. U.S. plants, for their part, ship hundreds of items for incorporation into Mexican-made cars.

This kind of transboundary exchange takes place in many industries. Components are made in Mexico for use in U.S. computers. Petrochemicals move in either direction for the manufacture of thousands of products. Much of the clothing Americans wear is made of U.S. textiles finished in Mexico. The pharmaceutical products Mexicans buy are put into dosage form from active ingredients supplied by the United States. These interchanges take place not just in the *maquiladoras* (plants in Mexico which process U.S. parts and ship the final product back to the United States) but throughout Mexican industry.

Trade in the modern world takes place not just in finished goods—a television set, a motorcycle, or a coat—but more and more in intermediate goods, parts of a finished product. Much of today's trade is not between parties who negotiate with each other at arm's length but within the same company. While there are no precise figures, I have made some calculations which indicate that about half the trade in manufactured goods between Mexico and the United States is between affiliated parties, a parent company and a subsidiary, or two companies in which each has a share in the other. Under these circumstances, imports and exports are not separable transactions, but part of the same operation within a single or related enterprise. Computers have made such industrial integration possible. With them, it's possible to control inventory, and transportation and communication are cheaper and more efficient than ever.

The same system exists between the United States and Canada on a large scale, but only because Canada is richer than Mexico. This modern mode of global production-sharing requires low import barriers as intermediate goods are shipped back and forth between nations. In the past few years, a remarkable liberalization of the Mexican economy has been accelerating cross-border production. But international production-sharing is impeded by protectionism on the part of either country, or by transportation monopolies that raise costs. One of the major motives for removing border barriers in Europe in 1992 is to encourage such cross national production.

Mexico has suffered continuous economic crisis since 1982, when oil prices collapsed and its external debt could no longer be serviced in full. To help offset loss of revenues, Mexico increased its exports of other goods, particularly to the United States, which was already the market for about 80 percent of its manufactured exports. So far, Mexico has been succeeding in that effort. In 1982, for example, the year before the downturn, oil made up 75 percent of Mexico's exports. Last year, the value of the country's manufactured exports was twice that of its oil shipments. To bring this about, Mexican authorities deliberately sought foreign investment and changed their regulations accordingly earlier this year. They were fully aware of the role played by intra-company trade.

For many years, politicians in Mexico won power by distancing themselves from the United States. "Gringo bashing" was fashionable. Similarly, U.S. policy-makers could ignore Mexico, and if the spirit moved them, deride that country's habits and culture. Mexico was a nice vacation destination, but not a place to do business.

Such behavior patterns are passe today. U.S. business does business in Mexico. Not only do U.S. manufacturers send goods to Mexico, but they rely on Mexican production to keep their factories profitable. No Mexican official who is serious about restoring his country's economic growth can afford to neglect or denigrate the production links between the two countries. Now, distancing is a recipe for poverty. Insofar as the United States is concerned, we must resist protectionist temptations. We have security, as well as economic interests in a prosperous, stable Mexico. We'd rather see Mexicans earn enough to stay home and not seek jobs in the United States.

Western Europe is in a process of demolishing national economic borders. Canada and the United States entered into free trade at the start of 1989. Mexico, because of its lower level of development, is a bit behind, but its relationship with the United States is certainly moving toward an atmosphere of mutual reliance.

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Conference *(continued from page 1)*

We will place even greater emphasis on the Congress this year, and are arranging for a portion of the second day of the conference to be held on Capitol Hill with key Congressional Committee Chairmen. Companies will be urged to prepare briefs on the importance of their operations in Latin America for the information of the Congress and the public. Participants will be urged to invite their Senators, Congressmen, and Congressional staffs to join us.

Your participation will clearly point out the concern of U.S. business about present and future policies toward the region — or lack thereof — and emphasize to the Administration and the Congress the need to give greater attention to hemispheric problems. We are in competition with dynamic European and Asian countries and private sectors. A stagnant Latin America will be a handicap to U.S. economic and political interests. An economically healthy, democratic Latin America would continue to be an important U.S. trade, financial and investment partner in a competitive twenty-first century.

We urge that you participate fully and actively in the 21st Washington Conference, and come prepared to express your concerns to Washington policy makers. If you have not yet received a registration form, or have questions, please call the Council's Washington Office at 202/659-1547.

Third World Debt And The Private Sector

A Foundation has been created to represent the international private sector on issues of sovereign Third World debt, seeking to give commerce and industry a say in global debt management and development. The "Foundation for Global Economic Restructuring" is an international, non-profit organization which seeks to serve as a "catalyst" and independent advisor on LDC debt issues for both public and private sectors in developed and developing countries. The Foundation seeks to build on the Brady initiative, which has made flexibility on the LDC debt issue possible, enabling the use of sovereign debt conversion in a number of creative ways to finance and facilitate trade and investment undertakings. Established in Washington, D.C., with a representative office in New York, the Foundation has planned principal regional offices in Europe, the Far East, and South America, and will encourage the founding of national representative offices.

The Foundation is a "...network of international leaders, acting in their private capacity, on programs for global economic development." Dr. Norman A. Bailey, an international finance consultant in Washington, D.C., is a co-founder of the Foundation. Dr. Bailey served as a special assistant to President Reagan and on the staff of the National Security Council. The other co-founder is David P. Michaels of the United Kingdom who has served as an advisor to corporations and governments on questions of international debt and investment. He has been the principal proposer for the formation of an "International Central Clearing House" for LDC sovereign debt, international trade, and investment.

Among the various advisory capabilities of the Foundation are the following:

—uses of sovereign debt conversion in investment related operations;

—identification of techniques to expand exports utilizing the conversion of sovereign debts as a means to finance these exports;

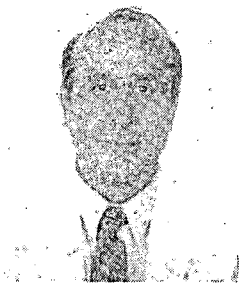
—consultation on debt negotiation strategies;

—facilitation of privatization using debt-equity and debt-currency swaps.

Further information concerning The Foundation for Global Economic Restructuring may be obtained from either Dr. Norman Bailey, Suite 200, 1215 17th Street N.W., Washington, D.C. 20036, Telephone: (202) 293-8684; or David Michaels, Telephone: (212) 722-6587.

LETTER FROM BUENOS AIRES

By Manuel G. Balbis, President, American Chamber of Commerce in Argentina.



"Argentina, rise and go forth!" With these stirring words, President Menem climaxed his inaugural speech last July 9. Perhaps he would have had better luck with Lazarus; seven months after this challenge was issued, Argentina has refused to budge. And the Argentines, seeing their once rich and proud nation crumble around them, are getting impatient.

President Menem, in defense of his Administration, claims he inherited a ruined country from the previous Alfonsin administration, which literally dumped the government in his lap, five months before the transfer of power was scheduled to occur. Alfonsin had little choice. His administration, "lame duck" and discredited, with inflation raging at nearly 200 percent in July and the austral-dollar parity going from 17 to 1 in February, to 650 to 1 by early July, had to go or the whole economy would have unraveled with unpredictable consequences.

Once in office, President Menem moved rapidly to stem a total collapse, and announced a courageous plan to build a free-market economy. In the process, he surprised and confounded those who believed he would revert to orthodox Peronist populism. But, to rein in inflation, he had to resort to the usual formulas of price and wage controls.

Menem enjoyed an initial success. Inflation dropped to 6 percent in October and the austral-dollar parity held steady at nearly 650 to 1. Under this cloak of "stability," President Menem rammed through Congress a series of laws aimed at starting on the road towards a modern economy. His popularity soared, and while enjoying this political honeymoon, he starred frequently in exhibition soccer, basketball, and tennis games. He even served as co-pilot to Daniel Scioli, the Argentine international offshore powerboat racing champion, during a portion of an international powerboat race held in Argentina. The following day, Scioli had a serious accident which cost him his right arm. Luckily, Menem was not in the boat. Since then, he appears to have heeded calls to stop participating in such events and to avoid taking such unnecessary risks.

Shortly after October, storm clouds began to appear on the economic horizon. Menem was having difficulties controlling demands for wage increases from powerful labor unions and resisting powerful business interests determined to keep their government subsidies and other privileges. The credibility of his government began to crumble, and the edgy Argentines began running for cover to the dollar. Inflation soared from 7 percent in November to 40 percent in December.

To dissuade nervous Argentines from buying dollars, interest rates were raised dramatically. Rates for seven day time deposits, a common investment vehicle among Argentines of even modest means, leaped to 600 percent per month, but the flight to the dollar still appeared headed out of control. This crisis precipitated the departure of Menem's first economic "team" and the end to the "strategic alliance" with the business sector. This had been personified by Economic Minister Nestor Rapanelli, formerly a high ranking executive in the Argentine multinational corporation Bunge and Born.

A new economic "team" was selected, headed by Erman Gonzalez, an old friend and political ally. Erman Gonzalez moved quickly to dispel rumors that Menem would don the Peronist economic cloak. He reaffirmed the commitment to free markets by allowing the austral to float freely and removing all price and wage controls. Still there were too many australes coursing through the financial circuit, spewing from the government printing presses to finance the burgeoning fiscal deficit.

The budget deficit was also financed by banks lending the Treasury money deposited in seven day certificates. The interest that the Treasury owed the banks for these monies became an intolerable burden for the government. The government slipped out from under this obligation by converting all but a million australes for each depositor into ten-year government bonds with interest and principal guaranteed in dollars. So far, the bonds can be used at face value to pay taxes. However, because of the lack of credibility in the government, the bonds trade at only 30 percent of their face value. Essentially, this means a confiscation of private assets of more than $2.5 billion dollars.

The immediate effect of this measure was to plunge the country into a deep recession, reducing purchasing power drastically. Prices have dipped, but economic activity has been reduced dramatically. Some sectors of the economy have reported drops in sales of nearly 50 percent from previous year's levels. Industry in general has begun to plan for drastic cutbacks and layoffs as soon as the vacation period ends in early March. Other sectors, predominately the farm and petrochemical sectors, continue to enjoy moderate activity on the strength of exports, fueled by a reduction in export taxes and a favorable exchange rate.

The Menem government's first months in power, despite its many bold initiatives to convert Argentina to a modern economy, have only underlined the many obstacles it must still remove before it has a solid foundation on which a viable, stable economy can be constructed. On the positive side, President Menem has prevailed on the Congress to pass an "Economic Emergency" law which empowers his government to raise taxes, slash subsidies, and have a free hand in managing the economy. Congress has also passed a "State Reform" law, which allows his government to sell—"privatize"—inefficient state-run enterprises and monopolies.

Although much skepticism is being voiced as to the success Menem will eventually have in implementing privatizations in the face of strong labor union resistance, he has actually "privatized" two state owned television channels, despite a

strong labor campaign against it. The Menem government has also slashed import duties which protected local industry from foreign competition from 800 items to less than 100.

There is no other forward looking option for the Menem government but to stay the course. Burdened by a huge $60 billion dollar external debt, Argentina must open its economy to the world. Despite the many contradictory statements which appear daily in the local press, the Menem government appears committed to radical economic reform. But the road to prosperity will be long, hard, and bitter.

Recent economic recovery programs in Chile and Bolivia have taught that it is practically impossible to stabilize an economy on the edge of hyperinflation and plagued with protectionism and statism, without incurring considerable social costs in the form of dramatic drops in living standards and employment levels. Faced with this reality, the Menem government could very well choose another approach. But the road to follow points either forward along the present path or backward to a Peronist or Alan Garcia's Peruvian type of populism. In the latter case, the consequences for Argentina would be disastrous, with the outcome difficult to predict. Menem probably now wishes he had Lazarus instead of Argentina on whom to perform his magic.

Restructuring *(continued from page 4)*

However, Latin American optimism is tempered by EC 1992 which is solidifying a trading bloc that is likely to impose new and more subtle nontariff barriers on Latin American and other non-EC origin imports, a concern shared by many in the U.S. Congress and U.S. Trade Representative Ambassador Carla Hills. Similarly, while applauding the political and economic liberation of Eastern Europe, many Latin Americans are worried that there will be another energetic competitor for investment and loans from the limited pool of world savings. World interest rates are already increasing—bad news for debtors.

The main message of the study to Latin America is that the countries need to sustain, reinforce, and complete the process of policy reform along the lines that are already emerging, and above all stay the course that this historic opportunity provides. Countries like Brazil, Peru, and the Dominican Republic that have not yet embarked on serious policy reform should initiate the process promptly. If they succeed in this task of transition to free-market democracies, they will be in a far better position to address adequately the region's serious problems of poverty and income inequality as well as concerns about environmental degradation.

Available from: Institute for International Economics, 11 Dupont Circle N.W., Washington, D.C. 20036. Telephone: 202/328-9000. Price: $11.95.

Hurricane Hugo Assistance Coordinated By Pan American Development Foundation

Working closely with a number of U.S. corporations, the Pan American Development Foundation (PADF) rushed emergency supplies to Puerto Rico and Eastern Caribbean island countries immediately following the devastation wrought by Hurricane Hugo in late September. Emergency supplies to meet the urgent needs of hurricane victims included blankets, tents, plastic sheeting, and first-aid materials. In addition to Puerto Rico, receiving assistance from PADF was Antigua and Barbuda, Dominica, Montserrat—which was among the hardest hit—St. Croix, and St. Kitts-Nevis. PADF is one of the private, voluntary organizations which carries out relief operations in the Hemisphere. PADF cooperates with the United Nations Disaster Relief Organization in New York.

Citicorp/Citibank has formed a partnership with PADF by creating a "fly-away" supply of disaster relief supplies in Miami, thereby enabling an immediate response to disaster situations. In response to Hugo, Citicorp donated $15,000 to send emergency supplies of tents, blankets, and hand tools to Puerto Rico. Citicorp employees in San Juan assisted in the distribution of the supplies.

Other U.S. companies providing supplies included Stanley Works which donated hand tools and reconstruction equipment. The Chlorine Institute arranged the donation of 90 tons of chlorine for water purification from four U.S. corporations.

Texaco provided transportation to PADF and other relief agencies on a specially-chartered Boeing 707 that delivered relief supplies from Miami to affected Caribbean islands. A Miami freight forwarder, Intertran, donated its services in the preparation of the emergency supplies for delivery. Windjammer Barefoot Cruise Lines also donated food supplies, and helped in the delivery of other emergency supplies.

PADF also cooperates closely with the U.S. Agency for International Development (AID) in emergency situations, in this instance providing an AID financed 52.8 KW generator to Antigua.

Ambassador Marvin Weissman, PADF Executive Director and former Ambassador to Costa Rica and Bolivia and career senior USAID official, would welcome partnerships with other corporations as PADF has with Citicorp. Such arrangements permit immediate response in emergency situations which can help alleviate suffering and loss of life. PADF's address is: 1889 F Street, N.W., Washington, D.C. 20006-4499. Telephone: 202/4583969.

The Case For Business Coalitions In Latin America

By Steven B. Geffen, Vice President of Legal and External Relations for IBM Latin America

U.S. business has had some past success in recommending initiatives on trade and investment issues between the U.S. and Latin American governments. Binational business coalitions have been a vehicle in this process. Two such organizations, the Brazil-U.S. Business Council and the Mexico-U.S. Business Committee, have been operating for many years with their membership including the leading business organizations in the respective countries.

Discussions are now being held which could result in a third coalition, a Venezuela-U.S. Business Council, being formed in 1990. We have asked Steve Geffen of IBM, a founding member of the proposed Venezuelan coalition, to describe the purpose of coalitions and the role they can play in international business affairs.

By the beginning of 1989, a number of business leaders had become concerned with the relationship between the United States and Brazil, which appeared less than satisfactory. The focus on Central America and the comments of some members of the Administration indicated our government's Latin American priorities were not at that time focused on South America. We decided to see if we could contribute to improving the bilateral relationships so that trade and investment could proceed with renewed vigor in the 1990s.

The 80s were a lost decade for many Latin American countries. Most governments became massive debtors to their citizens, as well as to multinational financial agencies and foreign commercial banks. Real income experienced no growth in some countries, and negative rates in others.

Compounding the problem has been the attraction to statist socio-political and mercantilist economic policies of Latin American governments. These policies have demonstrated their inability to support the economic growth necessary to provide meaningful jobs for their fast growing populations. In addition to economic and political instability, unfavorable laws and regulations in such critical areas as taxation and intellectual property rights made foreign investors cautious of risking funds and technology. As a result of these problems, several countries now find themselves in very serious financial straits.

Concomitantly, there has been a slowing in bilateral U.S.-Latin American trade and investment activity. Protectionism has increased as governments fight to maintain foreign reserves to service foreign debt. By some estimates, these policies have reduced U.S. exports by at least $100 billion during the 80s.

Government's role is to provide a broad social, political, and economic agenda, and create the infrastructure to allow the necessary strategies to be implemented. Government can carry out its agenda only if successful economic policies and results prevail, and sound trade and investment policies are key to the equation.

To ensure governments, U.S. or foreign, understand the full implications of economic policy on trade and investment decisions, it is useful for their officials to actively discuss the need for, and impact of, new policies with their business communities. Governments should welcome inputs from their business leaders. And, while businessmen best understand the environment in their country, it is quite important to know the needs, strategies and programs of their trading partners. Once both sides have discussed the issues and reached a consensus, it is time for dialogue with their respective government officials. Governments considering economic change will find far-sighted business leaders willing to support new growth-oriented directions.

At the Council of the Americas and elsewhere, we have exchanged ideas on this subject with other business people. We find general agreement that much needs to be done now before further opportunity is lost. In July 1989, at the Council, Assistant Secretary of State Bernard Aronson invited businessmen to participate in a dialogue with government, to educate Congress and others, and make recommendations on what should be done. Lawrence Eagleburger, Deputy Secretary of State, gave similar advice at the plenary meeting of the Brazil-U.S. Business Council in January 1990.

We decided to formalize the casual discussions on whether bilateral business coalitions would be appropriate, by hosting a meeting in October of business people we had been talking to over the previous months. The concept was endorsed by a number of key multinational companies, and consensus reached that coalitions could be a catalyst and vehicle for improving overall bilateral relations and trade, and sending key business messages to government. Mexico and Brazil are covered by such bilateral business coalitions; the Mexico-U.S. Business Committee and Brazil-U.S. Business Council.

We considered the various institutional formats currently operational in Latin America to determine which structure could best address bilateral issues and opportunities. The binational coalitions seemed most appropriate because they operate cross-industry and are concerned with broad, common policy issues. Having the top business leaders from each country's private sector work directly with the U.S. multinationals' divisional and corporate executives maximizes the chances of resolving difficult problems.

The Mexico coalition supported and encouraged Mexico to liberalize trade throughout the 1980s and, in fact, was instrumental in developing the concept of the Bilateral Framework Agreement on Trade and Investment. President Miguel de la Madrid initiated the process which led to the November 1987 signing by the Mexican and U.S. governments. In Brazil, we are hopeful President Fernando Collor de Mello will embrace liberalized trade and investment policies. The Brazilian coalition would then be able to make further contributions to the trade and investment environment.

We believe it important to draw on all available expertise to find solutions. The American Chambers of Commerce in each country are very effective, as is the Council of the Americas, but each deal with different issues, and in their own unique styles. By asking these organizations and the U.S. Chamber of Commerce to sponsor and be participants in the

U.S. section of the business councils, we would obtain the benefit of their viewpoints and experience. In December, we invited those members of the Council of the Americas having interests in Venezuela and the Southern Cone countries to attend a meeting in New York. Over thirty organizations participated, and a large number requested we keep them informed. Since this meeting, twenty organizations from the distribution, manufacturing, and services industries have committed to charter membership in a U.S. section of a Venezuela-U.S. business council, and fourteen members to an Argentine-U.S. business coalition.

The Perez administration's efforts towards more liberal economic programs, and the Venezuelan business leaders readiness to discuss trade issues, form the basis of our decision to support the establishment of a Venezuela-U.S. business council. A key Venezuelan business leader has assumed responsibility for putting a Venezuelan section of the coalition in place. Presuming a successful Venezuelan membership drive, we would plan to hold the first plenum in the second quarter of this year.

A similar coalition for Argentina will be pursued as soon as economic conditions there permit. In the meantime, we will measure our progress and monitor other prospective countries that might benefit from binational coalitions. In 1991, we will be in a better position to determine whether such expansion would be viable.

Although each coalition will be justified on its own merits, it is essential to avoid overburdening member organizations with resource and time demands to work on committees and handle administrative tasks. Many issues share similar basic attributes and differ, country to country, in timing, negotiating style, and some local provisions. Furthermore, many of the programming, administrative, and secretarial functions can be pooled and handled by competent third parties. We believe we have a practical solution and are discussing possible organizational and support structures that best meet these needs.

To sum up, the U.S.-Latin American relationship is going through positive and important changes. Fragile democratic governments have taken power in a number of Latin American countries in the 1980s, and debt restructuring plans are encouraging economic liberalization. Both Latin America and the U.S. must listen, engage in dialogue, and understand the changes taking place in the global marketplace, and develop a mutually beneficial new partnership.

The 90s will be a different world. The GATT Uruguay Round will be concluded, the European "Single Market" will be born, and Eastern Europe may be in a headlong drive to claim a place in the world's free market. Together with the dynamic pace of development in the Pacific Rim, and the Free Trade Agreement in North America, the future is not going to be an extension of the past.

The United States and its Latin American trading partners urgently need to assess and understand these trends and their potential impact, change outmoded policies, and embrace the opportunities. We believe partnerships of leading U.S. and Latin American business people can be an important and constructive force for change.

IS THE WORLD DEVOLVING INTO REGIONAL TRADING BLOCS?

by Jeffrey J. Schott, Research Fellow at the Institute for International Economics, Washington, D.C.

About the turn of each decade, almost like clockwork, the efficacy of the General Agreement on Tariffs and Trade (GATT) is called into question. Today, the GATT seems to be bending under the weight of massive imbalances in the trade accounts of the major trading nations. Critics charge that the rights and obligations embodied in the GATT no longer deal adequately with the changing patterns and composition of world trade, nor discipline the policy tools implemented by governments in pursuit of national trade policy objectives. This assessment seems to be based on four arguments.

First, regionalism has been promoted as a complement, if not a substitute, for the multilateral trading system because of serious concerns about the effectiveness of GATT rules and procedures. These limitations have led countries to pursue unilateral measures (e.g., U.S. Trade Act Section 301 actions), and bilateral and regional trade arrangements—in addition to multilateral solutions—to deal with pressing trade problems.

Second, the concept of evolving trading blocs seems to track the declining relative role of U.S. exports in world trade over the past few decades, and the resurgence of Europe and Japan.

Third, the problems exposed during the mid-term review of the Uruguay Round raise concern that the negotiations will achieve only minimal results with regard to liberalization of longstanding trade barriers, and thus will fail to halt the erosion in multilateral trade disciplines.

Finally, interest in the development of regional trading blocs had been bolstered by the conclusion of the Canada-United States Free Trade Agreement (FTA) and by the recent and ongoing internal market reforms in Europe.

This paper will analyze developments in three regions — the 12 members of the European Community (EC), North America, and East Asia.

What Is a Trading Bloc?

A trading bloc is as an association of countries that reduces intraregional barriers to trade in goods (and sometimes services, investment, and capital as well). The bloc creates trade preferences that are applied only to members on a discriminatory basis—as contrasted with the GATT where liberalization is applied on a most-favored-nation (MFN) basis. The effect of bloc formation can be either trade-creating or trade-diverting.

Theoretically, the most desirable trading bloc is one that is the most trade-creating, and that bloc is global. Such a bloc comprises countries with the most diverse range of comparative advantage, which affords the greatest scope for trade creation and the least scope for trade diversion. In practice, however, successful blocs—i.e., those that hold together over time and that increase the welfare of their members—usually exhibit four basic characteristics:

- similar levels of per capita GNP;
- geographic proximity;
- similar or compatible trading regimes;

• political commitment to regional organization.

In principle, regional trading blocs are not inconsistent with GATT. Article XXIV of the GATT allows exceptions to the MFN obligation for bilateral/regional arrangements that remove barriers to substantially all trade among the partner countries and that do not raise barriers to third country trade.

The EC-12

While East Asia and North America are prospective trading blocs, the EC-12 already is a bloc. Several developments contribute to this assessment: the enlargement of the EC to 12 members; the industrial free trade area between the EC and the European Free Trade Association (EFTA); the growth of the network of association and preferential trading arrangements with 66 countries in Africa, the Caribbean, and the Pacific under the Lome Agreement; the possible further expansion of the Community to include Austria, Norway, Sweden, and possible others during the 1990s as well as prospects for closer economic ties with Eastern Europe.

During its three decades, the EC has substantially succeeded in promoting the integration of member economies. The EC's internal market reforms are contributing to the further integration of the European market and the evolution of a strong regional trading bloc. The growth of intra-EC trade has far outpaced the growth of exports to third markets. The EC has also strengthened its trade ties with its proximate neighbors in Europe, the members of EFTA, with which it has had industrial FTAs since the 1970s.

Of the three regions, the EC best meets the four characteristics of an economic bloc cited above. The countries are at relatively similar levels of development (though the recent inclusion of Portugal and Greece has increased the variance); the national markets are, if not wholly contiguous, then quite proximate to each other; external trade policy is, by definition, coordinated, which in turn promotes the convergence of national laws and regulations; and all members share by treaty a political commitment to Community.

To date, the multilateral trading system has been able to accommodate the preferential EC trading bloc. Indeed, because of the desire of the United States and other countries to reduce external EC trade barriers and thus the preferences among EC members, the evolving EC bloc actually became a catalyst for launching and concluding both the Kennedy and Tokyo Rounds of GATT negotiations.

Today, there is an important intersection between the two processes which will determine in large part whether the focus of EC trade policy will be inward looking and concerned about adjustment pressures generated by the internal market reforms (and external pressures related to the adjustment of the U.S. current account imbalance), or outward oriented and guided by GATT rights and obligations.

North America

During the past five years, the United States has negotiated a series of bilateral agreements with Canada and Mexico, its largest and third largest trading partners respectively. These pacts have reduced barriers to North American trade flows, and established new consultative and dispute settlement mechanisms to deal with bilateral trade issues. Have they contributed to the development of a regional trading bloc?

The concept of a North American bloc is often considered in terms of the integration of American capital and technology, Canadian resources, and Mexican labor. In that respect, the conclusion of the Canada-United States FTA has been regarded as the watershed for the creation of a regional trading bloc. The evolution of such a bloc seems to be supported by three main arguments:

First, the three economies are already integrated to a significant extent. Both Canada and Mexico conduct about two-thirds of their trade with the United States, and each benefits from substantial U.S. direct investment in their economies. U.S. trade with its North American neighbors accounts for about 25 percent of total U.S. trade, but is more diversified than that of its neighbors (about one-third with East Asia and one-quarter with the EC-12).

Second, the North American region encompasses three of the world's largest debtor nations. Each country in the region needs to increase its exports to help redress large current account imbalances—which effectively means that total regional exports to third markets need to increase substantially.

Third, the conclusion of the Canada-United States FTA has provided a model framework for bilateral, and possibly regional, economic relations. Recent framework agreements between the United States and Mexico raise the prospect of establishing similar provisions in the context of either a bilateral FTA with the United States or the trilateralization of the Canada-U.S. pact (which would be the only practical way to establish a North American FTA).

Despite the strong trade linkages reinforced by bilateral trade pacts, and their shared interest in export-led growth, prospects for a broad based regional trading arrangement in North America seem remote. The broader North American region seems to meet only the geographic proximity test of trading blocs. The incorporation of Mexico would pose significant obstacles to regional integration due to its lower level of development, and different legal and regulatory systems.

Most importantly, the complexities of integrating economies at very different levels of development, and Mexican and Canadian concerns about political and cultural sovereignty, will retard and may well block—the evolution of a North America trading bloc. Mexico's per capita GNP is only one-tenth that of the United States and one-eighth that of Canada but its population is 30 percent of its northern neighbors. Such disparities could exacerbate fears that the adjustment burden would fall disproportionately on Mexican industry, and U.S. and Canadian unskilled labor (since Mexican labor productivity and wage levels are far below those in the United States and Canada). Indeed, the integration of Mexican labor in the North American economy could be the Achilles heel of efforts to build a regional trading bloc.

Furthermore, the Canada-U.S. FTA could not easily serve as a model for a broader regional arrangement. The conditions that facilitated the U.S.-Canada talks were unique: substantially interdependent economies, similar per capita incomes, and similar legal systems and trade regulatory regimes, in which bilateral trade liberalization did not pose serious adjustment burdens in sensitive industrial sectors (in part due to the absence of large wage disparities). Broadening the existing FTA to include Mexico would require the accommodation of a different legal and regulatory regime, and would raise adjustment problems as noted above.

Finally, Mexico will have a difficult time implementing additional trade and investment reforms beyond the significant steps that already have been taken in the past few years. These policy changes have already had a dramatic impact on Mexico's trade and current accounts. Since 1987, Mexico's trade surplus has fallen from $8.4 billion to $0.7 billion (primarily due to an increase of more than 50 percent in merchandise imports), and its current account has shifted from a surplus to a deficit of about $4 billion. While the import surge has helped dampen inflationary pressures, it also has put Mexican industry under the competitive gun. It will be quite a task for Mexican industry just to adjust to the reforms already implemented, much less to broaden and deepen them in the context of regional (or multilateral) trading arrangements.

Moreover, all three countries in the region regard the regional relationship as a subset of their multilateral trade relations. Each county has an important stake in the multilateral system, for several reasons:

- As noted above, all the countries in the region need export-led growth beyond North America, and thus benefit from GATT rules and procedures that safeguard their access to overseas markets. In this regard, all three countries are seeking substantial trade liberalization in the Uruguay Round to increase their export opportunities.
- Canada and Mexico find that the GATT system affords them some protection and added leverage in dealing with their powerful neighbor.
- The United States also needs the GATT to deal with problems relating to subsidies and agricultural protection that have not been, nor are likely to be in the near future, amenable to solution on a bilateral or regional level—agricultural reforms will not work if some major trading countries continue to subsidize their producers. Multilateral agreements in the GATT are the best way to de-escalate the enormously expensive global farm subsidy war.

In sum, the three countries in the region have pursued bilateral trade agreements with each other both to improve the international competitiveness of their firms and to promote the negotiation of multilateral trade reforms in the Uruguay Round. For example, the results of the bilateral tariff negotiations mandated by the U.S.-Mexico trade accord signed in October 1989 are to be folded into each country's tariff offer in the Uruguay Round and applied on a most-favored-nation basis.

East Asia

During the 1980s, East Asia has experienced the strongest export growth of the three regions. The region's total trade more than doubled; much of the growth was generated by sales to the North American market. Its focus has been primarily outward-oriented, particularly to the U.S. market on which most of the countries in the region are highly dependent.

The dependence of East Asian economies on the U.S. market argues against the evolution of a Pacific Basin bloc, for two reasons. First, it is more important for the East Asian countries to maintain access to the U.S. market—arrangements with the United States thus take precedence over regional trading initiatives (as evidenced by the strong interest of these countries in potential FTAs with the United States along the lines of the Canada-U.S. FTA). Second, these countries have a vested interest in the strengthening of GATT disciplines, which they believe provide the best safeguards against further encroachments on their access to the U.S. and European markets.

Conclusion

There is little evidence that regionalism is replacing multilateralism on a broad scale in the trade policy of the leading trading nations. While a European trading bloc is clearly in existence and developing further, the evolution of a North American bloc is much less evident (especially with Mexican participation), and an East Asian bloc even less so. Several developments buttress this conclusion:

- In Europe, intra-EC trade as well as trade with EFTA countries has been booming since 1985. As a result of the 1992 process, and for a variety of other political and economic reasons, the EC-12 bloc is likely to evolve and expand throughout the 1990s.
- In North America, the Canada-U.S. FTA has promoted bilateral integration, but accommodating the Mexican economy will be more difficult. Furthermore, all three countries have pursued bilateral agreements within the region in order to promote multilateral trade reforms now under negotiation in the GATT.
- In East Asia, exports to the rest of the world have been growing somewhat faster during the 1980s than trade within the region. Countries have become increasingly reliant on access to the U.S. market; their trade policy priority is thus to secure that access through international treaty. GATT provides the best means to do so; bilateral or regional arrangements with the United States are being explored by some of these countries only as a defensive strategy in case the multilateral process stalls, or the United States turns protectionist.

With the Uruguay Round now in full swing, it is clearly too early to accept the scurrilous claim of Lester Thurow that GATT is dead. As such, claims that support for GATT is breaking down have been grossly exaggerated, especially in the United States where Trade Representative Ambassador Carla Hills has made the successful conclusion of the Uruguay Round the number one priority of U.S. trade policy. In both East Asia and North America, the evolution of a regional trading bloc has been considered only a second or third-best alternative, in the event the Uruguay Round falters. Only in Europe is there some ambiguity about the priority of GATT talks vis-a-vis the ongoing 1992 process.

(continued on page 19)

Conservation and Latin American Economic Development

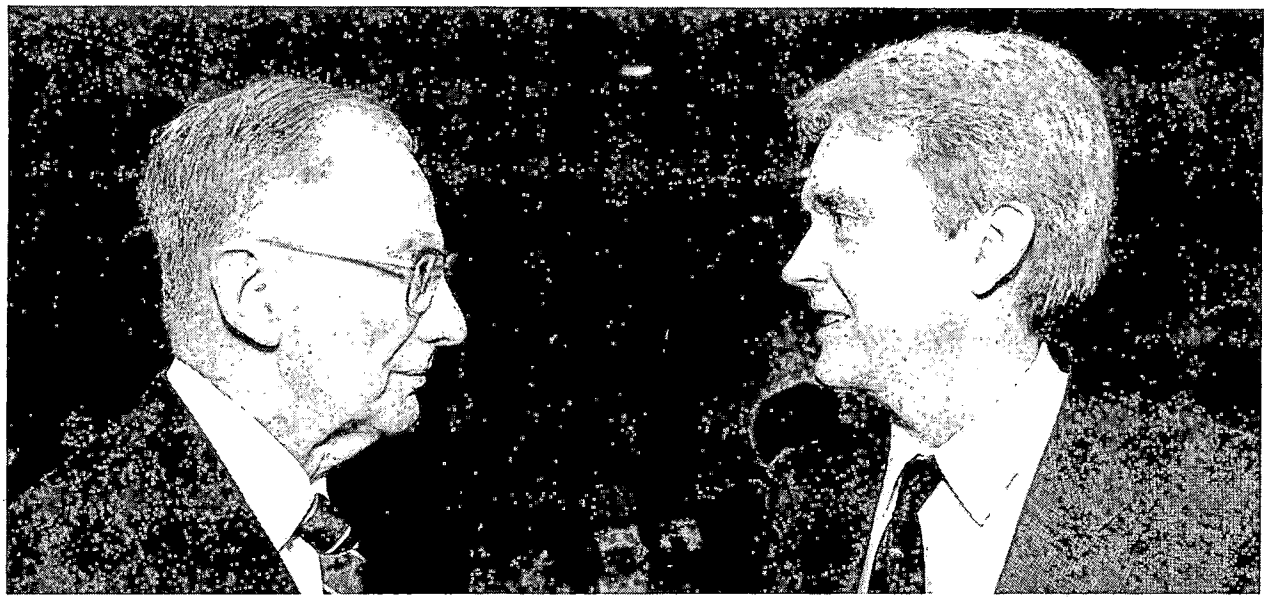


Photo credit Larry Glatt

Ambassador George Landau, President of the Americas Society and the Council of the Americas, and William Reilly, Administrator of the Environmental Protection Agency, at a conference on conservation and economic development sponsored by the Americas Society and the Smithsonian Institution in Washington.

The intersection of global conservation concerns and Latin American economic development with special reference to the private sector was examined during a conference jointly sponsored by the Americas Society and the Smithsonian Institution March 6 at the Smithsonian in Washington, D.C. The conference was made possible by a grant from the Tinker Foundation, Inc. whose Chairman, Miss Martha T. Muse, participated in the conference. In addition to environmental and development experts from the United States, speakers included experts from Brazil, Colombia, Ecuador, and Mexico. Included among the 150 invited guests, with many more having to be turned away due to space limitations, were corporate executives, diplomats, professionals from the World Bank and the Inter-American Development Bank, U.S. government officials, and many representatives from private, non-governmental environmental organizations.

The program was coordinated with Dr. Thomas Lovejoy, Assistant Secretary for External Affairs of the Smithsonian, and a distinguished biologist and conservationist, by the Washington office of the Americas Society. Dr. Lovejoy has been credited with conceptualizing the idea of debt-for-nature swaps in a *New York Times* 1984 op-ed article.

The Americas Society was represented by its President, Ambassador George Landau, who emphasized the importance of environmental concerns for U.S. corporations working in Latin America. He noted the opportunities available for U.S. firms to utilize their technology and management skills in working to improve the environment in the region in such areas as air pollution reduction and waste management elimination. In many of these areas, the experience gained in the U.S. market placed U.S. firms among the world leaders in environmental conservation technology.

In her welcoming remarks, Miss Muse noted that tropical forests are the repositories of incredible natural riches. One of every four pharmaceutical products comes from a tropical plant, yet less than one percent of tropical forest species have been examined for their future potential for mankind. The tropical forests cover less than 7 percent of the earth's surface, yet they contain half of the earth's plant and animal species. These tropical forests are being destroyed by man at the rate of 3,000 acres per hour.

The program was opened by Senator Albert Gore (D-TN). Senator Gore believed we are on a "collusion course with nature," but that there was no widespread imperative as yet to save the environment. He observed that as the Soviet threat had served as the organizing principle for NATO, the next organizing principle for world activity would be the battle to preserve the planet's environment. He noted that democracy was a necessary but not sufficient condition for dealing with environmental concerns in Latin America. The inflows of capital to the region are dwarfed by the outflows for debt servicing and capital flight. Repatriation of capital was needed. What should be considered was a new global Marshall plan to channel assistance to the developing countries to raise living levels as a transition to smaller families and dealing with the earth's population problem. He noted that while it had taken mankind one million years to reach a population level of two billion in 1945, it will take only 85 years to go from 2 to 10 billion.

Waste management is virtually unknown in Latin America, declared Ian Bird of Waste Management International, Inc. If polluting has no costs to the firm, that amounts to society subsidizing the waste production problem, he noted. "Zero" disposal costs tend to increase the production of waste, and it is 10 to 100 times more expensive to clean up dumping sites than it is to treat the wastes adequately in the first place, Bird observed. Moreover, waste disposal done as a private sector operation can yield high returns.

The Latin America situation was described as "mass poverty in an ecologically rich area," which could lead to the "Sahelization" of the region, according to Fernando Ortiz of Mexico City. Lowering future incomes by exploitation of the environment now, is not a current concern among the poor in Latin America who are struggling daily for economic survival. Ortiz noted that the "maquiladora" industry in Mexico was producing great amounts of waste materials which should be returned to the United States, but were not, further complicating Mexico's waste disposal problem.

Paulo Nogueira-Neto, a professor of ecology at the University of Sao Paulo, capsulized the problem from his perspective. "Poverty is the worst enemy of a good environment," he said.

The luncheon speaker was William Reilly, Administrator of the Environmental Protection Agency. He noted that there was a general tendency to discount environmental considerations, and to believe that economic growth will be sufficient to pay for rates of compliance with environmental concerns. Greatly increased resources were needed for environmental conservation, however, and marginal increments in existing programs would not be sufficient. New forms of agricultural production and air quality improvement that would provide "orders of magnitude" leaps in technology were needed, such as the biotechnological nutrients which were now able to clean-up oil spills.

Lester Brown of the Worldwatch Institute discussed the increasing seriousness of the world agricultural situation. He noted that farmers had 90 million additional people to feed annually while some 24 billion tons of topsoil were being eroded and lost each year. Air pollution and ozone depletion both acted to reduce agricultural yields. And there were no new technologies on the scene to increase agricultural production as the Green Revolution had done in the 50s, 60s, and 70s. Dr. Brown estimated that during the 1990s, food production would increase by 1 percent annually while population would increase by 2 percent — food security could replace military security as the concern of the 1990s.

The closing keynote speaker was the President of the Inter-American Development Bank, Dr. Enrique Iglesias. Poverty is the most important component of environmental degradation, he believed, with life in Latin American cities becoming a real tragedy in ecological terms. Iglesias was optimistic, however, noting that there are now some 2,500 non-governmental organizations concerned with environmental issues in the third world, while there were none in 1972 when the United Nations held the first conference on the human environment in Stockholm.

Echoing other speakers, Iglesias noted the large amount of additional resources that would be needed to deal with the environmental issues. These would need to be over and above the resources now available for financing third world development. Iglesias appeared to be saying the Inter-American Development Bank would need substantially more resources as it added environmental concerns to its earlier primary concern with economic development.

AACCLA XX ANNUAL CORPORATE BRIEFING WEDNESDAY, MAY 23, 1990

The Association of American Chambers of Commerce in Latin America (AACCLA) will hold its XX Corporate Briefing at the U.S. Chamber of Commerce headquarters in Washington, D.C. on Wednesday, May 23, 1990. Business executives from 20 Latin American countries, serving as presidents of the various American chambers located throughout the region, will present their country presentations on the theme of "Competitive Business Opportunities in Latin America." This is a unique opportunity for an in-depth review of Latin American business opportunities by executives who live and work there. For reservations or additional information call (202) 463-5490.

TRADE BLOCS . . . *(continued from page 17)*

Intraregional trade among the EC-12 is almost 50 percent greater than exports to the rest of the world. In North America and East Asia, however, intraregional trade accounts for only about 42 and 33 percent of total exports respectively—and in East Asia the share of intraregional trade actually has declined a bit during the 1980s. Instead of trade becoming more interdependent within the region, East Asian countries have increased substantially their trade linkages with North America. This is not new, but it points up the likelihood that the alternative to the multilateral trading system would not be a world of three trading blocs, but a bipolar system pitting Europe against the Pacific Basin.

Such a result is likely to occur only in the event of a breakdown of the GATT process. The multilateral trading system is still considered the "first-best" option for international trade relations. Indeed, if the Uruguay Round were to falter, the fallback approach would probably be a "GATT-Plus" negotiation, in which "like-minded" countries would seek to negotiate an open-ended FTA to supplement GATT disciplines and achieve further liberalization among themselves in an effort to buttress the multilateral system. Regional blocs would provide only a "third-best" option for world trade.

CALENDAR

"Tax Seminar on Mexico"—May 3, 1990, 9:00 a.m.-12:00 noon, Council of the Americas, 680 Park Avenue, New York City. For additional information call Chris Craven at (212) 249-8950.

The World Economic Forum is inviting top-level foreign and American executives for a two-day meeting with key U.S. officials to learn how Washington may respond to the trade imbalance, federal budget deficit, inflationary pressures and the emergence of a "new Europe". Discussion leaders will include key members of Congress and the Bush Administration, leading academicians, and chief executives of major corporations from the United States and abroad. May 16-17, 1990, Washington D.C. For further information contact Ms. Bidwell, World Economic Forum, 53 Chemin de Hauts Crets, CH 1223 Cologny, Geneva, Switzerland or call (41 22) 736 02 43.

"The United States and Latin America in the Global Economic Environment of the 1990s," 21st Washington Conference for Corporate Executives—two day conference. Speakers will include top-level officials of the Bush administration. Corporate participants will learn how Bush policy makers view the global economic environment and have an opportunity to offer the administration a business perspective on the economic importance of Latin America to our own country's economic health. May 21-22, 1990, Department of State, Washington, D.C. Registration fee: (before May 4) Council members-$500; non-members-$650; (after May 4) Council members-$600; non-members-$750. To obtain a registration form contact the Council of the Americas, 1625 K Street, N.W., Suite 1200, Washington, D.C. 20006. Telephone: (202) 659-1547.

"XX Annual Corporate Briefing" (AACCLA)—full-day conference with luncheon and evening reception. Presidents of 20 American Chambers of Commerce in Latin America will be present to deliver off-the-record analyses and forecasts on business opportunities. May 23, 1990, 9:00 a.m., U.S. Chamber of Commerce, 1615 H Street, N.W. Washington, D.C. Conference fee: (before April 23) one registration at $300, two registrations at $500, three registrations at $700; (after April 23)-$350 per person. For additional information call (202) 463-5490.

"World Business 2000-The Challenges of Economic Integration in the Decade Ahead," 30th World Congress of the International Chamber of Commerce—a timely, high-level, high-visibility opportunity for business leaders from around the world to meet and to debate some of the key global business concerns of the 1990s and represents a chance to promote U.S. corporate objectives on a number of critical issues. June 26-28, 1990, Hamburg, Germany. For more information contact Eileen P. Murray (212) 354-4480.

Washington Policy Dialogue, April 17, 10:30 a.m.-12:00 noon, with the Honorable Dennis Kloske, Under Secretary for Export Administration, Department of Commerce, Council of the Americas, 1625 K Street, N.W., Suite 1200, Washington, D.C. For registration or additional information call (202) 659-1547.

COUNCIL OF THE AMERICAS
AN AFFILIATE OF THE AMERICAS SOCIETY INC
Ludlow Flower
Managing Director
William Knepper
Editor, Washington Report

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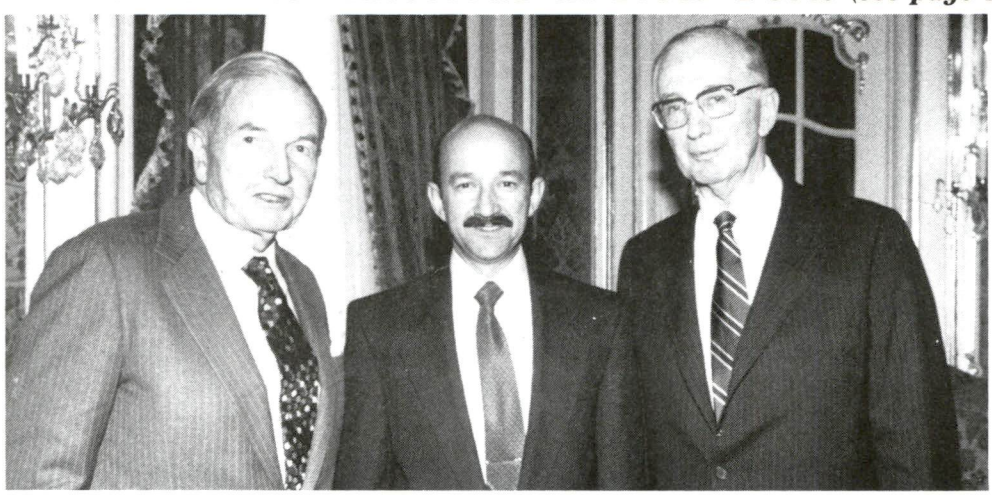
COUNCIL OF THE AMERICAS
AN AFFILIATE OF THE AMERICAS SOCIETY INC.

WASHINGTON REPORT

A SUMMARY OF ISSUES OF INTEREST TO U.S. CORPORATIONS ACTIVE IN LATIN AMERICA **OCTOBER/NOVEMBER 1989**

Mexican President Carlos Salinas de Gotari Addresses Council of the Americas in New York *(see page 10)*



David Rockefeller, Chairman, Council of the Americas; His Excellency, Lic. Carlos Salinas de Gortari, President of Mexico; Ambassador George W. Landau, President, Council of the Americas.

TRADE AND INVESTMENT "UNDERSTANDINGS" WITH MEXICO

During the October 3-5 official visit of Mexican President Salinas de Gortari to Washington, several agreements were signed which have the potential to substantially increase trade and investment. The negotiations to be undertaken, however, do not formally propose to go as far as to establish a free trade area between the two countries, nor to give Mexico "preferential" treatment. Nevertheless, many observers, including Commerce Secretary Robert Mosbacher, have commented on the possibility that agreements to liberalize trade in several economic sectors could be used as "building blocks" towards the eventual conclusion of a free trade area, as resulted after many years of difficult and sensitive negotiations with Canada.

Two-way trade between the two countries totaled $44 billion in 1988, and may exceed $50 billion this year. The United States is by far Mexico's largest export market and the largest supplier of Mexico's imports. Mexico, on the other hand, is the United States third largest trading partner, exceeded only by Canada and Japan. *(continued on page 3)*

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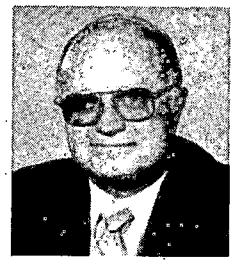
POLICY ANALYSIS:
U.S.-LATIN AMERICAN RELATIONS: NEW PERSPECTIVES FOR THE 1990s



The Association of American Chambers of Commerce in Latin America (AACCLA) consists of 22 American Chambers of Commerce located in 20 countries in Latin America and the Caribbean. The President is Marvin Carter of Occidental Petroleum (see photo), who is also President of AmCham Peru. AACCLA has prepared a report with recommendations for U.S. policy towards Latin America and the Caribbean during the Bush administration. Excerpts from the report follow. Copies of the report may be obtained from: AACCLA, 1615 H Street, N.W., Washington, D.C. 20062.

Economic Relations:

Despite recent declines in average annual growth rates due to the debt crisis in most Latin American and Caribbean countries, combined real gross domestic product (GDP) for the region is three times greater in aggregate terms than in 1960, and almost twice as large per capita. For more and more countries in the hemisphere, the adjective "under-developed" seems to be less and less appropriate.

The region's debt problems should not obscure its underlying vitality and size as an economic partner. On a day-to-day basis, U.S. exports and foreign investments are dominant features of inter-American relations. In 1988, U.S. exports to the region increased by 25 percent to $43.1 billion. Though the pace of U.S. direct foreign investment in the region has slowed since the debt crisis, the United States remains, by far, Latin America's most important foreign investor with $34.7 billion invested in 1988, a 10 percent increase over 1987.

Policy Environment:

AACCLA's specific recommendations in the areas of trade, investment, debt, and drugs are presented in the context of an overall policy approach which should be marked by the following characteristics:

- Close and positive attention to the region as a whole with special emphasis on U.S.-Mexico relations.
- Appreciation for the region's strategic importance.
- Supporting the OAS, IDB, and other regional institutions.
- Foreign assistance levels commensurate to the need, both in bilateral programs and through multilateral institutions, avoiding encumbering such assistance with contingent demands not specifically related to economic development objectives.
- Dealing with each country on its own merits in a spirit of equality and mutual understanding.
- Recognizing and encouraging the role of the private sector, both U.S. firms and those of the countries themselves, in contributing to the region's economic development and to the image, good will, and foreign policy objectives of the United States.

Trade Initiatives:

While U.S. policy within the hemisphere should not be inconsistent with U.S. policy objectives worldwide, it is important that the special nature of U.S. relations in the region be kept in mind when developing and implementing U.S. trade policy. AACCLA specifically supports:

- Ratification of the Inter-American Commercial Arbitration Convention.
- Continuation of co-production tax incentives in Items 806 and 807.
- Continued funding for the Export-Import Bank.
- Continued funding and strengthening of the U.S. and Foreign Commercial Service.

Investment Initiatives:

U.S. investment in the region helps the countries in their development objectives by bringing needed capital, technology, and managerial skills. It helps the U.S. economy by creating a market for U.S. exports and by generating remittances that reduce the U.S. balance-of-payments deficit. AACCLA recommends:

- Continuation of the corporate tax deferral on foreign income and the credit for foreign taxes.
- Support for the Multinational Investment Guarantee Agency (MIGA) and the Overseas Private Investment Corporation (OPIC).
- Negotiation of Bilateral Investment Treaties (BIT's).
- Bilateral and multilateral efforts to discourage discriminatory treatment of U.S. foreign investment with particular emphasis on service industries and intellectual property protection.
- Active participation in the IDB's Inter-American Investment Corporation.
- Continuation of lending availability of "936 funds" from Puerto Rico for development programs in CBI countries.
- Continuation of Section 911 tax exclusion for foreign income of U.S. citizens living abroad.

Debt Initiatives:

The debt problem is an international one, with American banks holding only a third of the loans to troubled debtors. Though the problem requires multilateral solutions, AACCLA supports the leadership position that the U.S. government (through the Baker and Brady plans) has assumed in proposing a variety of creative approaches.

- *Internal Reforms.* Debtor country commitments for policy and structural reform have been largely unfulfilled.
- *Support for International Institutions.* The U.S. should reaffirm its support of the IMF, the World Bank, and the

(continued on page 3)

Policy Analysis: *(continued from page 2)*

IDB by meeting its commitments both on increased capital resources and on administrative talents. Encourage the IDB to increase lending to private business ventures and development finance companies.

— *Export Promotion.* The United States can facilitate the countries' efforts to earn more foreign exchange to service their debt through trade policies which provide access to the U.S. market.

— *Debt-Equity Swaps.* Modifications of U.S. laws would increase the competitiveness of U.S. banks.

Drug Crisis:

The principal focus of U.S. efforts to control the use of illegal drugs must be oriented to minimizing the demand for them by its citizens which control of supply can strengthen but not replace. The United States must understand the danger to its hemispheric interests from the undermining of political institutions in the supplier countries by the vast sums of money available for corruption.

Programs oriented to the control of supply in the producing countries should include replacement employment opportunities for those in the agricultural sector now employed in the growing of drug-related crops.

Some modification of the certification policy for cooperation in fighting against drugs should be considered. This process has not reflected actual success against the drug problem, and, when applied, has usually been an irritant in bilateral relationships.

Trade and Investment With Mexico

(continued from page 1)

The agreement signed by USTR Carla Hills and Mexican Commerce Secretary Jaime Serra is entitled "Understanding Between the Government of the United Mexican States and the Government of the United States of America Regarding Trade and Investment Facilitation Tasks." The Understanding builds on the 1987 Framework Agreement which set up a series of consultative groups to discuss issues and problems of mutual concern in specified areas. The new Understanding, while continuing the work of the consultative groups, carries the process forward by mandating bilateral trade and investment negotiations.

These negotiations will be carried out in a manner consistent with the General Agreement on Tariffs and Trade (GATT) and the Uruguay Round of global multilateral trade negotiations. Under the "action plan" agreed to in the Understanding, specific products for negotiation will be identified by November, with negotiations to commence in March. The results from these negotiations will be folded into the Uruguay Round negotiations which are due to be completed in November 1990. Whatever tariff concessions the two countries make, will be passed along to other countries on a most-favored-nation basis. Other generalized trade issues — such as standards, valuation, intellectual property — may also be topics for bilateral discussion.

A second agreement was signed by Commerce Secretary Mosbacher and Mexican Commerce Secretary Serra entitled "Understanding Between the Government of the United States Of American and the Government of the United Mexican States Regarding the Joint Committee For Investment and Trade." This Understanding provides for the creation of a Joint Committee to carry on consultations to promote trade and investment opportunities in the two countries. As the first action under this Understanding, Secretary Mosbacher led a special, high-level Business Development Mission to Mexico City Nov. 20-22.

On other trade issues, it was agreed that automotive trade would be addressed. The United States announced it was interested in "open trade" and had no interest in restricting imports of automobiles or parts thereof from Mexico. Other industrial sectors which are candidates for negotiation include petrochemicals, pharmaceuticals, telecommunications, computers and other electronic items, and food processing equipment. Agriculture will also be reviewed.

The United States indicated that it might improve Mexico's access to the U.S. textile and apparel market, indicating "...a commitment to the mutually beneficial expansion of the textile and apparel trade." A mid-term review of the bilateral textile agreement with Mexico is currently underway.

A revised bilateral voluntary restraint agreement(VRA) for steel products was also announced during the visit. The revised agreement through March 1992 provides for increased shipments of Mexican steel products to the United States, while Mexico agrees to eliminate certain trade distorting practices in steel.

The United States also announced that it had accepted a record number of Mexican petitions for consideration during the 1989 Annual Review under the U.S. Generalized System of Preferences scheme. Hearings on these petitions are underway, with the potential existing to increase the benefits provided to Mexican exporters.

The agreements with Mexico were discussed by Secretary Mosbacher in an October 18 hearing before a subcommittee of the Senate Committee on Banking, Housing, and Urban Affairs. He told the subcommittee that "...We think that this could lead to — eventually — a free-trade agreement with Mexico as we have with Canada. Both sides have got a lot of steps to take before we get there."

Senator Bob Graham (D.Fl.) later asked Secretary Mosbacher if he saw in the Mexican circumstance the development of a treaty analogous to the Canadian Treaty. The Secretary replied: " I do. And we've had some talks with our Mexican counterparts about this. And they are cautious, and I think we should not try to push them too fast and too hard. But they are interested, extremely interested, as we are, in moving towards this. But they want to take it a step at a time."

Senator Graham also asked if, in the year 2010, we should have as our goal a free trade zone within the Hemisphere? Secretary Mosbacher relied: "Yes, I think that's a long, long-term goal that would be a very good goal for this whole hemisphere, yes, absolutely correct."

(continued on page 5)

The View from Embassy Row:

Brazilian-United States Trade Relations

By His Excellency Marcilio Marques Moreira
Brazilian Ambassador to the United States

The relevance of trade in the overall relationship between two countries may be gauged by the amount of time and effort they commit to it in terms of dialogue and negotiations. Concerning Brazil and the United States, statistics concur to lend preeminence to the bilateral trade: the United States is Brazil's largest trade partner.

Brazil's exports to the United States last year amounted to $9.6 billion; its imports to $4.2 billion. This means that the United States is Brazil's main trading partner, purchasing 30 percent of total Brazilian exports and providing nearly the same percentage of our total imports. The bilateral trade in 1988 totalled almost $14 billion, compared to less than $11 billion in 1984. American exports to Brazil, in particular, increased rapidly in the last five years, from $2.63 billion in 1984 to $4.2 billion in 1988. Despite the progress attained, however, the figures are still far below the potential of our two economies.

Trade figures demonstrate that Brazil has been a growing market for American products. Actually, the growth of sales of U.S. exports to Brazil outperforms that of other relevant markets such as Canada, Japan, Germany, France and the four Asian NIC's. From 1984 to 1988, exports to Brazil increased by almost 60 percent, while the average increase to other countries was 32 percent.

As for Brazilian sales to the United States, the growth was not as fast, although Brazil generated every year a significant trade surplus, that, however, turned into a current account deficit, with a single exception. In fact, our deficit in the services account more than offset the surplus in the trade account, in spite of the latter's impressive dimension. Meanwhile, Brazilian sales to the United States increased less than 20 percent, compared to the 60 percent growth of American exports to Brazil. In the same period, overall U.S. imports grew from $346 billion to $441 billion.

U.S. exports to Brazil, although showing a fast advance since 1984, and a remarkable increase in their share of total Brazilian imports, have but recovered from the drastic compression imposed by the 1982/83 debt crisis. Barely matching the 1980 figure, they are much below the absorption potential of the Brazilian market.

The reasons are clear. Brazil has had to follow, since the debt crisis, a very restrictive import policy. Not for protectionism's sake, but to cope with the stringent balance-of-payments constraint imposed by an 8 percent of GDP adverse turnaround in net external transfers.

The dynamic performance of Brazilian exports worldwide, coupled with a hope for reduction of the staggering debt service burden, should, in the future, enable Brazil to emphasize the trend towards import liberalization. This is aimed at bolstering the Brazilian economy's competitiveness and modernization.

These goals are enshrined in two recent legislative landmarks. The first is the new Constitution, that broadened the scope of market mechanisms and the role of free enterprise. The state's power is now restrained by the rule of law and the priorities set by the society.

The second is the New Industrial Policy. It reflects a new concept of economic development that overcomes the introspective strategy of the import substitution cycle. It stresses competitiveness, export performance, and expanded but less protected domestic markets. Its implementation will require a surge in investments, especially in the more modern sector of tradeable goods.

The first effects of this new, more open policy can already be observed. With the removal of hundreds of products from the list of suspended imports, and the elimination or drastic reduction of import tariffs for thousand of products, overall non-oil imports have increased by 30 percent in the first nine months of 1989.

At this stage of economic development, there seems to be a reasonably wide consensus in Brazil that trade liberalization is imperative. Recent legislative initiatives have signaled that Brazil is committed to that path, and this in spite of the heavy burden imposed on its foreign accounts by the debt service.

Compounding the foreign accounts constraint, Brazil has still to grapple with problems such as protectionism in some segments of developed countries' markets and subsidized exports, mainly from the United States and the European Community.

Brazil is at the threshold of an historic watershed. On December 17, 82 million voters will freely elect, for the first time in almost 30 years, the country's new president. It is not possible today to venture who will be chosen. But there is enough evidence that whoever is elected will opt to pursue a policy to better insert the country, in a modern and competitive fashion, into the world economy.

(continued on page 5)

Brazilian-United States Trade Relations

(continued from page 4)

There are ample reasons to believe that, in such context, trade relations between Brazil and United States will tend to intensify in the years to come. On the Brazilian side, a significant expansion of imports is expected, especially of equipment and high technology intensive goods. On the U.S. side, importers can look forward to Brazil as an increasingly reliable supplier of an ever broader range of competitive goods produced by a renovated industrial base, by a dynamic agriculture, and by developing rich mineral deposits.

The expansion of our trade relations rely, however, on some basic premises: the strengthening of links between the business communities of the two countries; the friendly and speedy solution of unnecessary and protracted trade disputes; the settlement, on a more permanent, realistic and equitable basis, of the foreign debt issue and, finally, the willingness of the two countries to concentrate enough time and effort, in the pursuit of the promising opportunities in the areas of trade, investment, and access to advanced knowledge—the very raw material of modernity.

Trade and Investment with Mexico

(continued from page 3)

The negotiation of a comprehensive bilateral trade and investment agreement building on the 1987 Framework agreement had been endorsed last December by Guy Erb, Executive Director of the U.S. Council of the Mexico-U.S. Business Committee, and Joseph Greenwald, former U.S. Ambassador to the European Community, in an article in *The Journal of Commerce*. Dr. Erb had been deeply involved in organizing private sector support for the 1987 Framework agreement. They noted in the article that the negotiation of a series of sectoral agreements, while not necessarily inconsistent with the goal of overall trade liberalization, could prove to be difficult in identifying appropriate sectors in which gains and losses could be balanced off. They believed it might prove more feasible to negotiate an overall agreement, phasing it in over 10 to 25 years to allow industry and agriculture on both sides of the border time to adjust to the new circumstances.

The Forty-fourth Plenary Meeting of the Mexico-U.S. Business Committee met in Florida in November. A report of that meeting's discussion of trade and investment negotiations will appear in the next Washington Report.

Venezuela: Recadi Investigation Decelerates

Two recent developments in Venezuela regarding the judicial investigation into alleged fraudulent foreign exchange operations involving RECADI, Office of Differential Exchange Rate Controls, a now defunct Venezuelan government office, seem to indicate that the issue is losing much of its steam. (see *Washington Report,* July/September 1989, page 11.)

The original investigating judge, whose sole jurisdiction had already been diluted by the addition of other judges, has now been removed from the case by a superior court. In a related development, the special committee of the Venezuelan Chamber of Deputies investigating the pharmaceutical industry has concluded there was no proof that "any known laboratory has illegally speculated with overinvoicing to acquire preferential dollars." In addition, a Venezuelan executive of the largest flour mill, who had been arrested and imprisoned for 132 days, was ordered released.

Meanwhile, many of the estimated 100 top executives of multinationals in Venezuela, who had left the country pending a resolution of the RECADI inquiry, have returned. Still a catch 22-problem for those executives currently outside Venezuela against whom arrest orders have been issued is the appellate court ruling that in order to utilize their own defense counsel they must come back to Venezuela and thereby go to jail to await trial. Otherwise a public defender appointed by the state must be used. Still pending in the Venezuelan Congress is proposed legislation which would permit bail in such cases. The bill is defective, however, in that its language would only permit bail after a decision by the court of first instance, which could be years after arrest.

The various investigations are expected to continue, at least partly because of the judiciary's stiffened resolve to see them through (the judiciary has been stung by charges of "judicial terrorism"). Attention now, however, centers on the alleged involvement of former officials of the previous Lusinchi administration. Faced with crucial gubernatorial elections in December, and with the opposition already referring to its candidates as the "AD-Recadi" coalition, the government needs to claim a victory over corruption. Nevertheless, it is increasingly obvious that the government of Carlos Andres Perez, desirous of wooing foreign investors back to the country, would like to bring the investigations to an end as soon as possible.

—**Dr. Lowell Fleischer,** *Program Officer*

Salinas and Team Look to Future, Not Past

By Dr. Susan Kaufman Purcell,
Vice President for Latin American Affairs,
Americas Society, New York City.

(Translated from *Excelsior,* Mexico City, October 7, 1989.)

Judging from the reception that President Salinas de Gortari got in Washington and New York, it is difficult to believe that the relationship between Mexico and the United States has ever been conflictual. Whether addressing the U.S. Congress or a group of businessmen and bankers, the Mexican president was warmly received, with his words followed by sustained and standing ovations.

What accounts for this outpouring of enthusiasm? Part of the explanation is the man himself. President Salinas came across as a confident, but not overbearing, leader of considerable charm and intellect. He was particularly impressive in small groups, where he engaged in an easy and open exchange of views. He also displayed a good and unexpected sense of humor, which helped put people at ease.

The President's success during his visit is also accounted for by his economic policies, which were well-received by the American government and the public. President Salinas spoke repeatedly of his government's efforts to modernize Mexico, mainly through a liberalization of its economic and political systems. Americans approve of what the Mexican president is trying to do, because they believe it will be good for both Mexico and the United States.

Contrary to what some Mexicans may believe, the interests of the United States are not served by having a poor and weak Mexico on its southern border. Such a Mexico would not be able to satisfy the needs and aspirations of its people, and would therefore be inherently unstable and threatening to U.S. interests and security.

Instead, the United States would like to have a prosperous and democratic Mexico as its neighbor, for such a Mexico would be stable, friendly, and an even more important and valuable trading partner than it is today. And with the possible growth of regional trade blocs in Europe, and South and Southeast Asia in the coming years, the ability of the United States to expand its trade with its two North American neighbors—Mexico and Canada—becomes ever more desirable.

For these reasons, Americans are very enthusiastic about Mexico's recent reforms. The reduction of protectionism, the decrease in the size of the Mexican state and its role in the economy, the efforts to privatize non-strategic industries and the increased cooperation that is developing between the Mexican government and private sector are seen as important and encouraging steps in the direction of a more efficient, productive and competitive economy. This is the only kind of economy that will allow Mexico to provide employment for all Mexicans who want and need jobs.

President Salinas used his visit, however, not only to inform Americans about his administration's policies. He also used it to take new steps to further facilitate and increase trade between Mexico and the United States in key sectors such as steel, textiles, automobiles, and electronics, and to encourage greater U.S. investment in Mexico and greater openness of the U.S. market to Mexican exports. Here he was building upon the bilateral Framework Agreement of 1987, which set up a consultation process for dealing with bilateral trade disputes, and the August 1989 meeting in Mexico City of the Binational Commission which set up sectoral working groups.

Although the President's emphasis was mainly economic, he also stressed the importance of political and social reforms. This also appealed to his American audiences. He pointed out that Mexico lacked the resources to solve all its problems simultaneously and as a result, had to make some hard choices. The government, for example, could not put millions of dollars into both the modernization of the telephone system and the modernization of the education system. It had, therefore, chosen to focus on education, leaving the job of improving the telephone system to the private sector. He also called attention to the fact that greater political pluralism had to go hand in hand with increased liberalization of the economy.

But perhaps the main reason that President Salinas was so well received had to do with what Americans perceived was a new attitude toward the United States. Many Americans had long been disappointed and frustrated by what they regarded as a self-destructive attitude on the part of Mexico. It seemed as if Mexico wanted to live in the past by dwelling on the bad treatment that it had received from the United States, rather than focusing on the potential for a mutually beneficial relationship with the United States in the present and the future. It also struck many Americans as strange that Mexico seemed to look upon the 2,000 mile shared border more as a curse than as an opportunity. And Mexico, while repeatedly insisting that the United States treat it as an equal, did not seem to act as if it believed it really was equal.

This seems quite changed now. During their visit, President Salinas and his team looked to the future instead of the past. They seemed self-assured and confident of themselves and their goals for Mexico. They did not seem afraid that economic and political modernization would cause Mexico to lose its identity and become a carbon copy of the United States. Instead, they left no doubt that they believed that a prosperous and democratic Mexico would forever be recognizably Mexican — much as a prosperous and developed France or Germany would always be recognizably French or German. They were neither defensive nor interested in playing the victim. Rather, they were friendly and positive toward the United States, and Americans were quick to respond in kind. As has often been said of Americans, they like to be liked!

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THE INSTITUTE FOR THE STUDY OF THE AMERICAS

A relative new addition to the non-profit institutions dedicated to improving the study of Latin America and the U.S. approach to Hemispheric affairs is the Washington-based The Institute for the Study of the Americas (ISOA). The Institute is based on the judgment that Latin American studies and especially policy research, have lagged far behind the multi-disciplined approach that was applied in the 1950's and 1960's to Soviet, European, and National Security studies. With the provision of adequate resources, a new generation of area and functional specialists was created which has greatly increased the professionalism and objectivity with which these areas are studied. This has led to the creation in many universities of departments or regional foreign affairs institutes as well as independent "think-tanks" which have earned the reputation for objectivity by both academicians and policy-makers alike.

ISOA proposes to perform a similar, admittedly ambitious, function with Hemispheric studies. ISOA will serve as a catalyst and clearing-house in the creation of a new—"realistic and objective"—Latin American studies environment both in the United States and throughout the Hemisphere. It seeks to apply to the study of Latin American affairs and policy issues the same high quality of scholarship and objectivity that is presently applied in some other "mainstream" regional areas—such as Soviet studies—where adequate resources have been provided over a protracted period of time.

ISOA will seek out, organize, and coordinate the provision of resources from government and foundation sources, but especially from the private sector. In some instances, it is not so much a question of additional resources as it is seeking to ensure that resources presently available are used for the highest priority projects. It will channel these resources to finance scholarship, studies, and research into policy related areas of key interest to future policy makers. It will also maintain an active educational program to make the research results available to the public.

The President of ISOA is Latin American expert, Brazilian specialist, and former Director for Latin American Affairs of the President's National Security Council, William Perry. Mr. Perry's over twenty years involvement in Latin American scholarship has led him to believe that research into Latin American issues has not reached the level of professionalism and objectivity found in other regional studies.

Much of past and current research into Latin American issues has started from a basic distrust of the role of the private sector, according to Mr. Perry. This research bias is particularly harmful at the present time of economic crisis in Latin America when many countries have started to restructure their economies to allow the private sector to play a greater role in their economies. Trade barriers are being lowered and protectionism disassembled to permit Latin American manufactured exports to compete effectively in an increasingly interdependent world economy.

"What is required is the forging of a wholly new school of thought on Latin America, possessed of a balanced, practical and forward-looking vision of the region's affairs and of its relationship to the United States," said Mr. Perry. "Eventually, an entirely new generation of analysts and institutions must be created to provide the basis for serious academic inquiry, to adequately inform public opinion and to sustain a sensible U.S. policy toward the region in coming decades. The task is an ambitious one — of critical and urgent importance to the United States. But our nation has faced and overcome such challenges before. And, if our human and material resources are properly mobilized, we can do for Latin American affairs in the 1990's what was done so successfully for Soviet, European, and National Security studies in the 1950's and 1960's."

Further information concerning the Institute may be obtained by contacting: Mr. William Perry, The Institute for the Study of the Americas, 815 Connecticut Avenue, Suite 800, Washington, D.C. 20006. Telephone: 202/463-8877.

Salinas Looked Toward the Future

(continued from page 6)

The fact that the presidential visit went so well does not, of course, mean that there will not be problems and conflicts between Mexico and the United States in the future. The bilateral relationship is extremely complicated, in great part because it is so intertwined with domestic politics in each country. This makes it inevitable that there will be some difficult times ahead. Nevertheless, the chances for a continuation of the friendly, cooperative and constructive relationship that has begun to develop seem better than ever. In part, this is because both countries have new presidents who realize that the world is changing and that in this changing context, good relations between Mexico and the United States are more important than ever. Both Presidents will, therefore, build upon the good feelings generated by the Salinas visit.

LATIN AMERICA AND THE ANNUAL WORLD BANK-IMF MEETINGS

Twin concerns over protectionism in developed countries and continued negative capital flows from Latin American countries were highlighted in the remarks of the chiefs-of-delegations from Latin America and the Caribbean at the forty-fourth Annual Meetings of the World Bank and the International Monetary Fund (IMF) held in Washington, D.C. Sept. 26-28. While these meetings rarely arrive at any concrete decisions, they do provide a sounding-board for the world's financial leaders, and are an important step in consensus building on world financial issues.

Speaking on behalf of the Latin American countries, the Finance Minister of Brazil, Mailson Ferreira da Nobrega, said that the region is "...in a state of siege." Latin America stagnated during the 1980's, and the projected rate of economic growth for 1989 is *zero*, which will result in a decline of 3.5 percent per capita for the two year period 1988-89. With the debt over-hang, Latin America has transferred abroad some 3 percent of its GDP annually during the decade of the 80's. The financing capacity for public investment has virtually disappeared. Latin America's borrowing from commercial banks declined from $55 billion in 1981 to *minus* $13 billion in 1988, "...in sharp contrast to the expectations created by the Baker plan of 1985." In 1988 net flows from the IMF to Latin America were negative $900 million; from the World Bank negative $1.2 billion.

Concerning trade, at the very time when export earnings must be increased to service the debt, protectionism in industrial countries has increased, precisely in those products of interest to the developing countries. In addition, the "regionalization" of international trade and trade-related investment "...poses serious threats to the integration of Latin America into the international economic system."

Other points made by the Brazilian Finance Minister included:

—there is an emerging consensus in Latin America on the need for the deep reform of the public sectors including public enterprises;

—the public sector has been made responsible for nearly all foreign debt while the foreign exchange is earned by the private sector; buying of foreign exchange by the public sector causes domestic public debt to soar and keeps sustained upward pressure on domestic interest rates;

—domestic programs of economic reform must provide for growth if they are to be sustainable over the long run in democratic societies;

—the existence of a supportive external environment including adequate, medium-term financial support is a necessary if not sufficient condition for sustained domestic reform;

—we will have to evolve to *official* estimates of the Bank and the Fund as to the magnitude of debt reduction that is consistent with sustainable economic growth with restructuring and not leave this to "...protracted, voluntarily negotiated schemes between each individual debtor and its commercial bank advisory committee, which has been tried for seven years and led debtors nowhere;"

—in the 1980's the burden of structural adjustment was concentrated on the debtor countries; now it is necessary to have more symmetry in the adjustment between debtors, creditors, and commercial banks;

—the "gradualist" approach to the international debt problem has been shown to be insufficient—merely postponing the problems; it is essential to move to a definite solution if we wish to avoid in the 90's a deepening of the problems of the 80's; solutions that imply a continuation of substantial negative resource transfers are not solutions but a continuation of the sacrifices and uncertainties of the 80's;

—the Brady initiative should be seen as a right step and should be strengthened, involving more direct involvement of the international financial institutions and the mobilization of more significant volumes of resources;

—consideration should be given to a carefully prepared international conference to address these issues at a high level. (Note: no action was taken on this proposal which has been made previously by other developing countries, and was also floated by France during the anniversary celebrations last July.)

Mexico's Finance Minister, Dr. Pedro Aspe, in addressing the IMF's interim committee, also emphasized the need for free and growing world trade and to reestablish the financial flows which have turned negative. Foreign debt constituted the greatest threat to Latin America's stability, development, and democracy. Dr. Aspe repeated Mexico's support for a new allocation of IMF Special Drawing Rights (SDR's) which would help ease the strain on the international reserves of many countries caused by the negative flow of resources from Latin America and other developing countries. (Note: a new issue of SDR's has been opposed by the United States and other developed countries as likely to contribute to world inflationary pressures.)

Dr. Aspe also noted that international economic decision-making should not be confined to the few industrialized countries that make up the G-5, but should be expanded to include the other countries in the global financial system. And that this could be done through strengthened international financial institutions.

Protectionism was also a key element in the address of St. Lucia's Prime Minister and Finance Minister, John Compton. He noted the asymmetry between trade liberalization required under Bank and IMF programs in developing countries and the "rampant nontariff protectionism" in developed countries, particularly in textiles and agricultural products.

Dr. Compton noted the special vulnerability of Caribbean countries, which could find their hard-won gains of economic development wiped out in a few hours by an act of nature, such as Hurricane Hugo this year or Hurricane Gilbert last year which caused great destruction in Jamaica. As the World Bank had helped in the reconstruction of Europe after World War II, so it should help in the reconstruction of hurricane damage in the Caribbean.

The reverse flow of resources from poor to rich countries was also a particular problem in the Caribbean. All catagories of resource flows to the region have fallen; the World Bank had gone from a positive $112 million a year to a negative transfer of $71 million. Adding to the problem, much of the debt of the Caribbean countries is to official multilateral and bilateral institutions which do not participate in debt reduction schemes such as the Brady plan. Dr. Compton also called for an international conference on debt, and the issuance of another allocation of SDR's.

LATIN AMERICA ECONOMIC INDICATORS

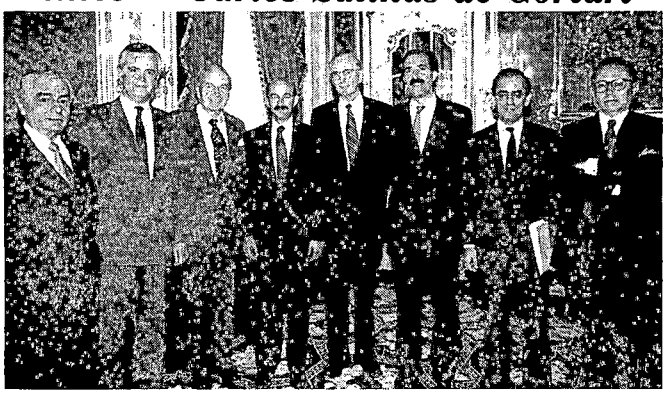
(Source: Inter-American Development Bank)

	Gross Domestic Product (Billions 1988 dollars)	Disbursed External Debt 12/88 (Billions of dollars)	GDP Per Capita (1988 dollars) 1980	GDP Per Capita (1988 dollars) 1988	GDP Growth Rate Per Capita—1988 (Percentages)
Mexico	$220	$102	$2872	$2588	-1.1
SOUTH AMERICA					
Argentina	91	60	3359	2862	-2.4
Bolivia	5	6	983	724	0.0
Brazil	354	112	2481	2449	-2.3
Chile	32	19	2448	2518	5.6
Colombia	53	18	1595	1739	1.6
Ecuador	15	11	1581	1477	5.0
Paraguay	6	3	1612	1557	3.1
Peru	32	19	1716	1503	-11.1
Uruguay	9	4	3221	2989	-0.3
Venezuela	85	35	5225	4544	1.4
CENTRAL AMERICA					
Costa Rica	6	5	2394	2235	1.1
El Salvador	5	2	1125	955	-1.5
Guatemala	13	3	1866	1502	0.6
Honduras	4	3	954	851	0.6
Nicaragua	3	7	1147	819	-11.1
Panama	5	5	2622	2229	-18.8
CARIBBEAN					
Bahamas	3	0	10631	11317	0.7
Barbados	1	1	3994	4233	3.4
Dominican Republic	10	4	1497	1509	-1.3
Guyana	1	1	1215	995	-2.9
Haiti	2	1	386	319	-2.1
Jamaica	4	4	1880	1843	0.4
Suriname	1	0	3772	3420	1.6
Trinidad and Tobago	6	2	8116	5510	-5.1
LATIN AMERICA	$968 Billion	$426 Billion	$2512	$2336	-1.5%

Council of the Americas Meets With the Presidents of Argentina, Bolivia, Mexico, and Paraguay

This fall, the Council of the Americas (COA) had the honor of featuring the Presidents of four Latin American countries. A brief review of the major points made in each presentation follows.

Mexico — Carlos Salinas de Gortari



From left: Lic. Gustavo Petricioli, Mexican Ambassador to the United States; Dr. Pedro Aspe, Secretary of Finance and Public Credit of Mexico; David Rockefeller, Chairman, Council of the Americas; His Excellency Lic. Carlos Salinas de Gortari, President of Mexico; Ambassador George W. Landau, President, Council of the Americas; Dr. Jaime Serra Puche, Secretary of Commerce and Industrial Development of Mexico; Dr. Jose Cordoba, Chief of the Office of Coordination of the President of Mexico; Lic. Fernando Solana, Secretary of Foreign Affairs of Mexico.

The Council of the Americas hosted a reception and luncheon honoring President Carlos Salinas de Gortari of Mexico in the Grand Ballroom of The Plaza Hotel on October 5. President Salinas had just completed his first official visit to Washington as the guest of President Bush.

President Salinas joined with other Latin leaders in his discussion of the effects of the foreign debt overhang on economic growth. "Mexico's over indebtedness hobbled our growth decisively with debt servicing equivalent to 6 percent of our GDP," commented President Salinas. "...We did not grow for seven years, and our population increased each year by nearly 1.5 million Mexicans . . . The renegotiation of the foreign debt has been an essential element for consolidating the reduction in inflation, regaining economic growth, and instilling confidence in the populace."

President Salinas emphasized that his government's primary goals for economic growth, needed to create one million jobs a year, were to consolidate the decrease in inflation and to modernize the industrial sector. To promote modernization of Mexico's industrial plant, the Salinas government is currently opening the doors to foreign competition, deregulating protectionist mechanisms, adopting new technologies, and promoting nonpetroleum exports. Since new foreign investment regulations had been announced in May, commitments had been made for 100 investment projects for a total of $2 billion, the President said. Mexico is seeking a gradual recovery, as an accelerated increase in economic activity would renew inflationary pressures.

In the field of politics, President Salinas' goals included modernization of the state and expansion of a political culture of ongoing and responsible dialogue among all the political forces of the country. There is a need to create a more pluralistic, critical, and participatory society.

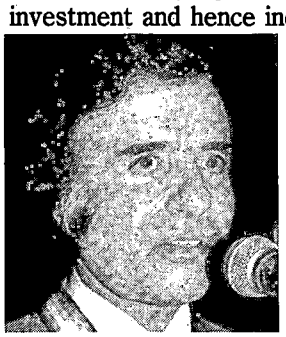
Ending on a positive note, the President said, "For the first time in several years, the growth of the economy will surpass population growth, and everything indicates that growth will be even higher next year."

Argentina — Carlos Saul Menem

President Carlos Saul Menem of Argentina was hosted by COA at a luncheon on September 25 in the Grand Ballroom of The Waldorf Astoria. President Menem opened his speech by stating, "For us, this is the hour of ideas at the service of action." He emphasized that Argentines must set aside partisan differences and work together for the common good.

President Menem has impressed students of Argentine politics with his ability to put together an ideologically diverse coalition to lead Argentina. This coalition has sometimes been at odds with organized labor which has been the traditional base of support for the Peronists.

Among the various measures his government is taking to restructure the economy are: elimination of the fiscal deficit; deregulation of the economy as a whole and the oil industry in particular; stabilization of price and exchange rates; and the abolition of public and private sector monopolies. Referred to by President Menem as a "popular market economy," these measures seek to eliminate the financial speculation that characterizes hyperinflationary economies. It seeks instead to develop a rational, production-based economy which gives the proper monetary signals through the price system to encourage investment and hence increased production.



Carlos Sal Menem, President of Argentina.

Another area in which President Menem will be focusing is tax reform, including increased emphasis on collection and hefty punishments for tax evasion. His goal is to increase revenues from the present 16 percent to 24 percent of the GDP. This would permit a return of public investment levels to precrisis levels. *(continued on page 11)*

COA VISITS . . .

(continued from page 10)

Turning from Argentina's efforts at economic restructuring to an issue with wide ramifications for all of Latin America as well as the international financial community, President Menem outlined his position on the foreign debt. The Menem government's position on the debt rests on three premises: first, that Argentina is willing to pay; second, that in order to pay, the country must grow and develop; and finally, that due to the irresponsible lending practices of the last decade, the international banking community must acknowledge, along with debtor governments, its share of the responsibility for the external debt.

Touching upon a major area of discussion within the United States, President Menem emphatically stated that his government is eager to work with the international community to combat the scourge of drugs and illegal narcotics trafficking.

President Menem closed his remarks on a note implying both hope and hardship for Argentina. "We are learning lessons in sacrifice and self-discipline the hard way . . . Nevertheless, we are anxious to fully become part of the 21st century, instead of regressing to the 19th."

Bolivia — Jaime Paz Zamora

President Jaime Paz Zamora of Bolivia was the honored guest at a Council of the Americas luncheon on September 27. President Paz characterized himself as being a "...new leader for a new era," with a strong mandate from the Bolivian people. He believed the time has come for the United States to "rethink" its relationship with Latin America. U.S. investment was welcome in Bolivia.

Jaime Paz Zamora, President of Bolivia; Ambassador George Landau, President of the Council of the Americas.

Bolivia's history of political and economic instability had, understandably, worked against new foreign investment, President Paz continued. Yet, investors have apparently not taken note that Bolivia recently has become one of the most stable countries in Latin America—inflation plummeted from 12,000 percent in 1985 to just 12 percent in 1989. Bolivia has also reduced its external debt by $1 billion—some 30 percent—in the last three years, principally through an innovative debt buy-back plan.

President Paz reaffirmed Bolivia's commitment to fight illegal narcotics production and international drug trafficking. He added that foreign investment in legitimate industries is a positive means of discouraging peasants from depending on coca production for their livelihood.

In response to questions regarding opportunities for foreign investment in Bolivia, President Paz cited the areas of energy, hydrocarbons, agriculture, and mining as potentially interesting. President Paz anticipated the new hydrocarbon and mining laws before the Bolivian Congress would be adopted soon, which will facilitate foreign investment in these sectors.

Paraguay — Andres Rodriguez

Div. General Andres Rodriguez, President of the Republic of Paraguay, was the guest of honor at a Council of the Americas reception on September 26. General Rodriguez led the ouster last February of Paraguay's President of thirty years, General Alfredo Stroessner. Elections were held on May 1, and General Rodriguez won the presidency in a fraud-free vote. President Rodriguez noted that his government immediately decided to "...eradicate the unjust rules that were restricting economic liberty." Paraguay's system of multiple exchange rates has been eliminated, as have all types of subsidies and certain state monopolies. President Rodriguez recently approved a law to encourage foreign investment. Paraguay particularly welcomes undertakings in agriculture, livestock, forestry, and hydroelectric power.

Ambassador George Landau; General Andres Rodriguez, President of Paraguay; Dr. Henry Kissinger, Chairman, Kissinger Asociates.

In closing, President Rodriguez stated that while the initial results of the eighth new economic plan were encouraging, he hopes that foreign investment and domestic capital will "...impel at more dynamic levels the progress of the Republic of Paraguay."

New York Photography by Miguel Rajmil

LATIN AMERICA: ECONOMIC AND SOCIAL PROGRESS – THE 1989 IDB REPORT

"Latin America entered the final year of the 1980's with reasons for hope as well as disillusionment." So begins the 521 page, 29th Report on *Economic and Social Progress in Latin America* by the Inter-American Development Bank (IDB), which has become the standard reference work on development trends in the region. The Report notes that overall economic activity slowed even more in 1988 than in 1987 and rising international interest rates sharply increased the region's debt service burden. On the other hand, "a consensus was finally emerging that piling new debt on top of old debt would not diminish the burden, and that the time had come to reduce the debt burden outright."

Overall, the combined GDP (gross domestic product) of the region increased by only 0.6 percent in 1988, with preliminary estimates that there will be *no* increase in 1989. When allowance is made for population growth, there was a 1.5 percent *decrease* in the per capita level-of-living in 1988. For 1989, this will translate into an additional *decrease* in per capita GDP of over two percent.

In 1988, the total regional product was valued at $968 billion, a 12 percent gain from its 1980 level of $873 billion (measured in 1988 prices). However, population in 1988 exceeded 414 million, up nearly 20 percent from 1980. This resulted in a seven percent *decline* in per capita GDP during the 1980's, which is expected to exceed nine percent when 1989 is included, which has earned the 80's the label of "the lost decade of development." By comparison, during the 1970's—when commodity prices were high, cheap foreign borrowing plentiful, and the import substitution model of development still working—per capita GDP had *increased* by nearly 40 percent.

In a press conference to introduce the 1989 Report, IDB President Enrique Iglesias noted that as a result of the decreased levels of public investment in the 1980's, that the physical infrastructure of Latin America—roads, ports, bridges, schools and other public buildings—had seriously deteriorated. He said there was a need for the IDB to become even more active in nurturing Latin American economic growth. And he observed that the IDB's seventh replenishment with additional funds—which had been under discussion since 1986—was now agreed, which would allow the Bank starting in 1990 to lend up to $5 billion annually for the next four years. This would be especially important in areas such as the Caribbean where the Bank's resources could be relatively important given the level of need and where the Bank's technical expertise was in high demand. (See *Washington Report*, May/June 1989, Page 13.)

The good news in 1988 was that Latin America's exports reached a record—measured in current dollars—of $102.6 billion, up from $90.1 billion in 1987, and 1989 exports are expected to set another record. The 14 percent increase in export value was twice the rate of the increase in exports worldwide. Only in two previous years, 1981 and 1984 have exports exceeded $100 billion. (If these current dollar export figures were adjusted to constant dollars, they would, of course, exceed the 1988 level.) And this record level of 1988 dollar export earnings was achieved despite decreases in the prices of several key exports, with some estimates that total exports would have exceeded $130 billion if these price declines had not occurred.

Of even possibly more potential significance has been the increasing diversification of the region's exports. The ten main (non-petroleum) traditional exports—that made up 50 percent of total exports in 1972-76—accounted for less than 22 percent of total exports during 1982-87. This provides graphic evidence that restructuring underway in some countries is having success in developing new exports to complement those traditonal exports for which demand is declining in world markets. Many Latin American countries have lowered protective barriers which had provided greater incentives to sell in local than in foreign markets (and had often denied domestic producers access to internationally priced inputs), and have overcome the anti-export bias of overvalued exchange rates.

Latin America has become increasingly integrated into the world economy, with exports of goods and services making up 14.4 percent of GDP in 1980, increasing to 18 percent in 1988. Several of these economies have become increasingly "open" on the export side as they have moved from being predominantly "closed" economies, basing their growth on import substitution for the protected domestic market. Leading examples are Brazil and Mexico, which in 1970-71 accounted for 48.9 percent of the region's total GDP but only 28.5 percent of the region's exports. By 1987-88, their share of the region's exports had nearly doubled to 52.4 percent. In both countries new industrial exports were largely responsible for the rapid export growth.

Latin American imports in 1988 totaled $78.2 billion, up from $69.8 billion in 1987, but were still well below their 1981 peak of $103 billion. Imports have been slashed since 1982 to service debt when capital inflows from commercial bank borrowing turned negative. These lower import levels reflect lower levels of public investment, which are cumulative, and are resulting in increasing deterioration to the region's physical infrastructure.

(continued on page 13)

IDB Report

(continued from page 12)

The general improvement in Latin American foreign trade in 1988 produced a favorable regional trade balance of more than $24 billion, a $4 billion improvement over 1987. Of this amount, Brazil alone posted a record surplus of $19 billion. The improvement in the trade surplus was cancelled out, however, by a $5 billion deterioration in the balance-of-services, caused by larger interest payments on debt and higher profit remittances.

The battle against inflation in Latin America went badly in 1988. Fifteen countries had higher inflation rates than in 1987. Among the larger countries, inflation decreased only in Chile and Mexico; it increased in Argentina, Brazil, Peru, and Venezuela.

Overall investment fell from 23.7 percent of the GDP in 1980 to 15.6 percent in 1984. Investment has been increasing slowly since then, reaching 17.4 percent of GDP in 1988, up by about 3 percent from 1987, which was about half the rate of increase recorded in the 1985-87 period. The slowdown in the rate of increase in investment in 1988 is a cause for concern, especially since investment remains about 6 percentage points below the level achieved in the 1970's. In absolute terms, gross domestic investment in 1988 of $168 billion was $40 billion below the 1980 level when measured in 1988 prices.

The trend begun in 1987 of larger central government deficits continued in 1988, according to the Report. This was primarily caused in most countries by decreased receipts from indirect taxes as economic growth slowed while expenditure levels remained constant. Chile was the only country registering a central government budgetary surplus and equilibrium in public sector accounts in 1987, with the surplus increasing in 1988.

For the first time since the onset of the debt crisis in 1982, outstanding foreign debt decreased. Disbursed foreign debt totaled $426 billion at the end of 1988, a significant decrease from the 1987 level of $441 billion. This principally resulted from large declines in the debt of Brazil, Mexico, Chile, and Venezuela, which was partially due to debt-for-equity conversions while debt repayments substantially exceeded new borrowing.

Concerning the split between private and public sector foreign borrowing, public foreign debt predominates, totaling over $380 billion including undisbursed in 1987. Foreign commercial banks increased their share of the public debt from 20 percent in 1970 to a peak of 64 percent in 1984, before starting to decline, reaching some 60 percent of the total public debt in 1987. Lending from official sources, both multilateral and bilateral, which had made up some 55 percent of the total public sector indebtedness in 1970, declined relatively by 1984 to below 27 percent of public sector indebtedness as the large increase in commercial bank lending to the public sector occurred in the 70's. Increasing relatively since then, official lending was 33 percent of the total public sector borrowing by 1987, a trend which is expected to continue given the withdrawal from public sector lending by most commercial banks since 1982.

The Report estimates that net private foreign direct investment increased significantly in 1988 from the $4.6 billion estimate for 1987, and may have approached the $7.5 billion level achieved in 1981. Mexico, Brazil, and Argentina, the three traditionally largest recipients of private direct foreign investment, were estimated to have received net, new investment of nearly $6 billion. At time of publication, however, the IDB did not have complete figures on the 1988 private investment flows.

Net new capital flows to the region, however, declined dramatically in 1988 and were preliminarily estimated at below $1 billion, as opposed to some $12 billion in 1987. The situation would have been much worse had there not been the increase in net direct private foreign investment described above. Since the external capital available to the region was considerably less than required to meet debt service obligations, the major debtors had to continue to rely on foreign exchange from their trade surpluses and from further draw downs of foreign exchange reserves which declined by more than $10 billion in 1988. Since 1985, when only $2.6 billion in net new capital flowed to the region, it appeared that a recovery in capital flows had been underway until the situation took the sharp turn for the worse in 1988. Inflows of $8.8 billion in 1986 and $12.3 billion in 1987, however, were far less than the amounts needed to meet the countries' financial obligations and not threaten economic growth, contributing to the poor economic performance in the last two years.

The rate of real growth in agriculture in 1988 of only 1.3 percent was considerably below the 7 percent growth achieved in 1987. Low rainfall in both Brazil and Mexico, which together account for more than one-half of the agricultural production, was primarily responsible. Latin American manufacturing production declined 1.5 percent in 1988 following a 2.3 percent increase in 1987. Brazil, which accounts for some two-fifths of the region's manufacturing, found overall production down 3.4 percent despite a 30 percent increase in manufactured exports, as exports were encouraged to earn foreign exchange needed to service the large foreign debt. Mexico, with the second largest manufacturing sector in the Hemisphere, recorded a 2.2 percent increase in manufactures, which was sufficient to maintain its successful export drive.

Intra-Latin American trade and the various integration schemes were also reviewed in the Report which found that Latin American trade within the region had continued its gains of the last two years. The Latin American Integration Association (LAIA)—previously known as LAFTA, the Latin American Free Trade Area—reported 1988 exports of $9.6 billion, up some 14 percent from the previous year. The largest trade increases were reported by Brazil (24 percent) and Argentina (30 percent), with the two countries responsible for some 56 percent of the intra-LAIA total. However, the value of LAIA's reciprocal trade was still some 18 percent below the 1981 high. Two countries have continued to accumulate surpluses in their trade within the region. From 1980 to 1988 Brazil accumulated surpluses totaling $5.7 billion while Mexico ran up a total surplus of $2.4 billion.

Privatization Trend Spreads in Latin America

by Richard C. Schroeder
Consultant to the Organization of American States

The winds of economic reform that are blowing through Eastern European countries are reaching gale-force proportions in many parts of Latin America and the Caribbean. In country after country, governments that for years have doggedly pursued policies of aggressive state intervention in the economy are abruptly changing direction, urged on by the foreign debt problem and economic stagnation.

Reversing the pattern of recent decades, an increasing number of Latin American and Caribbean countries are "privatizing," or selling off large state-owned enterprises to corporations or individual investors, both domestic and foreign.

One of the most remarkable turnarounds is taking place in Argentina, where the new President, Carlos Saul Menem, a member of Juan Peron's Justicialista Party, has rejected some of the fundamentals of Peronism. Instead of adding to the already formidable list of state-owned monopolies, imposing rigid price controls and decreeing generous wage increases for workers—all traditional Peronist tactics—Menem has instead adopted as his goal a free-market, private sector-oriented economy. At Menem's urging, the Argentine Congress recently passed legislation authorizing the complete or partial privatization of 30 large state-owned companies, including the national telephone company, the oil company and many railroads.

Menem has said his aim is a "popular free market economy," which, he explains, means "private enterprise and free trade, with social justice incorporated." To carry out the task, Menem has taken into his government a number of conservative businessmen and given them a free hand to slash public expenditures.

Major efforts are underway to open the formerly highly protected Mexican domestic economy. Mexico is now a member of the General Agreement on Tariffs and Trade (GATT) and is considering a series of trade liberalization sectoral agreements with the United States.

President Carlos Salinas de Gortari has moved even more rapidly in opening the domestic economy to the private sector. In September, the Mexican government announced the proposed sale of its majority interest in Telemex, the national telecommunications monopoly. Earlier, Salinas approved the sale of part of the government's largest airline, Compania Mexicana de Aviacion, to a group of foreign and domestic investors, with an option for them to assume majority control later. In addition, Salinas has said that the government plans to sell unprofitable state-run agri-businesses, with preferential options to buy to be given to rural producers.

Jamaica is another country that appears to be intensifying privatization efforts at the urging of an unlikely leader. Prime Minister Michael Manley was an ardent statist in a previous term as head of government (1972-80) and was hostile to foreign investment. Now he says he is a "mainstream realist," and has expressed a desire for "the most constructive relations with Washington." He has pledged to seek increased trade with and investment from the United States, especially for the tourism sector, Jamaica's principal source of foreign exchange earnings.

Manley's most recent initiative was to offer Air Jamaica, the state-owned national flag carrier, for sale to private investors. In addition, the Jamaican government has sold a state-owned cement company and a hotel and is pursuing the divestiture of 11 other government-owned hotels.

Chile has long been a leader in the privatization movement. In a recent report, the Chilean government announced the partial or total sale of 14 government-owned banks and financial institutions. The report said that Chile had divested nearly 200 state-owned companies during the 16-year term of President Augusto Pinochet. Chile has scheduled presidential elections for December 14, and the leading opposition candidate, Christian Democrat leader Patricio Aylwin, has said some economic fine-tuning may be needed but he will generally adhere to Pinochet's free-market policies.

Private sector participation is also on the rise in Bolivia, where former President Victor Paz Estenssoro adopted free market principles as the basis of his New Economic Policy (NEP) in 1985. The NEP involved rigid austerity measures, drastically cutting the government bureaucracy, closing some of the nation's largest state-owned tin mines, and paring the work force of Comibol, the state mining company, from 30,000 to 9,000 in less than two years.

The economic hardships brought on by the NEP stirred popular protest and fomented numerous nationwide strikes. But it produced visible results. From a mind-boggling inflation rate of 24,000 percent a year at the start of Paz Estenssoro's term, inflation declined to less than 3 percent in the first half of this year, and a revamped tax collection system sharply reduced the government's chronic fiscal deficit.

Paz Estenssoro's successor is Jaime Paz Zamora, formerly a fiery leftist who spent time in jail and in exile for revolutionary activities. To the surprise of many, Paz Zamora pledged to continue the free-market orientation of the NEP and turned over 10 of the 17 cabinet posts to members of the conservative National Democratic Action party (ADN), led by former military president, Gen. Hugo Banzer Suarez.

A visible attitude change is present even in Brazil, where government intervention in the economy has been so pervasive that outgoing President Jose Sarney has been critical of what he has termed "the monster state." In the campaign for Brazil's first direct presidential election in 29 years, the leading

(continued on page 15)

THE BUSH ADMINISTRATION: MORE NEW FACES

AGENCY FOR INTERNATIONAL DEVELOPMENT

Administrator—Former University of Nebraska president **Ronald William Roskens** has been named by President Bush to fill the office left vacant by the death from cancer last June of M. Alan Woods. A Professor of Education, Dr. Roskens became Chancellor of the University of Nebraska in 1972. In this position, he oversaw AID contracts concerned with Afghanistan and other areas.

Assistant Administrator for Latin America—Former Ambassador to Guatemala and career State Department lawyer, **James H. Michel**, is the leading candidate.

STATE DEPARTMENT

Central American Negotiator—senior career Foreign Service Officer **Harry W. Shlaudeman,** former Ambassador to Brazil, has interrupted his retirement to serve as the Administration's liaison with various Central American elements including the Nicaraguan Contras.

Deputy U.S. Permanent Representative to the OAS—John Maisto, career FSO formerly Deputy Chief of Mission in Panama, has been selected to back-up Ambassador Luigi Einaudi.

STATE OVERSEAS ASSIGNMENTS

Ambassador to Haiti—Alvin Adams, career FSO and former Associate Director in the Office of Counter-Terrorism, has been chosen to replace career FSO Brunson McKinley who is to be reassigned.

Panama—Charge d'Affaires—John Bushnell, career FSO and former Deputy Chief of Mission in Argentina, has been selected.

Jamaica—Deputy Chief of Mission—Peter Whitney, career FSO and Office Director for Regional Economic Policy in State's Bureau of Inter-American Affairs, has been chosen to replace career FSO Steve Gibson.

NATIONAL SECURITY COUNCIL-LATIN AMERICAN AFFAIRS

Special Assistant to the President and Senior Director for Latin American Affairs—William T. Pryce, career FSO and former deputy moves up to replace career FSO Ambassador Everett E. Briggs, who is in line to be named Ambassador to Portugal to replace career FSO Ambassador Edward Rowell, former Ambassador to Bolivia.

INSTITUTIONS

Latin American Program, The Woodrow Wilson Center at The Smithsonian—Dr. Joseph S. Tulchin, formerly of The University of North Carolina, is the new Program Director replacing Richard Morse, who has retired. **Dr. William Glade,** formerly Senior Program Associate with the Latin American program, has been appointed Associate Director of the Bureau of Educational and Cultural Affairs at the United States Information Agency.

Privatization Trends. . .

(continued from page 14)

contender is a relative newcomer to the national political scene, Fernando Collor de Mello.

Collor says that if he becomes president, he intends to cut the number of government ministries in half, to about 12 in all, and to sell off many state-owned companies. Privatization began fitfully under the Sarney administration. In August, the government announced the impending sale of 14 public companies, including Mafersa, the state-owned railway equipment manufacturer, and the privatization of sugar exports. Bowing to union pressure, Sarney put the sales on temporary hold. But the next government will have to confront the issue, since 228 of the country's largest state companies are virtually bankrupt, with total debt of $70 billion and assets of only $50 billion.

The privatization trend is also evident in Central America and the Caribbean. Costa Rica and Honduras have led the way in reducing public sector involvement in the economy. More recently, other countries have begun to follow suit. In Guyana, for example, under former President Forbes Burnham, state-owned enterprises accounted for 38 percent of the country's gross domestic product. Burnham's successor, Desmond Hoyte, has instituted an active state divestiture program, offering incentives to foreign and domestic investors to buy and reorganize a group of debt-ridden public companies. Nine foreign companies are currently engaged in mining operations, backbone of the Guyanese economy.

Although it is gathering strength, the privatization movement in Latin America and the Caribbean is not without its critics. In Mexico, many feel that Salinas is moving too fast and into unchartered territory. Former Mexican Finance Minister Jesus Silva Herzog says, "The dismantling of state authority would hurt the neediest people." Jorge Castaneda, a professor at the National Autonomous University of Mexico, thinks Salinas is caving into pressure from the United States and international institutions, such as the International Monetary Fund.

One U.S. expert, however, thinks the privatization process should proceed even more rapidly. This expert—who asked not to be identified—said, "The longer it takes to sell off the state-owned companies, the more time the opposition in labor and domestic business will have to mobilize resistance to the necessary modernization of the economy."

Secretary of State Baker Addresses OAS

Secretary of State James A. Baker, III, reviewed the state of the Hemisphere in an address delivered to the opening session of the XIXth General Assembly of the Organization of American States (OAS) held in Washington D.C., November 13. This address was the most comprehensive review of United States—Latin American relations since Secretary Baker's May 1 speech to the Council of the Americas' annual Washington Conference. (see Washington Report, May/June 1989, page 6.) As the speech was not reported extensively in the press, partially because of fast-breaking Eastern European developments, excerpts from the address are reprinted below for the information of our readers.

"...We welcome to our ranks our newest member, a proud democracy, our neighbor—Canada—represented by my colleague and friend, Foreign Minister Joe Clark.

"...We meet at a time of historic change that is transforming the politics of our planet almost more rapidly than we can absorb it... This Hemisphere is no mere participant in that democratic revolution: it is helping lead the way.

"The people of Paraguay now live under a government elected in a competitive election for the first time in more than 40 years. This past year, power transferred peacefully, democratically from one political party to its rival in Argentina, for the first time in 61 years; in Bolivia, for the first time in twenty; and in El Salvador, for the first time in its history.

"Chile is well on its way to returning to the democratic community, marrying its economic miracle with a hopeful, new national consensus for political diversity. Elections are underway in Nicaragua with OAS monitoring. If they are free and fair, they hold out hope of ending more than a decade of civil war. In Haiti, a calendar for new elections has been announced and the Avril Government has made a welcome commitment to safeguard the security of the electoral process.

"It is a measure of the distance this Hemisphere has travelled in one decade that it almost seems an afterthought to note that democratic transfers of power are also underway in Brazil, in Uruguay, in Colombia, in Honduras, in Guatemala, in Costa Rica, and in the Dominican Republic.

"...Side by side with this democratic political revolution is an economic revolution every bit as powerful and potentially as far-reaching. Mexico has joined the GATT, and Costa Rica is in the final stages of accession. Both have concluded successful debt negotiations. Venezuela is poised to follow. Brazil is manufacturing communications satellites. Chile is trading with the Pacific Rim.

"From Kington to Caracas, Buenos Aires to Montevideo, a new generation of democratic leaders is **stripping away the layers of state control and special preference** that shackled this Hemisphere's productive powers for decades. They are opening up their economies instead to the creative energies of their own people and to new trade and investment in the global marketplace.

"None of us can forget the deep economic and social crisis that afflicts so many of the Hemisphere's people or the strains on fragile new democracies from debt-ridden economies. But neither can we deny that **those nations that have gone the furthest in creating free and open markets hold out the greatest hope of easing those debt burdens and reviving economic growth.**

"The changes transforming our Hemisphere arise from the hopes of ordinary citiznes who learned...**only elections confer legitimacy; only pluralism delivers progress; only democracy promises peace.**

"The OAS must be democracy's defender. Where human rights are embattled, the OAS must defend them—whether they are threatened by guerrillas or governments. The Inter-American Commission on Human Rights represents the OAS at its finest, as its special report on Panama attests.

"Where elections are in question, the OAS can help guarantee the integrity of the process so that the will of the people will not be denied. The OAS is helping monitor the elections in Nicaragua. Perhaps, working with CARICOM and the government of Haiti, there is a role to play in that long suffering nation's scheduled elections, too. In 1987, the democratic community stood helpless as voters in Haiti were gunned down in polling booths: surely we cannot permit that nightmare to return.

"When the will of the people is trampled, as it was so visibly and viciously in Panama, the OAS must denounce such abuses with courage and candor... **The principle of non-intervention cannot become an excuse for looking the other way.**

"Nothing would please my government more than the opportunity to normalize relations with a democratic Panama, see the escrowed fees flow to a constitutional government, and see the joint implementation of the Panama Canal Treaties. But there is a dictator, and his name is Noriega. **The United States will never accommodate with the outlaw regime that fronts for him in Panama.**

"...Together, we must defend democracy against the new slayers of the democratic dream—the narco-traffickers and drug cartels who poison our children, murder public servants, and make war on civil society. Democracy in this Hemisphere has never faced a more highly organized, better-financed, or more ruthless enemy... We must pioneer new and effective means to track and arrest drug traffickers, extradite fugitives, stop the laundering of drug money, curtail the flow of precursor chemicals, and the traffic in dangerous arms.

"...The OAS is also playing a constructive role in resolving the conflicts in Central America where democratization is the key to lasting peace... A framework for a lasting settlement in Central America already exists—in Esquipulas, Tesoro Beach, and Tela. Our challenge is to translate the promises in those agreements into a permanent reality.

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"HEARD IN WASHINGTON"

...During the Presidential summit meeting held in San Jose, Costa Rica, October 27 and 28, the Canadian Foreign Minister announced that Canada had decided to break with an 80 year precedent and seek full membership in the Organization of American States (OAS). At the OAS General Assembly meeting held in Washington, D.C., November 13-17, Canada became the Organization's 33rd member, effective in 1990. Canada had been a formal observer since 1972. The United States has traditionally paid some two-thirds of the OAS's budget, now about $66 million annually, but is currently over $50 million in arrears, contributing to the budget crisis facing the OAS. While Canada's contribution to the OAS budget will be welcome, it will not, by itself, be sufficient to overcome the current budget crisis.

...In a related development, the Presidents of the Group of Eight countries (minus Panama), at their October summit meeting in Peru, urged the reactivation of Cuba's OAS membership, in addition to the entry of Canada, Belize, and Guyana. Although Cuba technically remains a member of the Organization, the Castro government was suspended in 1962 by a Meeting of Consultation of Foreign Ministers following the discovery of an arms shipment on a Venezuelan coast. The Cuban Foreign Minister said that if Cuba's return to the OAS would be "convenient" to Latin America, that Cuba was prepared to do so. No action on Cuba's membership was taken at the General Assembly meeting, principally because of behind the scenes U.S. opposition. The OAS General Assembly did agree to the admission of Belize and Guyana starting in 1991.

...Costa Rica announced in late October that it had reached tentative agreement with its foreign commercial bank creditors, led by the Bank of America, for the rescheduling of about $1.8 billion of its debt to the banks, which amounts to about a third of Costa Rica's total foreign debt. It will offer to buy back about 60 percent of its debt at market values—about 20 cents on the dollar—and convert the rest to 20 year bonds at six and one-quarter percent interest. Interest arrears, which have built-up since 1986 and total $325 million, will be paid over a 15 year period at market rates. This is expected to reduce Costa Rica's total foreign indebtedness of about $5 billion by $1 billion, and reduce its interest bill to the banks to about $50 million annually. Unlike the Mexican debt renegotiation, there is no provision for "new" money, i.e. increased loans, in the agreement.

...Venezuela's state-owned oil company, Petroleos de Venezuela, has announced its intention to purchase the remaining half of Citgo Petroleum corporation for $675 million in cash from Southland Corporation. Petroleos de Venezuela purchased half of Citgo, which operates refineries and has gas stations in 40 states, three years ago in an effort to secure additional security for markets for its petroleum products. When the deal is completed, Venezuela will become the first OPEC member to totally own refining and distribution facilities in the United States. The source of the financing by Venezuela was not announced.

...Venezuela held its first debt-swap auction on November 3. Offers were accepted for $146 million in debt at an average discount of 43 percent. Successful bidders agreed not to repatriate their capital for five years and to invest it in approved projects.

...In a move expected to open up significant new opportunities for international oil companies, the Government of Argentina has issued new decrees permitting the privatization of low-production oil zones and offering joint venture and subcontracting options with the state oil company. The Menem Administration is pushing hard to privatize the petroleum sector, one of four priority areas in the privatization plan. The others are the rail system, telecommunications, and agriculture.

...In his state-of-the-nation address to the Mexican Congress on November 1, President Carlos Salinas de Gortari said that Mexico is still waiting for most of the foreign commercial banks to respond as to which option of the debt reduction proposal they wish to accept. (There have been reports that fewer than anticipated loans—less than 10 percent rather than the 20 percent originally hoped for—would be offered by foreign commercial banks interested in the option of providing "new" money and thereby not taking a loss on existing loans but increasing their overall exposure.) The President said the agreement "is sufficient because it opens up a breathing space in which we can renew growth." He did not describe the agreement as the definitive solution to Mexico's over $100 billion foreign debt as he had done when the agreement was originally announced. (see *Washington Report*, July-September 1989, page one.)

...Haiti's military government has announced elections for a civilian President for Oct. 17, 1990. In a three stage process, local elections will be held next April, followed by elections to the legislature next summer. There has been no announcement as to whether General Avril Prosper will be a candidate. The Presidential Guard—which had been linked with drug trafficking — is believed to be the determining factor as to whether elections will be held and, if so, whether they will be peaceful or not.

...Argentina's Economy Minister Nestor Rapanelli called on creditor banks in early November to reduce by half the $38 billion owed commercial banks of its $64 billion foreign debt. Argentina has paid no interest on its debt since April 1988 and has accumulated $5.3 billion in arrears, nearly cutting itself off from new funds. The IMF has announced a Standby Agreement, if Argentina agrees to severe measures to reduce the

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Secretary of State Baker. . .

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"The Soviet Union bears a special responsibility because its arms and money, moving through Cuba and Nicaragua, continue to support violence, destruction, and war. **Soviet behavior toward Cuba and Central America remains the biggest obstacle to a full, across the board improvement in relations between the United States and the Soviet Union.**

"In Nicaragua, elections must go foward free of fear, manipulation, or special advantage to those who control the power of the state....**If the elections are to have legitimacy, they must be conducted in an atmosphere free of violence.**

"...I believe, as President Bush declared in San Jose, we have it in our power to create, here in the Americas, the world's first completely democratic Hemisphere, where human rights are respected and the rule of law prevails, where all nations live in peace and none lives in fear of aggression.

"**...And I believe that this democratic Hemisphere we are building can become the model for the rest of the planet of a true partnership between the developed and the developing nations where trade is free, prosperity is shared, and the benefits of technology are harnessed for all.**"

"HEARD IN WASHINGTON"

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government deficit, which could provide $1.4 billion in new borrowing, but nearly all of this would be required to pay off arrears to the IMF, the World Bank, and the IDB. (Mexico initially called for a 55 percent debt reduction, ending up with less than 35 percent. Venezuela also publicly called for a 50 percent reduction, but quickly retreated in negotiations to seek substantially less.)

...In response to pleas from Colombia's President Virgilio Barco, President Bush announced on November 1 that the United States would participate in negotiations seeking to revive the International Coffee Organization (ICO). The Colombian President estimated that his country would lose some $400 million annually due to the demise of the ICO. (see *Washington Report*, July/September 1989, page 5.) A spokesman for the Office of the U.S. Trade Representative said later that the United States would require that any new agreement deal adequately with the two U.S. concerns that contributed to the demise of the ICO: sufficient quota flexibility so that the United States could buy the type of coffees its consumers demanded, and that discount coffee sales to non-members, principally in Eastern Europe and the Middle East, be ended.

...Brazil's inflation for October was 37.6 percent, the second highest level on record. Consumer prices have risen over 1,300 percent in the last 12 months.

1990 WASHINGTON CONFERENCE will be held Monday and Tuesday, May 21 and 22, covering issues of concern to all those doing business in Latin America. The Council of the Americas's 21st annual Washington Conference for Corporate Executives will once again be held at the Department of State with the reception Monday evening held in the State Department eighth floor diplomatic reception area. The conference will be briefed by a number of high level officials from the White House, the Cabinet Departments, and the Congress during the day, Monday and Tuesday morning. Participants will have ample opportunity to question and exchange views with top members of President George Bush's administration. The conference is the highpoint of the Council's program year, and a MUST for all corporate executives working with Latin American economic issues. **RESERVE THE DATES OF MAY 21 AND 22 ON YOUR CALENDARS NOW!** Additional information will be contained in the next issue of the *Washington Report* and in individual mailings.

Global Conservation and Human Economic Development

The Americas Society and the Smithsonian Institution are sponsoring a full-day conference on the interaction between Latin American development and the environment. This conference is especially designed for the U.S. corporate executive.

MARCH 6, 1990 • WASHINGTON DC

Mark your calendars. Watch for further details.

COUNCIL OF THE AMERICAS
AN AFFILIATE OF THE AMERICAS SOCIETY INC.
Ludlow Flower III
Director, Washington Office
William Knepper
Editor, Washington Report

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COUNCIL OF THE AMERICAS
AN AFFILIATE OF THE AMERICAS SOCIETY INC.

WASHINGTON REPORT

A SUMMARY OF ISSUES OF INTEREST TO U.S. CORPORATIONS ACTIVE IN LATIN AMERICA JULY/SEPTEMBER 1989

Assistant Secretary of State for Inter-American Affairs Bernard Aronson meeting with Council members in New York on July 25. (see page 2)

Left to right: Ludlow (Kim) Flower, Director, Council's Washington Office; Ms. Martha T. Muse, Chairman and President, The Tinker Foundation Inc.; Assistant Secretary Aronson; Ambassador George W. Landau, President, Council of Americas. *(Photo credit: Elsa Ruiz)*

THE MEXICAN DEBT PROBLEM

The President of Mexico, Carlos Salinas de Gortari, went on television at 10 p.m., Sunday, July 23, to announce that an agreement in principle had been reached with the 15 principal creditors that make up the Steering Committee of the Bank Advisory Committee for Mexico which would restructure all of the country's official foreign debt of $52.7 billion owed to foreign commercial banks on medium or longer terms. Mexico thus became the first country likely to benefit from Secretary of the Treasury Brady's March 10 proposal to add debt reduction with limited international guarantees—"enhancements"—to the "menu" of options for debt renegotiation. Even more important than the financial benefits flowing from the agreement, however, will be the vote of confidence the international financial community has given current Mexican economic management.

Reducing Mexico's payments on its $100 billion foreign debt — which in the developing world is second only to Brazil's $110

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POLICY ANALYSIS

Bernard William Aronson
Assistant Secretary of State for Inter-American Affairs

Bernard (Bernie) W. Aronson—a 43 year old Democrat—was confirmed by the Senate on June 15th as Assistant Secretary of State for Inter-American Affairs after being selected by Secretary of State Baker and nominated by President Bush. Mr. Aronson succeeds Elliott Abrams who resigned when the Bush administration came into office in January. Mr. Abrams' relations with the Democrats in Congress had soured over the Reagan administration's continued search for military funding for the Contras. Secretary Baker wanted someone who could work with the Democratic majority in the Congress on Central American issues, and his search ended with Mr. Aronson.

The initial reaction to Baker's selection of Aronson was skeptical in several quarters. He did not have an extensive background in the Latin American region as a nominee from State's Foreign Service would have had. His experience in the region went back only five or six years and was principally concerned with questions of protecting human rights and ending conflict in Central America. He does not speak Spanish or Portuguese.

Despite these gaps in his resume, Aronson has been winning over the skeptics with his intelligence, sincerity and honesty. His hearing before the Senate Foreign Relations Committee in May elicited a profusion of statements by Senators from both parties in his behalf. On July 25 he met with Council of Americas Chairman David Rockefeller and Council President Ambassador George Landau and corporate members of COA in New York. His remarks earned him high praise for a most impressive performance. While Central American issues have taken much of Mr. Aronson's attention since he began working early this year as a consultant on Baker's new team at State, he has shown keen awareness of the many other problems and challenges facing the United States in the region and plans to devote more time to these issues in the future. His first non-protocol trip to the region is planned to Haiti.

Mr. Aronson graduated with honors from the University of Chicago in 1967. He served as a Vista Volunteer in Appalachia and worked as a newspaper reporter. Having participated with the reform slate of miners that won the 1972 elections, he served as assistant to the President of the United Mine Workers of America from 1973 to 1977. Aronson was on President Carter's White House staff from 1977 to 1981, and then became Director of Policy for the Democratic National Committee. In 1984 he formed a consulting firm, The Policy Project, which specialized in public policy and government affairs. From 1983 to 1986 Aronson visited El Salvador and Nicaragua as a consultant with several Congressional delegations. Working with the Republican adminstration, he drafted a 1986 address for President Reagan which called for strict conditioning of military aid on elimination of human rights abuses and for a bipartisan policy towards Nicaragua. He served on a Council of Foreign Relations study group on Central America.

Following are excerpts from Assistant Secretary Aronson's May 19 confirmation hearing before the Senate Foreign Relations Committee which give an indication as to his approach to this position.

(Photo credit: Elsa Ruiz)

"...One of the commitments I would bring to this position is a strong belief that consulting with Congress is not just a burden, but it is an opportunity to forge a stronger and more effective foreign policy. ...Secondly, I am here as a Democrat appointed by a Republican president which also reflects a commitment that I feel strongly about with regard to foreign policy: that ultimately at the end of the day when the debates are done and the views are exchanged, we need to try to come together in a principled way as Democrats and Republicans behind a bipartisan foreign policy. ...Finally, whatever else we do in the Hemisphere, I think our policy must be committed to the strengthening and survival and institutionalization of democratic regimes because no other problems that we care about, whether it is drugs or human rights or immigration or the environment or even weapons transfer and nuclear proliferation, will be easier to solve without strong, stable democratic regimes.

"...And now the test is can democracy deliver to people? Can it improve the lives of ordinary people? Can it become a permanent, regular process rather than the exception to the rule. ...There are deep problems in this Hemisphere, particularly in the economic area. Many countries have lost a decade of growth. The debt overhangs many nations. But even in the economic field, you are seeing courageous and farsighted Latin and Caribbean leaders in countries like Bolivia, Colombia, Mexico, Costa Rica, and now even Jamaica, Venezuela, begin to attack endemic problems of state-dominated and bloated economies, begin to reform and restructure their economies. We need to reach out and respond and help those countries succeed.

"...I do not think human rights is an extra portion of our foreign policy that we add on. I think the defense of human rights and democracy is a precondition to a successful foreign policy. We have never gone wrong in Lain America or the Caribbean or anyplace else in the world by successfully and early defending human rights and democracy.

"...One of the tragedies of Latin America, it seems to me, is that there is an image that we intervene too much, but the historic problem is we do not pay attention enough in a

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POLICY ANALYSIS

(continued from page 2)

sustained way to the problems of this region.

"...Unless there is stable peace in the Central American region, all our hopes and dreams for economic development will be undone. ...The Congress is looking at the CBI II legislation to expand and institutionalize it. I hope we can all work together to move that forward.

"...One of the reasons the Brady plan is conceived in an imaginative way is that it is predicated on an effort to respond and reward and assist those economies and those governments that are trying to move forward with these very difficult economic and political steps. ...It is important for the banks, for the governments, for the international financial institutions, to recognize that there is a time-sensitive urgency to moving forward on these debt negotiations and moving toward that reduction and clearly Mexico is one of those places where the actions that the Salinas government have taken have merited and earned responsible and timely action on debt reduction.

"...They are taking very bold decisions in restructuring their economies, and the debt plan needs to respond and be supportive because if the lesson becomes that if you move on the path of economic reform and restructuring, and you fail socially and politically, that is a very dangerous lesson to send. It's in our interest to send a different signal, that as you move on the path toward economic reform, your economy grows stronger, your debt service and your debt burdens become more manageable, there is a response from the banks, and it is a success story. I think we need to ensure that those success stories happen."

MEXICAN DEBT PROBLEM

(continued from page 1)

billion, and devoting those resources to "restart" economic growth in Mexico—was a 1988 campaign promise which Salinas has sought to fulfill. Capital and interest payments on the foreign debt in 1988 had totaled some $14 billion, with 1989 interest payments alone estimated at nearly $10 billion. Recognizing that debt renegotiation would require restructuring of the economy and a slow down in inflation, Salinas had extended—now until March 1990—the Pact for Economic Growth and Stability, an earlier version of which had been initiated in 1987 by his predecessor de la Madrid. The Pact, combined with fiscal tightening, had helped bring inflation rates below 20 percent by controlling both prices and wages, while allowing only minor depreciations of the Mexican peso. But the success of this program depended heavily upon having adequate foreign exchange reserves to avoid large devaluations of the peso while maintaining an economy open to imports.

In the public sector, the budget deficit had been sharply reduced, with non-debt servicing government expenditures reduced by 10 percentage points of GDP since the early 1980's. Much of this reduction, however, was done at the cost of reducing public investment which had fallen from 11 to 3 percent of GDP. Resources were needed to once again raise investment levels and get Mexico back on a growth path. To obtain those resources, Salinas had promised to slow and hopefully reverse the outflow of capital, which is not appropriate for a growing developing economy which needs to attract foreign resources—not export resources to the developed world as has occurred since 1982.

With domestic restructuring underway and inflation under control, Finance Minister Pedro Aspe opened negotiations with the Steering Committee of foreign commercial banks on April 19. Both sides were initially far apart. Mexico asked for a 55 percent reduction in debt principal or interest payments, while the banks offered 15 percent. Citicorp was the lead commercial bank, but U.S. banks only accounted for about a third of the debt being negotiated.

Sunday evening, July 23, the agreement in principle was reached, after which President Salinas then went on television to announce. Details of the program — many of them serious issues — remain to be worked out over the next few weeks. Then, the bank Steering Committee will have to take the agreement in principle "on the road," seeking the agreement of the over 400 banks worldwide involved. In the interim, Treasury is considering a $2 billion "bridge loan" for Mexico of which $750 million would come from other developed countries.

Several favorable external developments occurred during the negotiation which allowed the Mexicans to reduce their negotiating bottom line. Petroleum prices headed upwards and international interest rates headed downwards, reducing Mexico's financing requirements. In addition, the Mexicans put aside their goal of improving their foreign exchange reserve position.

The agreement provides the creditor banks with a "menu" of three options:

Reduction of principal by 35 percent with banks to receive 30 year bonds bearing interest rates of 13/16 percent above LIBOR. Mexican officials estimate about 20 percent of the debt may be tendered in this way, resulting in a net reduction of debt principal outstanding of $3.8 billion. The bonds' principal would be guaranteed by the purchase of zero coupon U.S. Treasury bonds for U.S. $3.5 billion. At least 18 months of interest payments—on a rolling, revolving basis—would be guaranteed by a $3.5 billion deposit. Mexico would use $1.3 billion of its own money and borrow a total of $5.7 billion from the IMF, the World Bank, and Japan to finance the guarantees. Mexico would pay interest on these borrowings.

—**Principal value unchanged but interest rate reduced to 6.25 percent on 30 year bonds from current levels of about 10 percent.** This option would provide Mexico with assurance that interest payments on this part of their indebtedness would not increase should interest rates rise in the future. The Mexicans expect this to be the most popular option with perhaps 60 percent of the debt tendered since it would not require the U.S. banks to establish any "loan-loss" reserves under accounting rules believed to apply to this transaction. "Enhancements" or guarantees on the bonds' principal and interest would be as above.

—**Principal and interest rate unchanged with banks to lend "new money" equal to 25 percent**

(continued on page 4)

MEXICAN DEBT *(continued from page 3)*

of outstanding loans at 13/16ths over LIBOR over a 4 year period starting in 1989. Mexico hopes that at least 20 percent of the debt will be handled under this option which would preserve the amounts and terms of the existing loans (though the amortization period would be lengthened) without any additional guarantees or "enhancements." If so, some $2.7 billion in "new" loans—about $663 million annually—would be available over the next four years. There is some concern that not enough banks will choose this option. Mexico needs the new money to help fund the debt reduction guarantees and finance its investment program. U.K. and European banks, in particular, may opt for one of the first two options as at least a partially guaranteed way to get out of development-type lending to Mexico.

There is also an additional restructuring element involved, as principal payments due in 1989 and 1990 under earlier debt renegotiation agreements will be restructured. Some $1.2 billion due in 1989 has already been agreed to restructure. The agreement also includes a "recapture" provision which provides that after July 1996, if the price of petroleum increases in real terms and the volume of exports is strong, that the banks will receive partial restoration of the interest and principal reductions they agreed to.

Mexico has also agreed to reopen a limited debt-swap arrangement of up to $1 billion a year for three and one-half years. The debt-swap program will be limited to the Mexican privatization program of state-owned enterprises and private participation in the financing of infrastructure projects and services for eventual transfer to the government agencies that traditionally build them, such as toll roads and hydroelectric dams.

Precise estimates of the overall financial impact of this agreement are not possible at this time as the banks have not yet chosen their preferred options from the menu. One "guesstimate" is that Mexico's annual interest payments will be reduced by about $1.5 billion from the $5 billion they would have been on the $53 billion commercial bank debt and nearly $10 billion on all foreign debt. While this would be a significant reduction, many economists have questioned whether it will be sufficient to restart economic growth. Other estimates of the total "financial benefits" to Mexico of the agreement have exceeded $3 billion.

The New York Times in a July 26 lead editorial welcomed the achievement of a negotiated debt reduction agreement which, it believed, is far better than unilateral repudiation, keeping Mexico in the international financing market. "But the result will be economically meager," continued the editorial. "The agreement provides little actual debt reduction for an economy strangled by debt payments to foreigners."

One side effect of the agreement, and its vote of confidence in the future of the Mexican economy and on Mexican economic management, has been the reduction in recent weeks in Mexico's internal interest rates on its domestic debt from 57 percent to about 34 percent. This decrease is estimated to have already lowered payments on the $50 billion domestic

Mexican Finance Minister Pedro Aspe addressing COA's 1989 Washington Conference. (Photo credit: Larry Glatt)

debt by over $10 billion, with prospects of additional savings if interest rates come down even further. Some 60 percent of Mexico's 1989 budget expenditures had been set aside for servicing of the foreign and domestic debt, with payments on the domestic debt more than twice the payments on the foreign debt. (Payments on the internal debt were $21.5 billion in 1988, and some $5.1 billion during the first quarter of 1989.)

The increasing confidence is also reported to have started the return of some of the capital held abroad by Mexican citizens, which has been variously estimated at $25 to over $80 billion. Inflows of some $2.5 billion were reported in recent weeks. Given the foreign commercial banks reluctance to become involved again in development and balance-of-payments lending to third world countries, *The Economist* of London has opined that these developing countries need to find ways to manage their economies to attract back a large portion of the $300 billion their nationals hold abroad, largely in developed countries.

The Mexican debt reduction agreement with the commercial banks was important and needed. But, it may develop that the agreement was most useful not for the resources for investment that it freed up—which may not be all that significant in macroeconomic terms—but for the vote of confidence registered in current Mexican economic management. And restoration of confidence is the name of the game.

Will the Mexican agreement become a "model" for other heavily-indebted countries? William Rhodes, Citibank senior vice-president and co-chairman of the Mexico Bank Advisory Committee told *The Financial Times* on August 7: "We'll all learn something from the Mexican agreement but it won't be a cookie-cutter for other countries. Each country situation is different and other countries may not need an agreement this complicated. Some may need only one debt-reduction vehicle. Some may do a cash buy-back or use an auction. Some will need new money, others won't. The Mexican agreement puts primary emphasis on debt reduction, but the case-by-case approach will continue."

Citicorp chairman John S. Reed told The Financial Times on August 29 that Citibank was 99.9 percent sure that it would be a "new money" bank in the Mexican debt restructuring plan. Citibank believes the Mexican economy is doing well. Citibank has about $2 billion in outstanding loans to Mexico. Under the debt agreement, it would offer Mexico new loans of $400 to $500 million over a four-year period.

COFFEE PACT COLLAPSES: PRICES HIT NEW LOWS

By Richard C. Schroeder, Consultant to the Organization of American States

After months of unsuccessful negotiations, the member countries of the International Coffee Organization (ICO) were unable to agree on long standing issues of finding a flexible procedure for setting future export quotas or ending the practice of discount coffee sales to non-members. Faced with this deadlock and the unwillingness of the United States to agree to once again paper-over the long-standing differences, the member countries were left with little option but to formally decide on July 3 to suspend export quotas.

Coffee prices immediately tumbled on international commodity markets, dropping by a third to below 80 cents a pound for some varieties, the lowest level in 13 years. The price plunge was exacerbated by reports of high reserve stocks in several producing countries and better-than-expected crop weather in Brazil, the leading exporter.

The 74-member ICO, composed of both producing and consuming countries, was unable to reach a compromise on two competing proposals for setting new quota levels to take effect when the current quota agreement expires on September 30. The United States, which buys a quarter of all global exports, supported a proposal that would have raised export quotas for high-quality coffee (Mild Arabicas) which is in demand by U.S. consumers, such as that produced by Mexico and Central America. The other proposal—supported by Brazil, Colombia, and the EC—would have retained current market shares of producers. Brazil, which had about 30 percent of the quota, was particularly adamant that its share not be reduced.

The minimum target price under the existing coffee agreement was $1.20 a pound, and was kept in that range by regulating exports according to market conditions. If prices rose beyond the target range, export quotas were expanded. When prices fell, quotas were reduced. A large price differential had developed between Mild Arabicas, which were in high demand relative to their quota share, and Robustas, which had more quota than demand.

In the face of declining demand, as soft drinks became increasingly popular world-wide, and chronic overproduction, the ICO had steadily cut quotas over the past two years, from a total of 58 million bags in 1987 to 55 million bags early last year. World production last year, however, was estimated at over 100 million bags. (One bag contains 60 kilograms, or approximately 132 pounds of coffee.)

A further issue separating the two proposals was the insistence by the United States that action must be taken to end the two-tier market system which gives a large price discount to coffee sold to ICO non-member countries, particularly Eastern Bloc and Middle Eastern countries. The United States had insisted that coffee quotas be extended to include all sales, not just those to ICO consumer members, who were, in effect, subsidizing lower price sales to non-member countries. The U.S. proposal was unacceptable to Brazil and some other producers who wanted to continue to have the option of unlimited sales to nonmember countries rather than bear the costs of storing excess coffee production.

Coffee export quotas were last suspended by the ICO in 1986 and 1987, when supplies were short and prices were rising. Suspension of the quotas in a situation of oversupply signals a return to free market competition and the possibility of a global coffee price war, some analysts believe.

World-wide, the lack of export controls could cost coffee-producing nations between $2 billion and $3 billion a year, analysts predicted. African producers of lower quality Robusta coffees may be especially hard hit. The leading Latin American coffee exporter—Brazil—may suffer less than other countries, however, because export diversification programs in recent years have reduced reliance on foreign exchange earnings from coffee sales. In 1968, for example, coffee represented more than 40 percent of Brazil's export earnings, while last year it accounted for little over 7 percent. By contrast, coffee sales generated nearly 60 percent of El Salvador's export revenues and a third of Colombia's.

El Salvador and other coffee-dependent countries anticipate serious economic consequences from the collapse of the quota system. Over the longer run, however, some experts predict that the higher quality of Central American beans will help the region's sales under free market conditions. Costa Rica is particularly well placed as a low cost producer of quality coffee. Guatemala and Honduras are higher cost producers. El Salvador, on the other hand, is a high cost producer with little room to expand production and in need of greatly increased investment just to maintain its current production.

A few countries may, in fact, benefit immediately from the end of the export quotas. Mexico is the fifth largest coffee producer worldwide and the largest producer of Mild Arabicas. Mexico had complained that its 2.2 million bag export limit was too low, and now expects to ship some 4 million bags this year. Even with lower prices, Mexican officials say that coffee earnings should rise from $434 million in 1988 to more than $600 million this year. Brazil and Colombia are also promoting increased coffee sales, and the Colombian government has announced a plan to subsidize domestic producers to compensate for lower free market prices. The potential for increased production by Colombia over the long term, however, is estimated by the World Bank to be very limited.

ICO members did agree to continue the organization for two years beyond September 30. But its functions will be limited to the collection of statistics. Much the same fate befell the International Sugar Organization when the International Sugar Agreement collapsed in 1984. In recent years, international commodity agreements regulating tin and cocoa have also faltered.

Embattled Colombian President Barco was particularly bitter in blaming the United States for the demise of the ICO. Colombian officials say they intend to press for the restoration of the ICO export quota system, if not this year then at least by September 1990. Juan Camilo Restrepo, the commercial director of the Colombian National Federation, was quoted as saying that the damage caused by the ICO quota cancellation should be "obvious" to everyone a year from now.

U.S. consumers will immediately benefit from having a larger supply of the preferred grades of coffee available at lower prices. Any future agreement will have to avoid the creation of a discount market available to non-participating consuming countries that do not join in the agreement's search to add an element of price stability to this international commodity market.

OPIC IN LATIN AMERICA: 1981-1988

By Robert L. Jordan, Director of Public Affairs, Overseas Private Investment Corporation.

In recent years there has been a great deal of talk about the U.S. trade deficit and our need to increase exports. But having told us to "export more," the experts go on to something else without making any practical suggestions as how to do it.

Most discussions about the deficit seem to overlook what is, perhaps, the key factor in any successful effort to increase the flow of U.S. goods and services overseas. That factor is direct private investment, increasingly recognized as the surest and shortest road to the restoration of the U.S. competitive leadership in world markets.

For example, more than 30 percent of all U.S. exports go to affiliates and subsidiaries of American companies abroad. It is estimated that more than 30,000 new domestic jobs are created with each additional billion dollars in exports. The need for expanding our investment base in overseas markets stands out as one of the critical elements in our future growth pattern.

Because direct investment strengthens the economies of friendly, less-developed nations, and is so important to our own growth as well, the federal government established the Overseas Private Investment Corporation (OPIC). Our mission is to encourage the flow of private investment to the markets of the Third World. OPIC offers political risk insurance, creates a source of long-term capital for smaller investors through direct loans, and provides loan guaranties to companies of any size.

Run like a business, the agency receives no appropriations from Congress and operates at a profit. In addition to its political risk insurance and financing, OPIC also maintains a data bank listing more than 2,000 specific joint venture investment opportunities in the developing world; provides information kits on the laws, incentives, services and customs of more than 100 nations; and introduces U.S. executives to overseas opportunities through its Investment Missions Programs. In short, it offers a one-stop shopping center for potential overseas U.S. investors. Much of its support is designed specifically for smaller businesses.

OPIC services are as follows:

Direct Loans: From $100,000 to $6 million per project at commercial rates with terms of 7 to 12 years. These loans are available only to smaller businesses, defined as companies with annual gross sales of $120 million or less. In fiscal 1986 the average direct loan was $890,000 and the program supported 14 projects in 14 countries.

Loan Guaranties: OPIC can provide guaranties to U.S. institutional lenders of up to $50 million per project and this program is available to companies large and small. In fiscal 1988 OPIC committed $120 million in loans and guaranties for 18 projects in 14 countries.

Political Risk Insurance: OPIC provides long-term coverage (12 to 20 years) against three politically inspired contingencies: currency inconvertibility; expropriation or takeover; and physical damage resulting from political strife (war, revolution, insurrection, civil strife). Investors may take all three coverages or any combination thereof, depending on their perception of the risks involved. Since its inception, OPIC has settled more than 230 claims totalling more than $466 million. Only eight percent of the claims filed have been denied.

Opportunity Bank: OPIC offers a computer data system that can match the investor's interest with specific overseas opportunities. The "Opportunity Bank" allows American firms to submit a "company profile" describing their operations, objectives, the type of investment sought and the country or countries of particular interest. Similar "profiles" on specific joint venture opportunities are gathered from various overseas sources and can be matched directly with potential U.S. investors. Entries can be made at no cost. A modest fee is charged for detailed project readouts.

Investor Information Service: Provides interested companies with basic data on investment laws, incentive programs, available services, and other pertinent business information in over 100 countries. Kits are available at a nominal fee. (see *Washington Report,* Jan. 1989, page five.)

Investment Mission Program: As a means for establishing direct links between potential investors and prospective joint venture partners, OPIC annually organizes a number of investment missions to developing nations with policies and economies favorable to private sector growth. The missions are made up of executives from 15 to 25 U.S. companies who visit target countries to meet with key government officials, U.S. Embassy personnel, and their counterparts in the host country business community. The participating companies pay their own way and missions generally last from five to ten days. Since the program was started in 1975, OPIC missions have visited more than 40 countries and have played a role in implementing hundreds of projects, many of which involve smaller businesses. Bolivia will be visited by such a mission October 23—27.

U.S. and Development Effects

OPIC only insures new projects or expansions of existing facilities, and examines each enterprise with respect to its impact on host country development (new jobs, capital formation, transfer of skills) and what effects, if any, it may have on the U.S. economy. OPIC does not support "runaway" plants nor those which may cause job losses in the U.S.

U.S. Investment in Latin America

Within the broad objectives of U.S. foreign economic policy, there always has been a strong focus on the utilization of maximum resources to contribute to the social and economic progress of Latin American countries. But the history of the private sector role in this effort has been marked by strange twists and turns, and the experiences of U.S. investors in some Latin American countries have been checkered with changing political directions, power shifts, and economic ups and downs. Continuity and stability have not been the key characteristics of the business climate in Latin America.

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OPIC. . .

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Following World War II, a great many U.S. companies suddenly "discovered" South America. Many countries, rich in natural resources, offered huge potential for profitable enterprise. Thus, in the late 1940's, the 50's, and 60's, U.S. businesses as well as investors from other industrialized nations established operations in Latin American countries. Unfortunately, too much of the corporate thinking in those days centered on out-and-out ownership or at least, a controlling investor interest in the project. This eventually was one factor leading to the formation of the Andean Pact, with a highly restrictive foreign investment code.

During the 1970's in South America, only Brazil, which was not included in the Pact, attracted substantial investor interest. But early in the 1980's the overall picture began to improve, leading OPIC to renegotiate investment agreements with a number of Latin American countries. OPIC is now active in all Andean Pact countries with the exception of Peru.

Over the past four years, OPIC has insured or financed 231 projects which are located in 26 Latin American countries. A high percentage of these projects involve small or mid-sized companies. While the majority have been in the Caribbean Basin, a healthy 38 percent of the total projects are located in South America.

Overall, OPIC has provided more than $750 million in insurance coverage and made financial commitments of $391 million in direct loans and guaranties for these projects. Over the first five years of operation, these enterprises will effect an estimated net foreign exchange saving of $2.5 billion for host countries, generate over $1 billion in tax revenues, and create an estimated 50,000 jobs.

In turn, the United States will realize $4 billion in new exports during the five-year period, and the projects are expected to account for $4.6 billion in both direct and indirect return to our balance-of-payments. Projections also indicate that they will create more than an estimated 33,000 man-years of employment in this country.

Perhaps the most encouraging sign of a more positive perception of the Caribbean and South American markets is the volume of registrations for new projects, or the expansion of existing facilities, that OPIC currently has on hand. At present, there are registrations on file for more than 350 projects involving a potential of $4.8 billion in new investment. Not all of these enterprises will become realities, but the volume indicates a high degree of interest.

Conclusion:

All in all, the resurgence of investor interest in the markets of Latin America paints an attractive picture for the potential of the 1990's. The opportunities are there and the need for the U.S. business community — particularly smaller and mid-sized companies — to compete more effectively in the international marketplace has never been more acute.

The time to act is now and OPIC stands ready to assist.

THE BUSH ADMINISTRATION: MORE NEW FACES

STATE DEPARTMENT

Bureau of Inter-American Affairs—Assistant Secretary Bernard Aronson has chosen **Sally M. Grooms-Cowal**, a career Foreign Service Information Officer and former Public Affairs Officer in Mexico City to be Deputy Assistant Secretary for Mexico and the Caribbean. Ms. Grooms is replacing Deputy Assistant Secretary Ambassador Richard Melton who will continue to hold the Bureau's economic portfolio pending his expected nomination as Ambassador to Brazil this fall. **Joseph Sullivan**, career Foreign Service Officer and Office Director for Central American Affairs, is expected to replace Deputy Assistant Secretary Cresencio Arcos when he is nominated as Ambassador to Honduras. Senior Deputy Assistant Secretary Michael Kozak and Deputy Assistant Secretary for South America Michael Skol are expected to stay on in their present positions.

Ambassador-at-large for Counter-terrorism—former Special Envoy for Central America and Mexico City Deputy Chief of Mission, **Morris Busby**, has been named.

United Nations—Former Mexico City DCM **Roger Gamble** will be the Bureau of Inter-American Affairs representative during the fall session of the United Nations General Assembly in New York City.

STATE OVERSEAS ASSIGNMENTS

Ambassador to Barbados, Dominica, Saint Lucia, Saint Vincent and the Grenadines—Republican activist Joy Silverman has been nominated.

Ambassador to Paraguay—Reagan appointee and former Deputy Chief of State Protocol, Timothy L. Towell, has been asked to stay on.

Ambassador to Jamaica—Former Ambassador Michael Sothiros has been nominated to serve as Ambassador to Greece. California insurance executive Glenn Holden is the Bush nominee.

(Note: Only four additional Embassies in Latin America are scheduled to come up for reassignment in the next two years; Belize, Costa Rica, Guyana, and Surinam, all of which are currently occupied by career Foreign Service Officers.)

UNITED STATES TRADE REPRESENTATIVE

Assistant USTR for Latin America, the Caribbean, and Africa—James M. Murphy, Jr. has been named, replacing Jon Rosenbaum who has been selected to attend the year-long Senior Seminar at State.

INTERNATIONAL MONETARY FUND

U.S. Executive Director—Former State and Treasury official Thomas C. Dawson has been named. Since 1987, Dawson has worked for a consulting firm run by former White House chief-of-staff Donald Regan.

LATIN AMERICA IN THE GLOBAL TRADING SYSTEM

by Dr. Susan Kaufman Purcell
Vice President,
The Americas Society.

Latin America's economies are experiencing hard times. Since the onset of the debt crisis in August 1982, the governments in the region have been forced to adopt stringent austerity programs in order to reduce their budget deficits and service the approximately $400 billion debt incurred during the 1970s and early 1980s. These developments have produced a steep reduction in Latin America's imports, which today are about one-third lower than they were in 1981. More than 800,000 U.S. jobs are estimated to have been lost because of the decline of U.S. exports to Latin America during this period.

Latin America's economies will find it difficult to recover as long as the debt crisis remains unresolved. At the present time, for example, the region is exporting about $20 billion more to creditor countries than it receives from them. If this situation is allowed to continue, the global trading system will continue to be deprived of a potentially large and lucrative market.

The recently announced Brady Plan represents an attempt to come to grips with this problem. In accepting the need for a reduction in the debt burden, it breaks new ground and has generated hope among Latin Americans that they may be able to begin putting the debt crisis behind them. Much time consuming negotiation is still needed to work out the plan's details.

Yet, despite the problems caused by the debt crisis, it is incorrect to blame all or even most of Latin America's economic problems on the debt. The debt crisis, after all, did not produce most of Latin Americas's problems; it merely reflected them. The very fact that the region had to borrow so heavily in order to sustain economic growth into the early 1980s was a symptom of serious structural problems that antedated August 1982.

The basic problem was Latin America's development strategy. In the aftermath of World War II, Latin American intellectuals became convinced that the region would be consigned to permanent under-development as long as it remained primarily an exporter of primary products. According to them, the price of manufactured imports from Europe and the United States would continue to increase more rapidly than the price of Latin America's agricultural and mineral exports. In order to escape the impact of the supposedly "declining terms of trade" facing the region, Latin American governments embarked on a development process known as import substitution industrialization.

The strategy was highly statist and protectionist. It aimed for the creation of a domestic industrial economy by protecting weak or new producers from international competition by means of high tariffs, import duties, government subsidies and similar policies. The assumption was that once a national industrial base was developed to the point where domestic industries could successfully withstand foreign competition, these barriers could and would be removed.

Latin America never reached that stage. Both its governments and private sectors became so accustomed to cooperating in a kind of "alliance for profits" that neither was able to wean itself from the symbiotic relationship. At the same time, the cozy relationship was reinforced by "dependency theory," which argued, among other things, that foreign investment was inimical to Latin America's development and independence, while import substitution industrialization was the way for Latin America to achieve both.

During the 1960s and into the 1970s, the protectionist development model was able to produce some very impressive economic growth rates. The Mexican economy, for example, grew at an average annual rate of 6 to 8 percent. Yet by the late 1970s, growth had clearly begun to slow down. An inefficient state had become a drain on the economy, and neither public nor private enterprise was able to compete successfully in the global trading system in order to earn sufficient hard currency to offset the cost of providing goods and services for the region's rapidly growing population.

An obvious solution to the problem was economic liberalization, which would involve dismantling protectionism, reducing the size and role of the state in the economy and encouraging foreign investment. The political difficulties that such a reorientation of the development strategy would entail caused the governments of the region to opt instead for increases in foreign borrowing. The fact that the world was awash in petrodollars, while high inflation meant low or negative interest rates, made the easy solution to the problem even more attractive.

World recession, the fall in oil prices, and the rise in interest rates in the early 1980s, made it impossible both for Latin America to continue borrowing and servicing its debt. The result was the debt crisis. Believing at first that the situation was temporary, Latin American countries delayed making structural changes in their economies. It was only when it became increasingly obvious that the international economic situation would not return to the *status quo ante* that one by one the governments of the region began trying to implement the difficult policy changes that they had been able to put off earlier.

The essence of these changes is the liberalization of the economies of the region. Attempts are being made to reduce the role of the state in the economy by selling off or closing inefficient government enterprises. Tariffs, import licenses and other barriers to trade are slowly being reduced or eliminated. Direct foreign investment, once an anathema, is being made to feel more welcome and the domestic private sectors are being encouraged to become more competitive in order to earn hard currency through exports.

To date, however, progress has been uneven throughout the region. The two countries that have gone furthest in restructuring their economies and increasing nontraditional exports are Mexico and Chile. It is perhaps not irrelevant that during this period Mexico has been governed by a single, dominant political party while Chile has been ruled by a general.

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WILL LATIN AMERICA LOSE GROUND IN EUROPE 1992?

by Richard C. Schroeder, Consultant to the Organization of American States

The creation of a unified European Common Market by the end of 1992 which will remove all cross-border barriers to the movement of people, goods, and services, already has U.S. and Japanese businessmen bracing for the intense competition expected to arise. Latin American countries and their private sectors, however, are only slowly beginning to focus on the challenges and opportunities of the upcoming single market in Europe.

Latin America may find itself the "odd man out" of the new European trading bloc according to several international trade experts surveyed in recent weeks. The Single Europe Act of 1987, gradually being phased in by the European Community (EC), may not create a "Fortress Europe," closed to all but European firms and a handful of big multinational corporations. However, new commercial strategies will be required for Latin American suppliers to hold on to or expand their market shares in the integrated European economy.

"Yet," says Felix Pena, the top econonic integration expert at the Inter-American Development Bank (IDB), "I am personally unaware of any research in Latin America on the implications of Europe 1992." Pena is leading the charge to involve the IDB and other development organizations in such research. The Bank is planning colloquia and seminars on the subject beginning next year.

The creation of a single market will turn the EC into the world's second largest economic unit, with 323 million people and an annual gross domestic product (GDP) of some $4.1 trillion, compared with the United States 247 million inhabitants and $4.5 trillion in economic output.

The emergence of Europe as a unified market will also hasten the trend toward "bloc trading," concludes Ambassador Ernest Preeg, now a senior research associate at the Washington-based Center for Strategic and International Studies. The dominant factors in world trade will be the EC; North America, where the United States and Canada are creating a free trade zone that may eventually draw some sectors of Mexican industry into its orbit; and the Far East, where Japan is forging closer ties with the newly industrializing countries of the region.

"South America will be left alone," says Preeg. "The countries there will have to rethink how they fit into the international trading system." The big multinational firms of the United States and Japan are stepping up their investment in Europe in preparation for the advent of the barrier-free internal market three years from now, Preeg observes. Such a strategy is not appropriate for the capital-short, debt-ridden countries of Latin America, that are seeking new foreign investment themselves.

Preeg's observations are seconded by Riordan Roett, director of the Latin American studies program at the Johns Hopkins School for Advanced International Studies (SAIS) in Washington. "In the globalization of world trade, South America doesn't fit comfortably into any bloc," Roett said in a recent talk to the Americas Society in New York City.

Brazil and Argentina, in particular, face a "precarious" trading future, Roett said. The two nations' traditional ties to such European countries as Spain, Portugal, and Italy are weakening as the Europeans fix their attention on the implementation of a common market.

Norman Bailey, an economic advisor on the White House National Security Council during the Reagan administration, sees the problem as even more complex. "You have to look at the potential impact of Europe 1992 on a country-by-country basis in Latin America," Bailey says. The Caribbean countries that are beneficiaries of the Lome Agreements — trade agreements between the European nations and developing countries in Africa, the Caribbean, and the Pacific — have different problems from non-Lome members, Bailey observes. And a country like Argentina, which depends heavily on agricultural exports, will not be affected in the same way as countries that export industrial products or minerals.

"The question," says Ambassador Carla Hills, the U.S. Trade Representative in the Bush Administration, "— whether Europe keeps its doors open to its trading partners—affects far more than the cash potential of trade within Europe's borders and our own trade relations with the Community." In a recent address to the Chicago Council on Foreign Relations Hills said, "It goes to the very health of our global trading system. A system that is at a crossroads: it will move either toward further liberalization and integration, or toward protectionism and disintegration into trading blocs."

The Europeans themselves disclaim any intention of creating a "Fortress Europe." In an address last fall, Dieter Frisch, the Director-General for Development of the EC Commission said, "The general fear of non-member countries — that the price of completion of the single market will be a closing of doors against the outside world — is to my mind completely unfounded."

Frisch was particularly strong in his reassurances to the developing countries, saying, "The interests of the developing countries will have to be given special consideration." Frisch added that, "Without jeopardizing either the completion of the single market or its accessibility, the Community should always see that the measures it adopts take special account of the interests of the developing countries, especially the weakest amongst them, whenever they would be affected."

The issue has been under intense study in the United States and Japan, as well as in Europe. The U.S. International Trade Commission, for example, has just released a massive, inch-thick study which concludes that Europe 1992 should help U.S. business more that it hurts it.

In the Caribbean, fears of the loss of preferential trade treatment in Europe — especially for tropical products such as bananas and sugar — has spurred the members of CARICOM, the Caribbean economic community, to launch their own drive to create a cohesive Caribbean Common Market by the middle of 1993. Val T. McComie of Barbados, the Assistant Secretary General of the Organization of American States (OAS), recently told a Washington audience that CARICOM faces a two-fold challenge: to expand its access

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Sixteen Reasons to be Pessimistic

by Howard J. Wiarda, Professor of Political Science, University of Massachusetts.
Reprinted with permission from The Times of the Americas, May 31.

Editor's note: While we do not necessarily agree with all the points that Dr. Wiarda makes in the following article, we did find it thought provoking, especially as it comes from one of our most respected Latin American experts. We therefore wanted to make it available to our readers.

Both the future of Latin America and of U.S. relations with the Hemisphere look very clouded these days. There are sixteen reasons to be pessimistic about the area and its future.

As a long-time student of Latin America, I have never seen the prospects so dismal. It is to be emphasized that these are long-term structural reasons to be pessimistic; none of these root causes will be solved by bringing in a few personnel or a one-shot presidential speech.

(1) The Latin American economies are in deep trouble: there has been no, little, or negative growth for several years and in most countries the situation is not getting better.

(2) We may be working toward a partial resolution of the debt crisis but that does not solve the problem of where the future capital for Latin American development will come from. Neither the U.S., Japan, Western Europe, and certainly not the Eastern countries, are very much interested in investing in any but a few countries.

(3) Not only is very little new capital going into the region but the foreign capital that is there is pulling out. U.S. firms find Latin America inhospitable to their activities and they are rapidly leaving the area in favor of other areas (Asia, Europe, Canada, the United States) that give them more profits and less grief.

(4) Latin American capital, brains, and technology are also rapidly fleeing the region.

(5) The euphoria for democracy that was so heartening in Latin America a few years ago is fading fast; now people are disillusioned with democracy and are blaming it for their troubles. The stagnant or shrinking economic pie is undermining the possibilities for democratic politics.

(6) The pragmatic and often pro-U.S. presidents that have been in power in recent years are about to be replaced in several countries by demagogic, Yankee-baiting populists. They will undoubtedly mismanage their economies and polarize their countries as they did before, thus inviting a new wave of military coups.

(7) A new generation of political leaders brought up on the 1970's Marxist dependency theory is about to assume cabinet and sub-cabinet posts. They will make life extremely difficult for U.S. officials and will be unwilling to acknowledge that their romantic ideology is no longer useful and has been repudiated even in the socialist countries.

(8) Meanwhile, in the U.S., the reputation of Latin America has never been worse. It is viewed as a continent of drug traffickers, voodoo cults, nasty dictators, hopelessly unstable politics, thieves and murderers who prey on visiting Americans, and unfriendly and ungrateful regimes who cause us no end of problems.

(9) The United States is not very much interested in Latin America. A South American diplomat once lamented that our interests stopped at the Panama Canal; now they seem to stop with Mexico.

(10) Illegal Latin migration north is seen by most Americans as causing an inordinate burden on our schools, social services, societies, and police forces.

(11) The era of a close community of interests between the United States and Latin America may now be over. Latin America has become increasingly nationalistic and admits to few legitimate U.S. security interests in the area; meanwhile, the United States has become increasingly disillusioned with Latin American posturing and its inability to reform itself. It is unlikely we will see our relations restored by any administration to a situation of mutually beneficial and friendly relations as in the past.

(12) Because of these attitudes, as well as Gramm-Rudman, we will not see any bold new Marshall Plan for Latin America, such as the Alliance for Progress.

(13) The Cold War is winding down. Hence, neither superpower will be very interested in Latin America in the future. If the Cold War, wishful thinking to the contrary, is really the only reason the United States gets interested in Latin America, then the end of the Cold War means we will hardly be interested in Latin America at all. My Latin American friends think less U.S. spending for defense will surely mean more largesse for them, but I think we can assure them that is unlikely to materialize.

(14) Related are changes in the U.S. political system. For good or ill, the "communist" issue just doesn't scare us anymore. So if Latin America wishes to go that route, or threaten to do so, it can't count on the U.S. to respond with either dollars or Marines anymore. The bluff game employed by Latin America in the past can no longer be played because it will no longer get the familiar U.S. response.

(15) Washington has all but given up on Latin America. It is viewed as a "black hole" for U.S. programs and aid. The sense is strong among high officials that Latin America has become like sub-Saharan Africa: a hopeless region that some poor Assistant Secretary has to be responsible for, but that is very low on our priorities and that has no intrinsic worth or value.

(16) Latin America wants to go its own way, with an independent foreign policy. And the U.S. would prefer to deal with it on the basis of "benign neglect." But neither of these strategies will work. Latin America cannot realistically get along without the United States, while benign neglect allows small problems to fester into large ones—as in Central America in the 1970's.

Serious students of Latin America, the region's many friends in this country, Latin Americans themselves, as well as U.S. policy makers, need to ponder these dismal future scenarios very carefully.

VENEZUELA WORKING GROUP ON THE RECADI INVESTIGATION

Concerned about the seeming arbitrariness and lack of due process and appropriate procedures of a Venezuelan judicial investigation into alleged fraudulent foreign exchange operations of RECADI—a now abolished Venezuelan Government office—a working group of Council of Americas corporate members has been formed. The working group has called on the U.S. Government to take notice of the issue and to make it an item of urgent priority concern in the official bilateral relationship between the United States and Venezuela. Specifically, without objection to the investigation *per se,* the working group urged that the U.S. Government seek assurances from the Government of Venezuela that managers of U.S. businesses not be arrested, or threatened with arrest, without the possibility of bail as is currently the case, and that travel restrictions not be judicially imposed without observance of internationally accepted standards of due process. (see *Washington Report,* July/September 1989, page 3.)

A dozen members of the working group—representing companies in the automobile, pharmaceutical, chemical, and food industries—called on Deputy Secretary of State Lawrence Eagleburger, and officials in the Departments of State and Treasury, USTR, the President's National Security Council, the U.S. Congress, as well as the Inter-American Development Bank at the end of July. They expressed their concern that the high-profile investigation, which seems to be focused predominantly on private businesses, is hampering the ability of U.S. corporations to continue to do business in Venezuela. The Council members emphasized that they do not object to the investigations themselves, but rather to the abusive judicial procedures being used. The members of the working group expressed their willingness to cooperate in an orderly investigation of any charges that might be levied, but would like their executives to be able to enter and leave Venezuela and to manage their affiliates while any investigation is in progress. To date, dozens of executives from U.S. multinational companies have been forced to leave Venezuela rather than face the uncertain prospects of being jailed for an indefinite period of time without the possibility of bail while the investigations continue or appeals are pending.

State Department Deputy Secretary Lawrence S. Eagleburger.

The working group requested that the officials to whom they spoke bring the situation to the attention of high-level Venezuelan officials and political leaders, including President Carlos Andres Perez. They noted the negative, chilling effect the RECADI investigations have had on foreign investments, both existing and prospective, and the resultant disruption of efficient management of those companies doing business in Venezuela.

In a related initiative, Council President Ambassador George Landau—a former Ambassador to Venezuela—both wrote and telephoned President Perez. Pointing out the negative effect on the Venezuelan investment climate, Ambassador Landau suggested that it would be in the best interests of the Venezuelan Government to find a way to deal appropriately with this issue that would not unnecessarily disrupt business operations or indiscriminately threaten the personal freedom of the local corporate managers.

The Venezuelan Government has taken note of the many complaints received from the private sector. A number of additional judges have been assigned to the case in an effort to speed its completion. However, as of late August, corporate executives still face the possibility of prolonged imprisonment without bail should any investigation touch on the activities of their corporation.

—Dr. Lowell Fleischer, *Program Officer*

LATIN AMERICA IN THE GLOBAL TRADING SYSTEM

(continued from page 8)

Countries with more democratic governments, such as Argentina and Venezuela, have found it harder to impose economic austerity and to reorient their economies.

The situation promises to get more difficult still. After almost seven years of low or no economic growth, tolerance for continued belt-tightening is disappearing. Furthermore, the people of these countries are beginning to identify failed economic policy-making with moderate democratic regimes.

One way of safeguarding the progress toward economic liberalization made to date in Latin America is through a significant reduction of the debt burden for the various countries in the region. We have therefore come full circle to the Brady Plan. Yet debt reduction in and of itself will not solve Latin America's economic problems. Without conditioning such reduction to the continued liberalization of the economy, a reduction in the debt burden will provide only very short-term relief. The money saved will quickly be spent, and the region will be no closer to a more productive, efficient and internationally competitive economy.

Economic reforms combined with a reduction in the debt burden, however, while necessary, are not sufficient. Also required is new money to enable these countries to make necessary investments, import needed goods, and solve some of the social problems plaguing the region. A substantial portion of such funds should take the form of foreign investment, which not only would bring capital but also advanced technology. The latter is particularly important if Latin America is to compete successfully on a large scale in the global economy.

LETTER FROM SAO PAULO

by R. Christopher Lund, President, National Association of American Chambers of Commerce Brazil; President, Lund Group Associated Publishers, Sao Paulo.

For those of us active in Brazil today, for anyone whose career means involvement with Brazil and its government, or even for qualified observers or analysts, making heads or tails out of the situation is at least "challenging." There is a saying making the rounds here: if you are not confused, you are not well informed. At the same time, for those willing to look beyond the "trees," encouraging patterns are perceptible. A useful technique for detecting them is to focus on what is emerging rather than what is disappearing. To distinguish between what is on its way in from what is on its way out. And, in the process, not to lose sight of what (like economic performance) has been consistent through ups and downs of all sorts since World War II.

Personally, as a private businessman, analyzing Brazil's prospects for the future and making investment decisions now which, hopefully, will prepare my company for the year 2000 and beyond, I find it most productive to focus on political patterns, rather than the economic or social. To me the question is not so much what Brazil can do (it has an unacceptably low GDP per capita). It is a question of what Brazil will do, and that is going to be a question of political maturity and leadership. If Brazil can become a mature democracy and develop the leadership this requires, its economy will not present a problem and Brazilians from bottom to top can look forward to an improving quality of life. Business can look forward to an economically active population closer to 140 million than to the 50 million active today, and the world can look forward to a very productive and responsible partner in the coming millennium.

The question, then, is whether or not there are indications that political maturity and leadership are on the horizon. And my reply is "yes." The politicians and the political systems responsible for the past — vestiges of both the political leadership which foundered in the early 60's and the centralized, totalitarian system which foundered in the early 80's — are slowly but surely being replaced by more modern leaders and parties, increasingly attuned to the realities of today's global community and the expectations of their electorate. Citizens taught by the dictatorship to be apathetic to events in the nation's capital, to the country's direction and leadership, are becoming ever more aware of their vote's power to change all three.

Let me cite some recent evidence:

— The Brazilian congress, which traditionally overrules every executive attempt to bring the economy under control through unpopular measures, is currently preparing a consensus proposal of its own which is surprisingly realistic in its content.

— In hopes of striking a more responsive chord with voters, Brazilian candidates for the first direct presidential election since 1960 are shifting their rhetoric from espousing populist concepts to advocating reduced government presence in the economy, privatization, market economy and the need for foreign capital.

— Voter polls, which initially favored the candidates furthest left in the spectrum, now give a young, center candidate, Governor of a small state and leader of a tiny party — Fernando Collor de Melo — a margin of some 40 to 12 percent over his closest rival.

To me, these and many other examples this letter does not give me space to cite, reflect the increasing alignment of political parties, leaders, and platforms with today's realities and with the expectations of the full Brazilian populace, ignored by political systems of the past. This, in turn, suggests that most of the personalities and attitudes currently perceived by outsiders as "Brazilian" — from the President on down — have their roots in the past, in what is disappearing, rather than in what is emerging. I submit to you that the prospect of a modern, demonstrated economic capability should not be ignored as we cope with the frustrations of transition.

WILL LATIN AMERICA. . .

(continued from page 9)

to the U.S. market on the one hand, and to safeguard its traditional European markets on the other.

Inter-american organizations are beginning only now to focus on the implications of Europe 1992. The Economic Commission for Latin America and the Caribbean has recently issued studies on the expected impact of European integration on the EC's programs of technical cooperation with the developing countries. The Inter-American Economic and Social Council (CIES), an arm of the OAS, is expected to consider the topic later this year.

The IDB's Felix Pena says, "There is a growing recognition that Europe 1992 will be a reality. That will change the terms of economic competition in the 1990's. Each country will have to strengthen its capacity to compete. From the point of view of the Bank, anything that affects the Latin American external sector must be of concern to us."

But such forward thinking appears to be in short supply, so far at least, in many of the Latin American countries. It is time, observers say, for Latin America to recognize that current world trading arrangements are not immutable and to start looking into a future that is still ill-defined, but certain to change.

Richard Schroeder plans to continue his research into EC 1992 and Latin America. He would welcome comments or information from Council corporate members on this subject. Mr. Schroeder may be contacted through the Washington Report, or at his office, 9111 Corondo Terrace, Fairfax, Virginia 22031. Telephone: 703/691-8970.

THE. U.S. SHARE OF LATIN AMERICA'S COMMODITY TRADE

From Latin America's perspective, the United States has become increasingly important as a trading partner in the 1980's. In 1988 the United States took 48 percent of Latin America's exports ($51.3 billion of total exports of $105.8 billion) while supplying 51 percent of Latin America's imports ($43.1 billion of total imports of $84.6 billion). The U.S. share has increased substantially since 1981 when the United States took only 36 percent of Latin Americas's exports of $108 while providing 38 percent of total imports of $110 billion. These are among the conclusions that emerge from an analysis of a June 1989 publication by the U.S. Department of Commerce's International Trade Administration, Office of South America, entitled "Latin America Trade Review: A U.S. Perspective."

U.S. exports to Latin America in 1988 increased by $8.7 billion to $43.1 billion from $34.4 billion in 1987. Mexico alone accounted for $6 billion of this increase in U.S. exports as economic recovery and trade liberalization stimulated imports, increasing overall Mexican imports by a total of $6.7 billion. Total Latin American imports increased by 15 percent or $11.3 billion in 1988 to $85 billion from over $73 billion in 1987. The United States accounted for a remarkable 77 percent of the increase in Latin America's imports in 1988, largely reflecting the high U.S. component in Mexico's import surge.

U.S. imports from Latin America in 1988 increased by $4.5 billion to $51 billion from nearly $47 billion in 1987. Imports from Mexico accounted for $3 billion of this increase, while imports from Brazil increased by $1.4 billion. Overall, Latin American exports increased by 12 percent in 1988 or by $11.5 billion to $106 billion in 1988 from over $93 billion in 1987. The United States took only 39 percent of this increase in Latin American exports, well below the overall figure of 48 percent that the United States takes of all of Latin America's exports.

From the trade figures, it would appear that Latin America has been of declining relative importance to the United States in this decade. In 1981, Latin America took 17.5 percent of United States worldwide exports of $239 billion. In 1988, Latin America took only 13.5 percent of U.S. exports of $320 billion. Similarly in 1981 Latin America provided 15 percent of U.S. imports of $261 billion. By 1988, however, Latin America was providing only 13 percent of U.S. imports of $390 billion as the U.S. trade deficit with Japan and other Far Eastern countries increased.

An analysis of the trade figures leads to the following conclusions:

— trade with the United States has been of increasing relative importance to Latin America in the 1980's;
— while, conversely, trade with Latin America has been of somewhat diminishing relative importance to the United States.

1988 LATIN AMERICAN TRADE AND U.S. SHARE
(in billions of dollars)

	Latin American Exports	U.S. Imports	U.S. Share of Latin American Exports	Latin American Imports	U.S. Exports	U.S. Share of Latin American Imports
ARGENTINA	8.5	(1.4)	16%	4.9	(1.1)	22%
BOLIVIA	0.6	(0.1)	17%	0.7	(0.1)	14%
BRAZIL	33.8	(9.3)	28%	14.7	(4.2)	29%
CHILE	6.9	(1.2)	17%	4.3	(1.1)	26%
COLOMBIA	5.1	(2.2)	43%	4.2	(1.8)	43%
ECUADOR	2.2	(1.2)	55%	1.5	(0.7)	47%
PARAGUAY	1.1	(0.0)	0%	1.2	(0.2)	17%
PERU	2.7	(0.7)	26%	2.8	(0.8)	29%
URUGUAY	1.4	(0.3)	21%	1.1	(0.1)	9%
VENEZUELA	10.1	(5.2)	51%	10.9	(4.6)	42%
SOUTH AMERICA	72.4	(21.6)	30%	46.2	(14.6)	32%
MEXICO[1]	20.7	(23.3)	N/A	18.9	(20.6)	N/A
CARIBBEAN BASIN	12.7	(6.3)	50%	19.5	(7.9)	41%
TOTAL LATIN AMERICA	105.8	(51.3)	48%	84.6	(43.1)	51%
TOTAL U.S. TRADE WITH WORLD		(441.3)	12%		(320.4)	13%

[1]Mexican trade statistics do not include "in-bond" shipments for the "maquiladora" industries, of which U.S. imports were about $10 billion.

MEXICO'S NEW PRIVATIZATION PROGRAM

One of the more significant aspects of President Carlos Salinas de Gortari's program for the economic restructuring of Mexico has been the acceleration of a process of reducing the number of state-owned enterprises (SOE's) which had been initiated by his predecessor, former President Miguel de la Madrid. Of a total of 1,216 state-owned enterprises, by June of this year some 774 were in the process of being divested from government control.

The privatization program was described by its director, Dr. Jacques Rogozinski, chief of staff to Finance Minister Pedro Aspe, in one of the meetings in the *Washington Policy Dialogue* series for corporate members held at the Council of Americas Washington Office on July 27. Dr. Rogozinski noted that a number of SOE's were needed to provide essential government services such as education, health, and housing. Article 28 of the Mexican Constitution also directed that the exploitation of natural resources was a state responsibility which PEMEX was carrying out in the petroleum industry.

The state had, however, acquired over the years a number of other enterprises which could be more productively managed in the private sector. Many of these enterprises had been acquired by the state when private operators had encountered financial difficulties, and often the government development bank, the *Nacional Financiera*, would take the enterprises over to keep them operating and providing employment. In 1983, PEMEX produced over 13 percent of the GDP and other SOE's over 5 percent for a total of 18.2 percent from the SOE section of the public sector alone. The privatization program had been emphasized both to reduce the public sector deficit and to increase the role of the private sector in Mexico's development to achieve increases in productivity.

In describing the process by which SOE's are sold, Dr. Rogozinski said that a bank was used as an intermediary. The SOE was valued using a number of different methods—book value, replacement value, etc. The inventory of the SOE's assets often uncovered unexpected properties as well as liabilities. Sealed public bids were solicited. The intermediary bank would then prepare an evaluation of the bids for the government to consider. The high bidder was not always chosen. Other factors came into play such as the government's need to avoid the creation of a monopoly and the bidder's plans for additional investment and to export. Dr. Rogozinski emphasized that if the SOE's sold run into financial difficulties, the government will not bail them out.

Of the 774 SOE's whose divestiture had been authorized since December 1982, by June 1989, 176 had been sold to the private or union-owned sectors of the economy while another 62 were in the process of being sold. Included in the latter group are *Mexicana de Aviacion* and the copper mining company *Compania Minera de Cananea*. The other 536 had been liquidated, merged, or transferred.

(Dr. Rogozinski announced in Mexico City on August 23 that a share of *Mexicana de Aviacion* had been sold to a group of foreign and Mexican investors headed by Chase Manhattan Bank, which would lead to an infusion of $140 million in new capital. The group has the option of acquiring a majority interest in Mexico's largest airline. The current deal does not involve the swap of any of Chase's existing Mexican indebtedness, although that possibility exists for future equity investments.)

Of the 176 companies sold, 148 were sold to the private sector, and 28 to the "social sector" composed of workers' unions or confederations. Eleven of the purchasers were foreigners. An average of four bids per enterprise were received, with a maximum of 25 bids in one case and with only one bid received in 23 cases.

The new owners have generally increased investment in the enterprises, which government austerity policies did not permit when they were government-owned. New technologies have also been introduced permiting increases in productivity.

Mexico is now entering a new stage of the privatization process according to Dr. Rogozinski. The Salinas government has identified a number of areas in which the government welcomes private participation in the financing of infrastructure projects and services for eventual transfer to the government agencies that traditionally used to build them. Among these are toll roads and hydroelectric dams. (As part of its foreign debt renegotiation program, Mexico has agreed to allow debt-swaps of $1 billion a year for three and one-half years for these purposes.)

Dr. Rogozinski said that the new foreign investment regulations published May 16 liberalize the access for foreigners to invest in the Mexican equity market. The present administration envisions, he concluded, "...that an appropriate legal and financial framework will encourage a wider participation of national and foreign private investors in the economic development of Mexico."

ELECTIONS IN LATIN AMERICA

	Date	Inauguration	Principal Participants
Brazil	Nov. 15, 1989	March 15, 1990	Conservative Collor de Mello leads leftist Brizola and Marxist Lula.
Honduras	Nov. 24, 1989	Jan. 1990	Nationalist Callejas and Liberal Flores tied in polls.
Uruguay	Nov. 26, 1989	March 1, 1990	Moderates expected to remain in office.
Chile	Dec. 14, 1989	March 11, 1990	United opposition candidate Aylwin leads Buchi in polls.
Nicaragua	Feb. 25, 1990	April 25, 1990	Sandinistas seeking to legitimize their monopoly on political power.
Costa Rica	Feb. 4, 1990	May 1990	Incumbent PLN party Castillo lags in polls behind Calderon.
Peru	April 8, 1990		On-again, off-again Vargas Llosa leads in polls over leftist Barrantes and APRA's Luis Alva Castro.
Colombia	May 1990		Leading candidate Galan assassinated Aug. 18.
Dominican Republic	May 16, 1990	August 1990	Juan Bosch, 80, and President Balaguer, 81, tied in polls.

"HEARD IN WASHINGTON"

...President Bush has accepted an invitation from Costa Rica's President Oscar Arias to attend a Western Hemisphere summit meeting to be held October 27 and 28 in San Jose to celebrate the 100th anniversary of Costa Rican democracy. This will be President Bush's first visit to Latin America since assuming the presidency and another example of the Administration's preoccupation with Central America to the exclusion of South America. No announcement has been made of other countries, if any, to be visited on this trip.

...Mexico's President Carlos Salinas de Gortari will visit Washington and New York in early October.

...The Latin American Group of Eight will hold a presidential summit meeting in Peru in October. Regional economic integration will be discussed with concrete proposals in communications and transportation. The foreign debt problem is expected to be high on the agenda.

...The failure to date of OAS efforts to persuade Noriega to give up power in Panama has given further ammunition to U.S. critics of the organization, making it increasingly difficult to obtain full Congressional funding of the U.S. contribution to the OAS. Some legislators are questioning the wisdom of appointing a U.S. Ambassador to that organization. Lack of U.S. support for the OAS because of its perceived ineffectiveness in one instance could become a self-fulfilling prophecy.

...Citibank's seizure several months ago of an $80 million Ecuadorian deposit to apply against overdue indebtedness has been settled with Citibank agreeing to make Ecuador a new loan of the same amount. Inter-American Development Bank President Enrique Iglesias is reported to have used his "good offices" in mediating the dispute.

...The Brady plan for debt reduction is adding an element of uncertainty to a deteriorating Third World debt crisis according to the chairman of the U.K.'s Lloyds Bank. Lloyds reported net losses for the first half of the year as the Bank sharply increased its loan loss reserves against future potential losses on Third World debt. Of the 29 countries in payments difficulties, 15—including Argentina and Venezuela—are not meeting interest payments.

...A number of Latin American countries are following Mexico into joining the GATT (General Agreement on Tariffs and Trade). Bolivia is expected in soon, with applications underway from Costa Rica, Venezuela, and El Salvador. GATT membership requires certain commitments with regard to trade policy practices.

...Panama has fallen in arrears on its payments to the IMF and has been declared ineligible for further assistance from the Fund.

...CBI II legislation ("The Caribbean Basin Economic Recovery Act") to improve and make permanent the initial 1983 Caribbean Basin Initiative and which was approved by the House Ways and Means Committee on June 20, has been added to that committee's budget-reconciliation bill. The Senate has yet to hold hearings on its version of the bill, and asked that the House not include the legislation in the budget-reconciliation bill which must pass both Chambers by mid-October. Ways and Means Trade Sub-Committee Chairman Sam Gibbons included CBI II in the budget reconciliation bill as the one chance to obtain passage this year. Problems remain with the sugar, apparel and footwear provisions of the bill.

...No funds for the World Bank are included in the House version of the Foreign Operations bill. House Appropriations Foreign Operations Subcommittee Chairman David Obey (D-Wis.) opposes funding which he believes is being used to help bailout the commercial banks from their foreign debt problems.

...The Senate's Foreign Aid bill does include authorization for a $9.3 billion increase in the callable capital of the Inter-American Development Bank as agreed in the IDB seventh replenishment agreement. Only a fraction of this amount would be paid-in capital. (see *Washington Report*, May 1989, page 13.)

...Trinidad and Tobago has become the sixth CBI member (along with Barbados, Dominica, Grenada, Jamaica, and St. Lucia) to enact a Tax Information Exchange Agreement (TIEA) with the United States. This enables Trinidad to become eligible for borrowing Section 936 funds from Puerto Rico. These 936 funds, which arise from tax-free profits of 936 corporations activities in Puerto Rico, are available for lending at about one and one-half percentage points below market interest rates. Two specific projects for a methane and an ammonia plant with a combined value of $125 million are expected to result from the arrangement.

...Since June, Brazil has fallen behind by some $300 million in payments due foreign banks and governments, according to *The Economist*. An additional $2.3 billion is due in September, and there is increasing speculation that these payments will not be made on time as Brazil is expected to build up its foreign exchange reserves instead. Brazil is not, however, expected to declare a formal debt moratorium.

...The Dominican Republic missed another interest payment on its foreign debt in early August, and is now some $40 million and more than 90 days behind in payments on its $3.8 billion foreign debt.

...Economic growth in Latin America is estimated to drop to 0.5 percent in 1989, down from 0.7 percent in 1988, and 2.5 percent in 1987, the last year in which the per capita income in the region did not drop, according to the United Nations World Economic Survey 1989. The report commented that the poor growth performance of Latin America in 1988 and 1989 was especially regrettable in light of the favorable international economic environment.

PUBLICATIONS

The South Pacific Mail by Juan de Onis and Nicholas Asheshov. A new monthly newsletter/magazine in English with indepth coverage of business and economic developments in Chile by two of the outstanding economic journalists in Latin America. Written in Santiago for foreign and local businessmen interested in investments in Chile's surging economy as the political system goes from authoritarian to democratic governance. Available from: The South Pacific Mail, Providencia 201-2, Santiago, Chile. Price: 12 issues, $550.

World Development Report 1989 by the staff of the World Bank. Another in the series of what has become a World Bank classic. Includes a summary review of economic developments in 1988, and special sections devoted to the study of financial systems and development. Report concludes that more efficient financial systems are needed for long-term development. Available from: World Bank Publications, P.O. Box 7247-8619, Philadelphia, Pennsylvania, 19170-8619. Price: $12.95.

Operation of the Trade Agreements Program by the United States International Trade Commission. The 40th annual edition of the most comprehensive guide published to trade actions under the Omnibus Trade and Competitiveness Act of 1988. The Report is required by the Trade Act of 1974 which directs the ITC to prepare a factual report on the operation of the U.S. trade agreements program at least once a year. Available from: Office of the Secretary, United States International Trade Commission, 500 E Street, S.W., Washington, D.C. 20436. Telephone: 202/252-1809. No charge.

New Foreign Investment Regulations in Mexico by Miguel Jauegui and Jorge Cervantes. A helpful three page explanation of Mexico's new foreign investment regulations issued May 17th which expand opportunities for foreign investment in Mexico. Available from: U.S. Council of the Mexico-U.S. Business Committee, 1625 K Street, N.W., Suite 1200, Washington, D.C. 20006. Telephone: 202/659-1547. No charge.

Latin America Trade Review 1988, A U.S. Perspective by the U.S. Department of Commerce. A comprehensive review and analysis of Latin America's foreign trade in 1988, and of U.S. trade with the region. Commentary on individual country's trade performance is given by the Commerce desk officer for each region. Available from: Office of South America, International Trade Administration, U.S. Department of Commerce, 14th and Constitution Ave., N.W., Washington, D.C. 20230. Telephone: 202/377-2436.

CALENDAR

"A New Vision of Mexico"—full-day conference with lunch featuring Dr. Jaime Serra Puche, Mexico's Secretary of Commerce, and other leading Mexican officials. Cosponsored by the U.S. Council of the Mexico-U.S. Business Committee and the Mexican Institute of Financial Executives. The Essex House Hotel, 160 Central Park South, New York City. Tuesday, September 19, 9:00 a.m. to 5:00 p.m. Conference fee: $400. Registration information: Council of the Americas, 1625 K Street, N.W., Suite 1200, Washington, D.C. 20006. Telephone: 202/659-1547.

Chief Economic Advisors to the Five Leading Brazilian Presidential Candidates—full-day seminar with luncheon and reception. Each economic advisor will present his respective party's economic program, followed by questions and discussions with the audience. Friday, September 29. Conference fee: Council members—$250; non-members—$350. Registration information: Council of the Americas, 680 Park Avenue, New York City, NY 10021. Telephone: 212/628-3200.

Border Trade Alliance—"Congressional Agenda on United States and Mexico Relations"—three day conference on economic border issues concurrent with President Carlos Salinas de Gortari's visit to Washington. Sunday, October 1 to Tuesday, October 3. Conference fee: $300. Registration information: The Border Trade Alliance, c/o San Diego Economic Development Corporation, 701 B Street, Suite 1850, San Diego, Ca. 92101. Telephone, 619/234-8484.

Bolivia: OPIC Investment Mission. OPIC (Overseas Private Investment Corporation) is organizing a group of 10 to 20 businessmen interested in investing in Bolivia to visit La Paz and Santa Cruz, October 23—27. Information may be obtained from OPIC Investment Mission Officer Lynn Ksanznak, 202/457-7120.

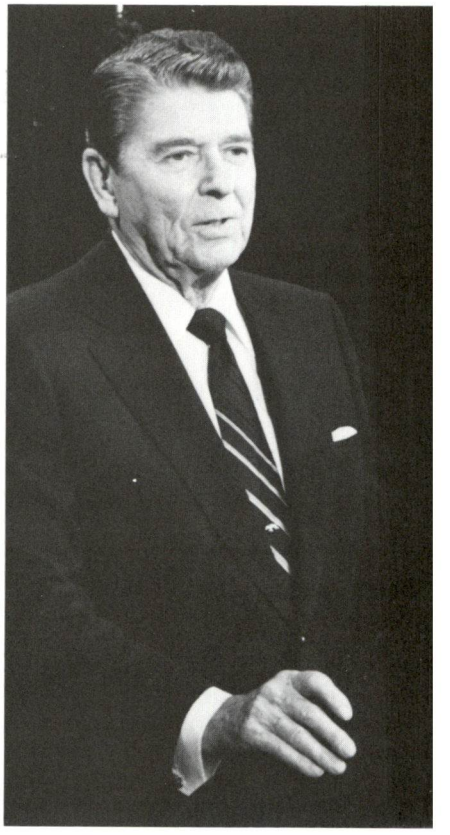
Miami Conference of the Caribbean. The 13th annual Miami Conference sponsored by Caribbean/Central American Action (C/CAA) will be held November 30—December 1 at the Inter-Continental Hotel in Miami. A series of panels will be headed by leaders from the region, the Bush administration, and the U.S. Congress. For information or to register call 202/466-7464.

COUNCIL OF THE AMERICAS
AN AFFILIATE OF THE AMERICAS SOCIETY INC.
Ludlow Flower III
Director, Washington Office
William Knepper
Editor, Washington Report

The Council of the Americas, an affiliate of the Americas Society, Inc., is an association of U.S. corporations with interests and investments in Latin America. The Council of the Americas' *Washington Report* highlights Washington activities and information of interest to companies doing business in Latin America. The *Washington Report* does not purport to reflect the views of the Council membership or of any individual member.

The *Washington Report* is available to non-members through paid annual subscription of $200. For information concerning the *Washington Report*, readers are invited to contact the Council's Washington office.

XVIII WASHINGTON CONFERENCE FOR CORPORATE EXECUTIVES



"For nearly 30 years, the Council of the Americas has promoted understanding and cooperation between the United States and the nations and peoples of Latin America. The Council has brought leaders of our private sector together with business and government leaders throughout Latin America. It's helped strengthen the old and enduring friendship between the United States and Latin America. It's been helping to make our nation's great engine of hope and opportunity—the private enterprise system—the engine of hope and opportunity for Latin America as well."

Ronald W. Reagan, President of the United States, speaking before the Council's Washington Conference on May 12, 1987.

"Turnaround: Increasing Competitiveness and Continuing Problems in Latin America"

May 11 & 12, 1987,

U.S. Department of State, Washington

Speakers

Ronald Reagan, President of the United States; **George P. Shultz**,Secretary of State; **Elliott Abrams**, Assistant Secretary of State for Inter-American Affairs; **S. Bruce Smart**, Under Secretary for International Trade, Department of Commerce.

BINATIONAL PRIVATE SECTOR DISCUSSIONS

Argentina

Carlos D. Tramutola, Executive Vice President, SIDERCA S.A.,

Meeting & Luncheon	February 26	New York

Brazil

"Private Sector Assessment"
Henrique Sergio Gregori, President, Xerox do Brazil; Wolfgang Sauer, President, Autolatina

Dialogue	December 4	New York

Chile

Chilean Business Leaders Project

Dialogue	October 2	Washington

"The Future of Trade with Latin America"

Seminar	October 14	Miami

Panelists:
"Debt and Other Monetary Considerations": **Robert W. Chandler, Jr.**, Vice President, The Chase Manhattan Bank, N.A.; **Adrian C. R. Verwey**, Executive Vice President, American Express Bank, Ltd.; **J.Antonio Villamil**, Chief Economist/Senior Vice President, Southeast Bank, N.A.; **William R. Rhodes**, Chairman, Restructuring Committee, Citibank, N.A. (moderator).

"The Role of International Corporations in Developing Latin American Trade": **"Paul J. Kofmehl**, IBM Vice President and Group Executive, IBM World Trade Americas Group, IBM Corporation; **Joseph K. Linman**, Staff Director, Latin American Automotive Operations, The Ford Motor Company; **Raymond P. Nagel**, Manager, International Trade Development, Johnson & Johnson International; **C. Robert Black**, President, Latin America/West Africa, Texaco, Inc. (moderator).

Keynote Speaker: **David Rockefeller**, Chairman, Council of the Americas: "Let's Not Write Off Latin America".

"United States Trade Policy": **Ann H. Hughes**, Deputy Assistant Secretary of Commerce for the Western Hemisphere, U.S. Department of Commerce; **Jon Rosenbaum**, Assistant U.S. Trade Representative for Latin America, Africa and Commodities Policy, Office of the U.S. Trade Representative; **Stephen Lande**, Vice President, Manchester Associates, Ltd.; **Dr. Margaret Daly Hayes**, Director, Washington Office, Council of the Americas (moderator).

Co-sponsored with the Coral Gables Chamber of Commerce

Panels

"Adjusting to Competition — Trade Policies in the United States and in Latin America."

John A. Bohn, Jr., Chairman and President, Export Import Bank of the United States; **A. David Knox,** Vice President for Latin America and the Caribbean, The World Bank; **Alexander H. Good,** Director General, U.S. & Foreign Commercial Service, U.S. Department of Commerce; **John W. Scott** (Chairperson), Vice President, Capital Expenditures and Systems, CPC International, Inc.

"U.S. Business and the Intellectual Property Debate."

Michael F. Barrett, Jr., Chief Counsel and Staff Director, Subcommittee on Oversight and Investigations, Energy and Commerce Committee, U.S. House of Representatives; **James R. Enyart,** Director, International & Government Affairs, Monsanto Company; **Alan F. Holmer,** General Counsel, Office of the U.S. Trade Representative; **Michael K. Kirk,** Assistant Commissioner for External Affairs, Patent and Trademark Office, U.S. Department of Commerce; **Robert M. Sherwood,** Esq. (Chairperson).

"The Business Climate in Brazil."

Antonio Carlos Rego Gil, President, SID Informatica, S.A.; **Donald E. Wilson,** former President, Anderson Clayton do Brasil, S.A.; **Langhorne A. Motley** (Chairperson), President, L.A. Motley and Company.

"The Business Climate in Mexico."

Francisco Bunt, Legal Director, Grupo Tolteca; **Gerardo Cortina,** Executive Director, Financimiento Corporativo, Operadora de Bolsa; **Ann H. Hughes,** Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce; **Enrique Madero Bracho,** President, Mexican Business Council on International Affairs (CEMAI); **David Troncoso,** Vice President, Latin American Division, Texas Instruments; **Rodman C. Rockefeller,** Chairman, U.S. Council of the Mexico-U.S. Business Committee (Chairperson).

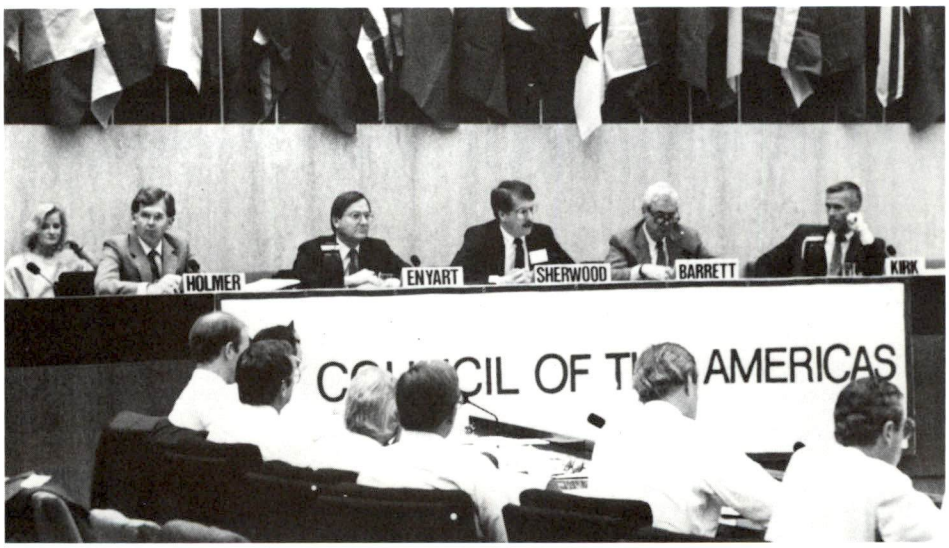
"Coping with Debt - Obstacles to Recovery and Growth."

Opening Address: **Dr. Mario S. Brodersohn,** Secretary of the Treasury, Ministry of the Economy, Argentine Republic; **William R. Rhodes,** Group Executive and Chairman of the Restructuring Committee, Citibank, N.A.

Panel: **Dr. Norman A. Bailey,** General Partner, Pillsbury, Madison & Sutro; **Senator Bill Bradley,** United States Senate; **James W. Conrow,** Deputy Assistant Secretary for Developing Nations, U.S. Department of the Treasury; **Richard D. Erb,** Deputy Managing Director, International Monetary Fund; **Congressman Bruce Morrison,** U.S. House of Representatives; **Charles J. Siegman,** Senior Associate Director for International Finance, Federal Reserve Board; **Terence C. Canavan,** Executive Vice President, Chemical Bank (Chairperson).

Senator Bill Bradley (D-NJ) (left) greets James W. Conrow, Deputy Assistant Secretary of the Treasury for International Affairs (right), while Congressman Bruce A. Morrison (D-CT) looks on. The three were participants in the panel on "Coping with Debt."

George P. Shultz, Secretary of State, delivers the opening address.



U.S. Business and the Intellectual Property Debate. From left to right, Holmer, Enyart, Sherwood, Barrett, Kirk. Christina Lund, Director of Southern Cone Affairs, Office of the U.S. Trade Representative, is seated behind Mr. Holmer.

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COUNCIL OF THE AMERICAS

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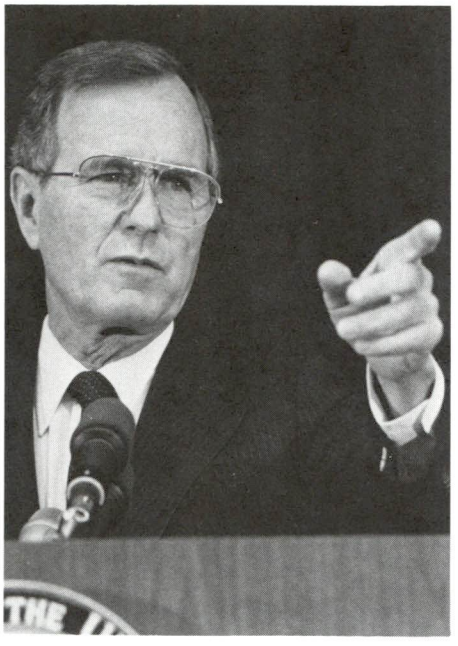
Business and Government Debate New Policy Initiatives Aimed at Economic Recovery in Latin America

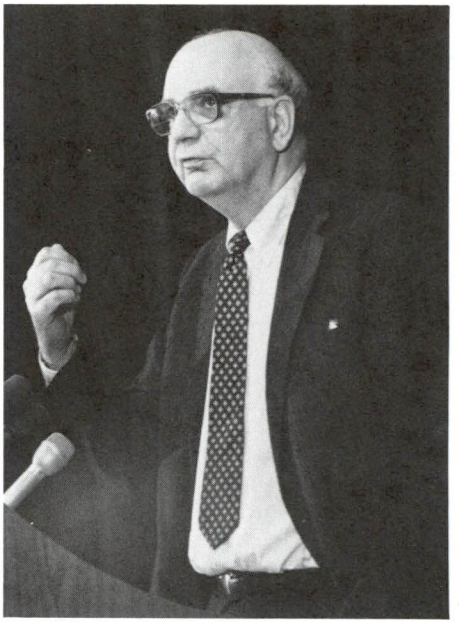


Vice President George Bush takes a question from the corporate audience following his presentation at the Washington Conference.

The Council of the Americas Seventeenth Washington Conference, held on May 5 and 6, 1986, focused on U.S. government policy initiatives aimed at restarting growth and improving the business climate in Latin America. Over 250 business leaders from throughout the hemisphere attended the one and a half day conference held at the U.S. Department of State.

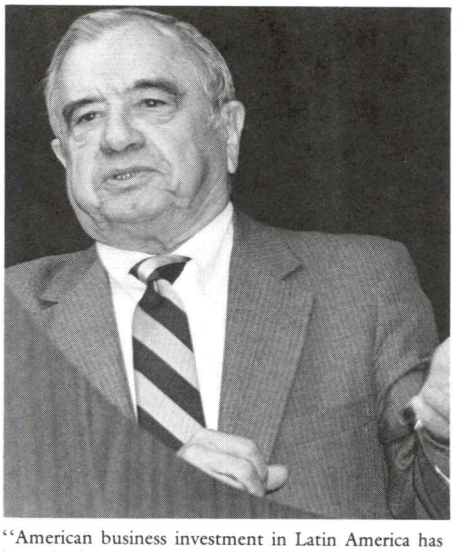
The conference provided business participants an opportunity to assess the pro-growth strategy that had been recently articulated in Secretary of the Treasury James Baker's Program for Sustained Growth, through discussions with key officials responsible for its implementation. The new policy, which emphasizes the role of the private sector, has important implications for U.S. and Latin American business in the region.

Different aspects of the policy embodied in the Program for Sustained Growth, and other factors crucial to Latin America's economic success, were given comprehensive treatment in panel discussions and individual presentations. The participation of experts from the private sector as well as the knowledgeable contributions of the corporate audience added to the conference's value to both government and business participants.

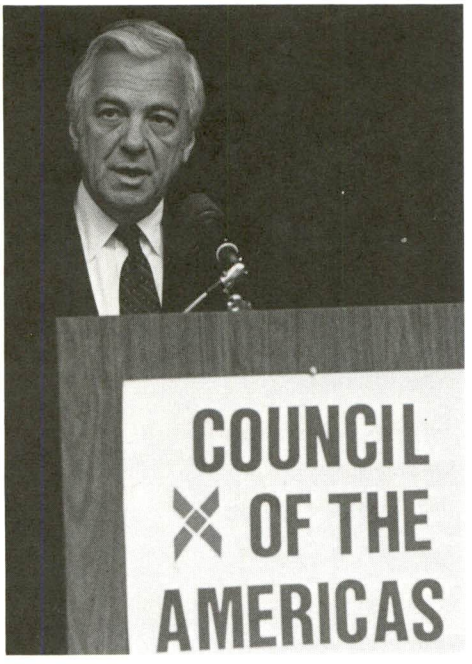


Paul Volcker, Chairman of the Board of Governors of the Federal Reserve, gestures during his presentation on the role of domestic U.S. financial institutions in the Latin American debt crisis.

Corporate participants listen to a panel discussion at the Seventeenth Washington Conference.



"American business investment in Latin America has been the flag carrier of policy: the cornerstone which has made what we do successful. In this debt situation we have today, the leadership has to come from you. It cannot come from the government—I don't think it will be successful. . . ." Congressman Dante Fascell (D-Fl.)



"The developing countries need your knowledge, your managerial skills, the technology and market access your investments can bring. I hope that we can therefore all work together to improve the business environment, to stimulate investment and to renew economic growth in Latin America. . ," John C. Whitehead, Deputy Secretary of State.

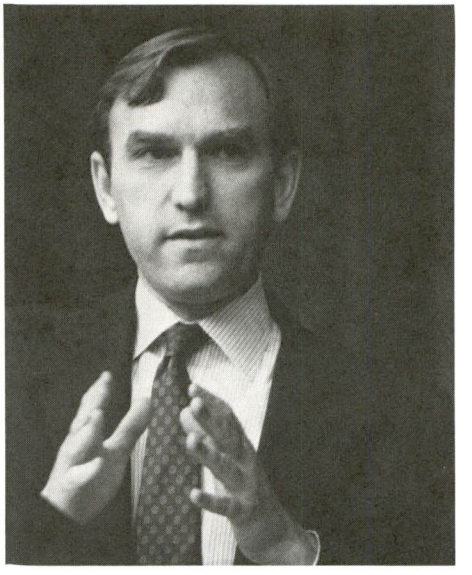
Whitehead: "Growth requires flexibility to move resources to take advantage of new opportunities. . . the rigidities of the statist model and its anti-competitive policies have not brought about dynamic and sustained growth, and instead produced fundamental distortion, . . . and could not deal with subsequent economic shocks. . .

"In the developing countries of the Pacific. . . the average annual growth rate between 1965 and 1980 was 5.6 percent. In Latin America and the Caribbean the per capita growth rate in the same period was only 3.7 percent. Since 1980, per capita growth rates in East Asia have been sustained at well above 3 percent, a period when the Latin countries experienced a deep recession. . . . And the developing East Asian nations which have been so successful are endowed with far fewer resources than many Latin American countries. . . .

"There is a growing recognition. . . that a system composed of private enterprises operating in an open economy with realistic exchange rates will lead to sustained growth and economic progress. This reality goes hand in hand with the gradual strengthening of democratic political processes that we have been witnessing recently in Latin America. . . .

"Too much attention has been focused narrowly on debt-relief schemes, while ignoring the more fundamental need for basic economic policy reform in the direction of flexible, free enterprise systems. . . . Even if the debt were completely written off tomorrow, most Latin countries would still be faced with relatively bleak economic prospects in the absence of basic structural reforms in their economies. . . .

Council of the Americas Chairman, David Rockefeller (left), confers with Joaquin J. Vallarino, Jr., Chairman and CEO of The Panama Coca-Cola Bottling Company and President of CICyP, the Consejo Inter-Americano de Comercio y Produccion (right), during the Conference.



Assistant Secretary of State for Inter-American Affairs, Elliott Abrams, provided an overview of U.S. policy toward Latin America.

Abrams: "Twenty five years ago, when the Alliance for Progress started, the population of Latin America was just over 200 million. Today, it's 412 million, . . . and we would expect that by the end of the century it would be over 600 million, . . . about 10 percent of the world's population. By comparison, our own population will rise to just under 250 million at the end of the century. So we will be looking, in that very short period of fourteen years, at a U.S. population of 250 million and a Latin American population of about 600 million. . . .

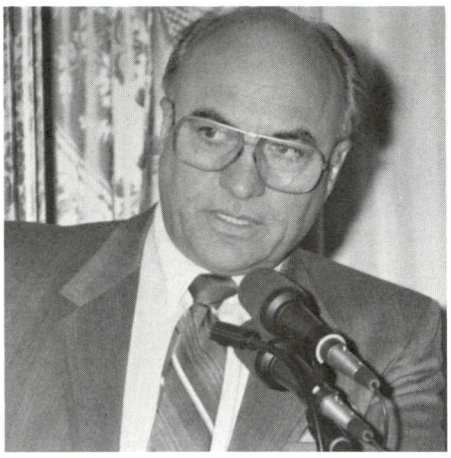
"In 1960, less than half the population of Latin America was urbanized. Now about two thirds are urbanized, and it's moving toward, in the year 2000, about three quarters urbanized, which has a political impact besides the economic impact. . . . Mexico City had about 5 million when the Alliance for Progress started. We estimate about 18 million now and at the end of the century Mexico City may have around 32 million people. Job creation, as people move from the rural areas to the urban areas, becomes an increasingly difficult problem.

"Economic growth? If you take the last twenty five years as a whole, the total product of Latin America and the Caribbean has increased fourfold in aggregate terms, . . . on a per capita basis. . . the figures are really quite disappointing. The per capita GNP is about $1600 right now, estimated to rise to only about $1700 by the year 2000. Now that is not very impressive. . . .

"There are a number of issues that threaten the ability to continue this democratization process and that threaten economic stability as well. One of them, of course, is the security problem. Cuba and Nicaragua, . . . the large problem of terrorism, . . . and the drug problem.

"What should U.S. policy be? One portion of the answer is particularly important. . . that is sustainability. There's no such thing as a really short-term investment. You need some sense of coherence and sustainability in policy. . . . We recognize this as a key to policy."

Trade Policy Issues in U.S.–Latin American Relations



Ambassador Clayton Yeutter, U.S. Trade Representative, addressing the luncheon at the Conference.

Participants on the Trade Policy Issues panel, from left to right: Dr. Jose Alfonso Mendez, Project Director, U.S. International Trade Commission; David Luft, Deputy Assistant Secretary of Commerce for Services; Dr. C. Michael Aho, Senior Fellow, Council on Foreign Relations; Stephen Lande, Vice President, Manchester Associates, and panel moderator; Timothy Bennett, Deputy Assistant U.S. Trade Representative for Mexico; and Congressman Don Bonker (D-WA), Chairman, Subcommittee on International Economic Policy and Trade, House Foreign Affairs Committee.

Yeutter: "I'd like to start out by just setting the record straight. . . . We seem to be the villains in Latin America at the moment—the United States is perceived in at least some Latin countries as being protectionist and wanting to shut off market opportunities for Latin nations here in the United States. That's totally false. . . . We took 51 percent of all the Latin American exports in 1980, and 57 percent in 1985, a total of about $37 billion in 1980, about $47 billion in 1985. During that period, which was a worldwide recession, we accounted for 26 percent of the export growth of Latin America. The European Community accounted for 2 percent and Japan's share went *down* 50 percent. . . . On manufactured products, our [share] was up 108 percent, the EC's was down 10 percent and Japan's was down 7 percent. We shouldn't undersell the contribution that this nation has made to Latin America through the years. . . . We've been trying to get Germany and Japan to stimulate greater domestic economic growth. Latin America has as much stake in that as anybody. . . .

"If nations in Latin America are going to achieve any kind of economic growth of consequence in the next ten or twenty years, they've got to get some equity capital. To get equity capital, [the] environment has to look attractive. It's just as simple as that. . . . The real loss if investment is not on the GATT agenda is going to be to the developing countries themselves. . . .

"The United States is not going to go the protectionist route if the Reagan administration has anything to say about it. But that's an issue that's going to be fought this year in the Congress and on the campaign trail.

"We think that Brazil ought to be more open in its [informatics] policy because we think that would be good for Brazil as well as for the United States. In an industry as fast moving as computers and all the rest of the high technology area, it is inconceivable that any nation in Latin America, even Brazil, can keep up with the technology and be internationally competitive when operating what is essentially an import substitution program. It's Brazil's sovereign privilege to try. But, I would assess the probabilities of success for that kind of policy as between slim and none. . . .

"We need a much greater private sector thrust in most countries around the world, and we do have to be fairly aggressive in attacking. . . unfair trade practices around the world. That isn't going to endear us to our trading partners in Latin America and elsewhere, but we believe that it's the right course of action for us and in many cases, it's the right course of action for the other country in terms of stimulating the kind of economic response that should have been there in the first place. . . . We'll use some leverage on the GSP program. . . we'll use some leverage on the debt programs, we'll use leverage wherever we can find it. That's essential if we're going to create the kind of solid, mature economic relationships that we want to have with Latin America. . . ."

Aho: "What is the United States going to put on the table to bring developing countries back to the bargaining table [in the trade negotiations]? Is it going to be more market access in textiles and steel and other labor intensive industries? Are we going to rewrite our unfair trade practices statutes to give them [developing countries] some exceptions under U.S. law? Are we going to talk about low tech services and immigration? We have a lot of sticks and very few carrots. . . ."

Luft: "Intellectual property rights infringement, in its many forms, . . . has cost the United States anywhere from $8 to $20 billion in sales a year. Up to 750,000 jobs are believed to have been eliminated as a result. This problem has grown dramatically in recent years. In some cases, such as Colombia, it is estimated that the entire video cassette market is of pirated goods. . . .

"The principal source of pirated goods is the newly developed nations. . . in this hemisphere, particularly Mexico and Brazil. At the same time, these countries have become major competitors of U.S. industry. Effective protection of intellectual property rights in these countries unfortunately lags far behind that provided in most developed countries.

"Underlying all of these problems is the belief, in many developing and newly industrialized countries, that counterfeiting is necessary to protect emerging industries and that appropriation of foreign intellectual property—which in the private sector we call theft—provides a shortcut to modernization. . . .

"We in the Administration are trying to put some bite into our approaches in order to get countries to enact laws and to begin enforcing protection of U.S. intellectual property. This would be of benefit to all countries concerned. . . . Without international agreement on the recognition and the sanctity of intellectual property rights, investment and growth in Latin America can be expected to be quite limited. Failure to enforce adequate protection will no longer be tolerated by the U.S. government. . . ."

Bonker: "That informatics case [against Brazil] has been around a long time and we've seen no conclusion. Therein lies the great impatience in the Congress, whether it's telecommunications, whether it's Canadian lumber, whether it's informatics. . . . If you're not going to act decisively, Congress is going to compel you to act, and that's the last step we can take before we cross the zone into protectionism. . . ."

Mendez: "During 1985 the [International Trade] Commission had 217 active anti-dumping and countervailing duty or subsidy cases. Although steel and other manufactured products are the most frequent subjects of these investigations, cases involving other industries such as agriculture, chemicals, and high tech products reflect the increased import sensitivity of the U.S. economy across the board.

"There is no doubt that the high value of the dollar masked fundamental shifts in the competitive position of many U.S. producers in the global marketplace, in which case, many of the newly industrialized countries, particularly in Latin America, will pose new challenges to established industries in the United States."

Harry B. Heneberger, Jr., Vice President of Citibank, joins the discussion.

virtues of the private sector. . . .

"Policy based lending is very experimental and the record so far has been spotty. Structural adjustment is a prolonged, immense task that involves realignment of power and privilege in the developing countries."

Urrutia: "The latest [Inter-American Development Bank] studies show that if the external debt is maintained about constant in real terms, certainly a modest target, the region can grow at 4 or 5 percent per year for the next decade. However, given the present state of the international financial system, it is clear that even achieving this modest target will be difficult. . . .

"The major adjustment efforts. . . are not short-term adjustments, they are major structural economic changes. We are talking about a change in the way Latin America plays in the world economy.

"In order to stem capital exports from Latin America—nobody calls the investments of Japan capital flight—one would need appropriate macro-policies, but also, without question, substantial support for the financial sector in Latin America. There is no question that the financial sector in Chile, in Colombia, to some extent in Brazil, is in very, very serious circumstances. . . ."

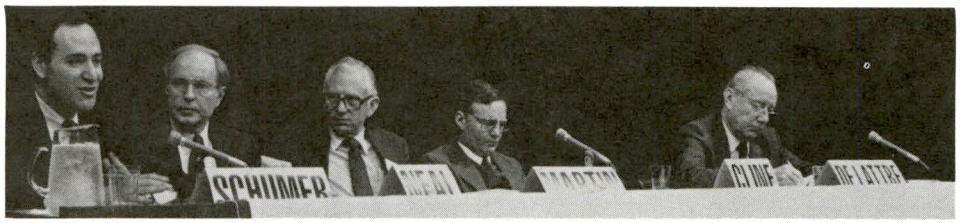
Lundine: "The World Bank [has] to play more of a leading role [in encouraging] more direct investment, whether through cofinancing schemes or through obtaining more financing of different sorts. . . . [Thus the need for] additional resources to the World Bank and the other development banks. The commercial banks have an obligation and must remain active and willing, creative participants, but they cannot be expected to produce all the financial resources necessary. . . .

"The United States is not solely to blame for the problems developing countries have finding a market—particularly for their manufactured goods. Last year the United States took 62 percent of all the manufactured exports of the LDCs. Japan took 8 percent and all of Europe took less than 20 percent. . . .

"We understand that it isn't the Japanese model, or any other model that has to be imposed on these countries—they have to figure out their own model. But there are some fundamental principles and we want to pursue policies in the MDBs that will encourage those principles. . . and make enough money available so they can carry them through very successfully. . . ."

) Senator Bob Kasten (R-WI), Chairman of the Foreign Opera- from left to right are: Dr. Richard Feinberg, Vice President, Chairman of ASARCO; Congressman Stan Lundine (D-NY), d Finance, House Committee on Banking, Finance and Urban ment Department, Inter-American Development Bank.

Roles of Domestic U.S. Institutions



The panel on the role of domestic U.S. institutions, from left to right: Congressman Charles Schumer (D-NY); Congressman Stephen Neal (D-NC), Chairman, Subcommittee on International Finance, Trade and Monetary Policy, House Committee on Banking, Finance and Urban Affairs; panel moderator Fred Martin, Jr., Senior Vice President, Bank of America; Dr. William R. Cline, Senior Fellow, Institute for International Economics; and Andre de Lattre, Managing Director, Institute of International Finance, Inc.

Cline: "We need a clearer unification of the policy level and the operational level—so that we don't have Paul Volcker saying that we should lend more to Mexico and the bank examiners questioning that policy. . . . It is illusory to see regulatory reform as a solution to the debt problem. The solution is going to be the growth of exports and domestic economic growth in the debtor countries, and that's a function of their own exchange rate policies, interest rate policies, industrial country growth and industrial country protection. Regulatory reform that would facilitate relief would be the wrong signal at this time. . . . With the exception of the oil exporters, and Mexico in particular, there is a broad improvement on the debt problem. To send the signal now that it is time to declare failure of the past approach, as augmented by the Baker Initiative, would be a major policy mistake. . . ."

William Cline making his presentation as panel moderator Fred Martin looks on.

De Lattre: "The banks can make concessions on their own spread, but the idea that they should make concessions on the interest rates themselves is self-defeating. The countries are going to depend for the next ten years on bank financing—much less than in the past—but they are not going to receive concessional assistance; they are not going to receive much official loans, even through export credit agencies. So the bulk of the financing will still come from the banks. . . .

"Foreign direct investment will increase, but will remain a not very important contribution to overall financing. Nevertheless it should be from repatriation of capital, foreign direct investment, and not from over-indebtedness, that the future should be built."

Schumer: "We've avoided any major conflagration, we've avoided a massive failure in our financial system, or in the stability of most of the countries that have been part of the IMF plans, but we've certainly set the stage for real problems once the economy weakens. . . .

"There's that lost decade of growth in the Third World. . . that the U.S. has not paid for geopolitically yet, but we will. . . .

"The debt crisis is hurting the United States economically as well. U.S. exports to Latin America have fallen by 31 percent since 1980. The U.S. annual trade deficit with Latin America has increased to $18 billion. In a sense the debt solutions that now exist are aiding the U.S. financial sector at the expense of the U.S. manufacturing sector. . . .

"Some banks are in the best shape they've been in in years to handle the world's heavy debt load. The big money centers have built up reserves, as they should be doing. As a result, banks are no more exposed to debt from the ten largest Latin American borrowers relative to capital than they were in 1977, before the debt crisis. But because of the looming instability that's hanging over the whole crisis their stock prices have not responded accordingly. . . . The market is saying that the problem isn't solved, and we need some real restructuring. . . ."

Joseph K. Linman, Staff Director, Latin American Automotive Operations, Ford Motor Company, told the panel on Domestic U.S. Institutions that, "The Baker Plan largely overlooks the impact and prospects for multinational manufacturing companies. Manufactured goods exports, particularly from Brazil and Mexico, now represent a primary aspect of debt service. We have been forced to permit our subsidiaries to default on inter-company loans and we've had great difficulty with dividend remittance. We're understandably reluctant to continue to invest, particularly in export programs . . ."

Roles for Government, Multilateral Institutions, a

The Baker Initiative: Adjustment and Recovery

Participants in the panel discussion on the "Baker Initiative" are, from left to right, Ciro DeFalco, Director, Office of Developing Nations Finance, International Affairs, U.S. Department of Treasury; William D. Rogers, Partner, Arnold & Porter, panel moderator; Dr. Gary Clyde Hufbauer, Professor, School of Foreign Service, Georgetown University; and Lauralee Peters, Director, Office of Monetary Affairs, Bureau of Economic and Business Affairs, U.S. Department of State.

DeFalco: "What's new about the Program for Sustained Growth? [There is] a recognition that we are in a new phase of the debt crisis, that economic growth is an essential element of any solution to the debt problem of Latin America. Two, it is a recognition that the adjustment process still has some way to go. Three, it's an effort to restore an appropriate balance between economic adjustment and external finance. Finally, the PSG represents a shift in emphasis from the macro-economic policies which the [International Monetary] Fund had imposed on these countries between 1982 and 1985 to micro-policies. . . . This is not a quick fix plan. . . .

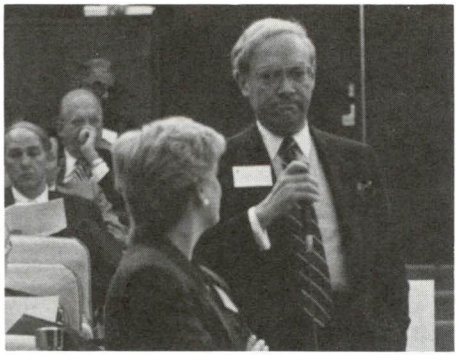
"Debt relief is inconsistent with the case-by-case approach. It would be certainly unfair to give relief to countries that have failed to make policy adjustments. . . and treat them the same way as countries that have made adjustments.

"We hope that policy changes will increase the attractiveness of foreign direct investment."

Hufbauer: "Three figures tell the story about the Baker Initiative or the Program for Sustained Growth. One is: $1000 billion worth of debt. Figure two is the annual debt service on that—it's about $100 billion, half interest, half principal. And the Baker Initiative, on an annualized basis, represents new money of about $10 billion. It is very, very small indeed. Where we need a giant stride on the debt problem we have gotten a pretty small step.

"The Baker Initiative calls for banks to put in new money. There's not a lot of blood to get out of [this] turnip. . . . About one third of the capital. . . of money center banks. . . is impaired by the low quality of debt outstanding. There is no voluntary new lending to Latin America, and why should there be when the money center banks are facing this. . . big lump of indigestible paper, that they're taking steps to write off. . . ?

"Structural reform is a matter of dealing with the three C's: capital flight, corruption and cocaine. These are the economic cancers of our time in so many developing countries."



"The non-financial international corporate community has seen that the issue of debt service has been attacked from a point of view that ignores the trade-off between principal and interest and the payment of dividends on investment. How does the U.S. government propose to more actively integrate the interests of the non-financial corporate community into this process?" Charles E. Lilien, Managing Director of First Boston International.

Peters: "Stronger [industrialized country] growth adds about $5 billion to LDC exports. Lower inflation will subtract about $4 billion from LDC import costs. Lower interest rates will subtract as much as $11 billion from debt service. The oil price declines subtract, for oil-importing LDCs, almost $13 billion from their import requirements. Those positive developments need to be capitalized on."

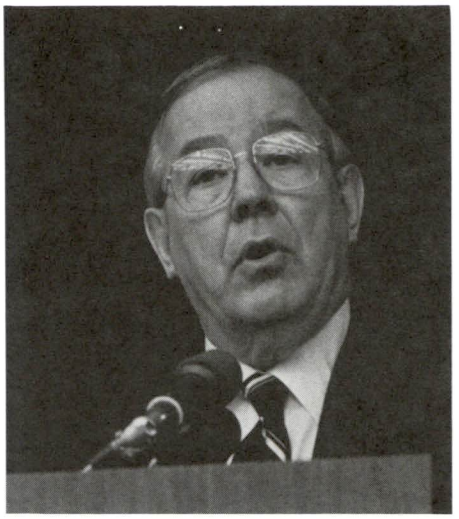
Multilateral Bank Roles in Adjustment and Recovery

Clausen: "We are encouraged by the tangible progress being achieved by a growing number of developing countries where medium-term, growth-oriented adjustment strategies are being implemented. Perseverance with policy reform is essential to the restoration of growth and creditworthiness.

"If today many nations are facing the consequences of an accumulation of adjustments that are long overdue, it is not just their own mistaken policies that are to blame. Undisciplined aid flows and ill-directed commercial lending have helped insulate many economies against inconvenient or unpopular reforms.

"The industrialized country governments must ensure that their regulatory authorities do not introduce conflicting signals. Measures intended [to strengthen the banking system] must not fly in the face of the need to continue support for the debtor countries. . . .

"The industrialized world needs the developing world as a huge market with a considerable potential for growth. Even in the troubled year of 1985, eleven of the top twenty-five markets for U.S. merchandise exports were developing countries, accounting for a quarter of the value. . . ."



A.W. Clausen, President of The World Bank since 1981, delivered his last major public address in that position before the Council's Washington Conference.

Kasten: "The budgetary situation is disastrous for foreign assistance programs. . . . We're looking at the necessity to cut the Administration's requested levels somewhere between $1.6 billion and $2.6 billion. The programs which compete with the multilateral development banks for resources include our commitment to the Camp David countries, funds for countries which provide us with base rights and access, smaller programs that have important political constituencies such as the Peace Corps, international narcotics control, refugee assistance, the development assistance programs of the Agency for International Development. . . .

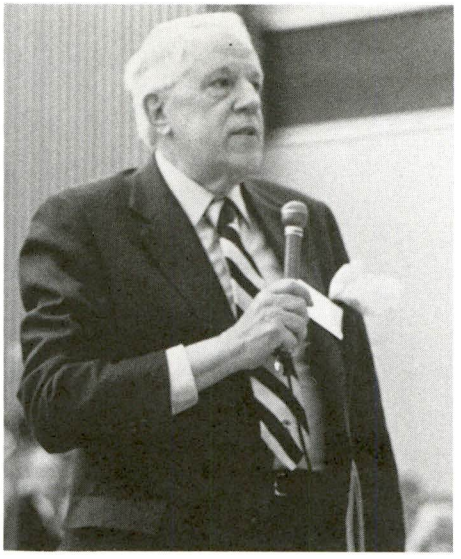
"The multilateral development banks. . . are financing a large number of projects which are destroying the basic environmental resources of borrower nations. In Brazil, a single World Bank loan led to the deforestation of an area approximately the size of Italy. . . . It's very important that these issues be looked at carefully with the idea of making the changes and reforms necessary to continue to have support from the Congress of the United States for the contribution which the U.S. makes and ought to continue to make to these multilateral development banks."

Feinberg: "In Latin America in particular, many voices are raised in criticism of the import-substituting model and relatively closed nationalism. There is a new emphasis on openness, efficiency, international competitiveness and the

Participants in the discussion on Multilateral Development Banks list
tions Subcommittee of the Senate Appropriations Committee. Sea
Overseas Development Council; panel moderator Charles Barber, re
Chairman, Subcommittee on International Development Institution
Affairs; and Dr. Miguel Urrutia, Manager, Economic and Social Dev

Opportunity to Strengthen Business – Government Ties

David Rockefeller, Ambassador George Landau, Congressman Dante Fascell and Charles Barber, former Chairman of ASARCO, share a moment prior to the Congressman's presentation at the Conference.



Jose de Cubas, Advisory Director of Shearson Lehman Brothers, Inc., asks a question during the proceedings.

Tomas A. Pastoriza, President, Banco de Desarrollo Dominicano talks to Congressman Dante Fascell (D-FL).

Ambassador George Landau, President of the Council of the Americas, greets Martha Seger, Governor of the Federal Reserve System, at the reception.

German Pereira, International Business Development Representative, Bechtel Power Corporation (left), follows up with Miguel Urrutia, Manager of the Economic and Social Development Department, Inter-American Development (right) and a panelist at the Conference, at the reception.

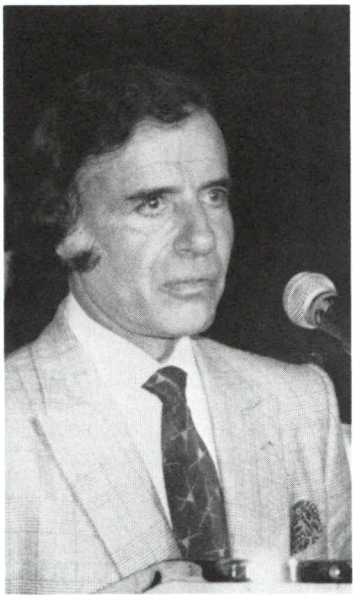
George Filak, Vice President and Controller, Texas Instruments, greets Guillermo Wiese, President of CICyP, Peru (seated) at the buffet luncheon following the Conference.

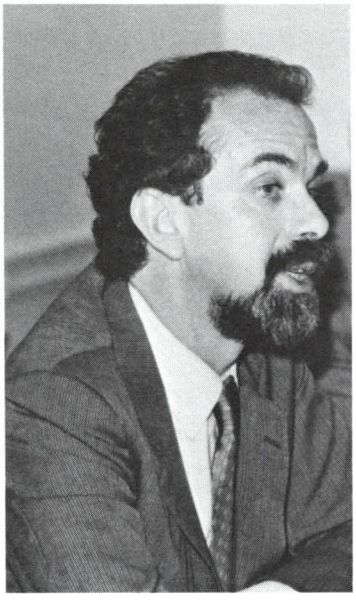
Photography by Larry Glatt

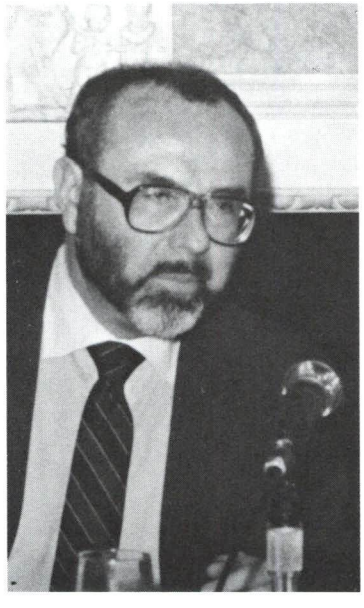
AMERICAS SOCIETY

UPDATE

November/December 1989







Council of the Americas

Latin American Affairs

Canadian Affairs

Visual Arts

Literature

Special Events

COUNCIL OF THE AMERICAS

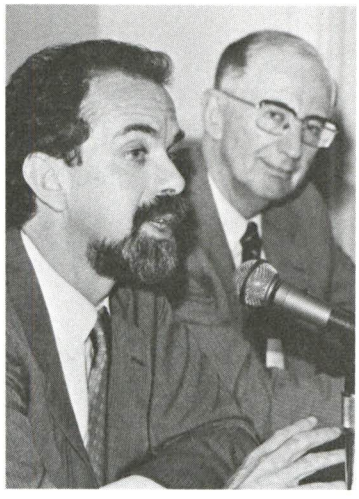


Photo far left. Left to right: Amb. George W. Landau, President, Council of the Americas; H.E. Carlos Saúl Menem, President of Argentina. Photo credit: Miguel Rajmil.

Photo left. Left to right: Dr. Javier González Fraga, President, Central Bank of Argentina; Amb. George W. Landau, President, Council of the Americas. Photo credit: Elsa Ruiz.

Photo right. Left to right: Sen. Roberto Campos, Dr. Zélia Cardoso de Mello, Deputy José Serra, Dr. Luis Robert Luis, Dr. Aloizio Mercadante Oliva, Deputy César Maia, Amb. Carlos Augusto Santos Neves at Sept. 29 seminar on Brazil. Photo credit: Michael Egermayer ©1989.

Programs

Argentina: On September 22, the Council of the Americas hosted a roundtable discussion and reception with Dr. Javier González Fraga, President of the Central Bank of Argentina. Dr. Fraga discussed the economic policies of President Carlos Saúl Menem's administration. The event was preceded by a luncheon and presentation, hosted by the Americas Society, Department of Latin American Affairs.

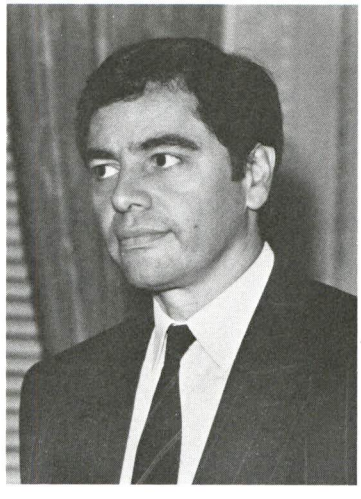
Argentina: On September 25, the Council of the Americas hosted a roundtable discussion with President Carlos Saúl Menem of Argentina, followed by a luncheon co-sponsored with the Americas Society, Department of Latin American Affairs. President Menem addressed recent political and economic developments in Argentina.

Bolivia: On September 27, the Council of the Americas in association with the Americas Society, Department of Latin American Affairs and the Bolivian-American Chamber of Commerce, hosted a luncheon and discussion with President Jaime Paz Zamora of Bolivia.

Brazil: On September 14, the Council of the Americas hosted a luncheon and discussion with Ambassador Myles R. Frechette, U.S. Consul General to São Paulo. Ambassador Frechette gave an overview of Brazil's present economic environment, including current business opportunities, and provided an update regarding the upcoming presidential elections. The ambassador addressed Council of the Americas members on September 20, at a breakfast hosted by Continental Bank in Chicago; and on September 21, at a roundtable discussion hosted by Bank of America in San Francisco.

Brazil: On September 29, the Council of the Americas sponsored an all-day seminar with the chief economic advisors to Brazil's leading presidential candidates. The featured speakers were: Dr. Zélia Cardoso de Mello, Chief Economic Advisor to Fernando Collor de Mello of the PRN; Deputy César Maia, Chief Economic Advisor to Leonel Brizola of the PDT; Dr. Aloizio Mercadante Oliva, Chief Economic Advisor to Luiz Inacio Lula da Silva of the PT; and Deputy José Serra, Chief Economic Advisor to Mario Covas of the PSDB. Senator Roberto Campos delivered opening remarks; Dr. Luis Robert Luis, of the Institute of International Finance, moderated; Dr. Thomas Skidmore, of Brown University, delivered the luncheon speech; and Ambassador Carlos Augusto Santos Neves, Consul General of Brazil to the U.S., presented closing remarks.

Colombia: On October 2, the Council of the Americas and the Inter-American Action Committee hosted a luncheon and discussion with Dr. Eduardo Robayo Salom, President of the Colombian Industrial Development Bank (IFI). Dr. Robayo briefed members on the IFI's policies concerning privatization.



Costa Rica: On September 6, the Council of the Americas in association with the Americas Society, Department of Latin American Affairs, hosted a luncheon and discussion with Rafael Angel Calderón Fournier, the presidential candidate of the United Social Christian Party. Mr. Calderón presented his view of Costa Rica in the 1990s.

Mexico: On August 29, the Council of the Americas and the U.S. Council of the Mexico-U.S. Business Committee sponsored a dinner to honor the Mexican and U.S. Commercial Delegations.

Panama Working Group Meeting: On September 12, corporate executives met privately with the Honorable Bernard W. Aronson, Assistant Secretary of State for Inter-American Affairs, to discuss U.S. government policy regarding economic sanctions against Panama.

Membership

Council of the Americas

The Council of the Americas welcomes the MNC International Bank as its newest member.

Americas Society Corporate Program

The Americas Society Corporate Program welcomes Banco de la Provincia de Buenos Aires as its newest member.

Photo far left. Dr. Eduardo Robayo Salom, General Manager, Colombian Industrial Development Bank (IFI). Photo credit: Elsa Ruiz.

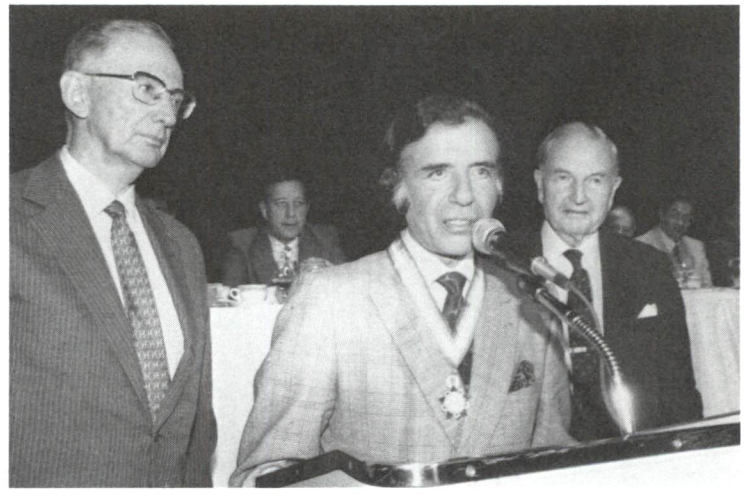
Photo left. Left to right: Amb. Myles R. Frechette, U.S. Consul General to São Paulo; Amb. George W. Landau, President, Council of the Americas. Photo credit: Elsa Ruiz.

Media Luncheon Series

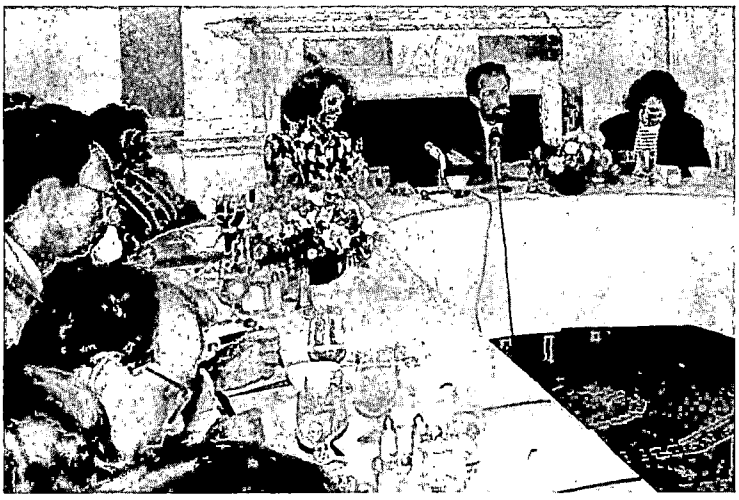
Javier González Fraga, President, Central Bank of Argentina. Luncheon and presentation (September 22). Mr. González Fraga, the first speaker in the series, discussed the willingness of Argentines, who now understand the social costs of hyperinflation, to make the sacrifices required by an orthodox economic plan. He noted the desire of the population for stability, which only fundamental structural changes—such as tax reform, foreign investment liberalization, privatization and a balanced fiscal budget—will help produce.

Edward Larocque Tinker Distinguished Visitor Series

H.E. Carlos Saúl Menem, President of Argentina. Luncheon and presentation, sponsored with the Council of the Americas and the Argentine-American Chamber of Commerce (September 25). President Menem called for a "popular market economy," with a productive rather than speculative economic base, as well as increased exports, deregulation of industry and privatization of state-held companies for greater efficiency and growth. Upon reaching the desired growth, Argentina will seriously negotiate with creditor nations and institutions regarding the foreign debt.



H.E. Carlos Saúl Menem, President of Argentina, after receiving the Pan American Society Gold Insigne from the Americas Society, Sept. 25. Left: Amb. George W. Landau, President, Americas Society. Right: Mr. David Rockefeller, Chairman, Americas Society. Photo credit: Miguel Rajmil.



H.E. General Andrés Rodríguez, President of Paraguay. Reception and presentation (September 26). General Rodríguez discussed Paraguay's shift toward greater economic and political freedom since the May elections, expressing his support for the democratic process and freedom of the press. He advocated free enterprise and increased foreign trade and investment, and outlined a wide range of investment opportunities in Paraguay.

H.E. Jaime Paz Zamora, President of Bolivia. Luncheon and presentation, sponsored with the Council of the Americas and the Bolivian-American Chamber of Commerce (September 27). President Paz Zamora expressed his intention to maintain Bolivia's economic and political stability and to attract foreign investment for "alternative development" opportunities in Bolivia—in his view, the long-term solution to the narcotics problem. Support from the majority of Bolivia's Congress, he emphasized, will help him govern the nation effectively.

Appointment of New Advisory Board

The following have been appointed to work with Dr. Susan Kaufman Purcell, Vice President, Latin American Affairs, as members of a new Latin American Affairs Advisory Board: Hon. Diego Ascencio, Commission for the Study of International Migration and Cooperative Economic Development; Mr. Kenneth W. Dam, IBM Corporation; Hon. Thomas Enders, Salomon Brothers; Hon. John Gavin, UNIVISA; Rita Hauser, Esq., Stroock and Stroock and Lavan; Robert C. Helander, Esq., Jones Day Reavis & Pogue; Dr. Pedro-Pablo Kuczynski, First Boston Corporation; Mr. Seymour Milstein, Milstein Properties; Miss Martha Muse, Tinker Foundation; Mr. George Russell, *Time* magazine; Mr. Ronald Shelp, New York City Partnership, Inc.; Hon. Sally Shelton-Colby, Washington Consultants Consortium; Dr. Dorothy Sobol, Federal Reserve Bank; Hon. John R. Stevenson, Sullivan & Cromwell; and Mr. Alan Stoga, Kissinger Associates.

Photo top left. Dr. Javier González Fraga, guest speaker at media luncheon. Left: Dr. Susan Kaufman Purcell, Vice President, Latin American Affairs. Photo credit: Miguel Rajmil.

Photo center left. Left to right: Amb. George W. Landau, President, Americas Society; H.E. General Andrés Rodríguez, President of Paraguay; Dr. Henry Kissinger. Photo credit: Miguel Rajmil.

Photo bottom left. H.E. Jaime Paz Zamora, President of Bolivia, addresses guests at Americas Society luncheon. Photo credit: Miguel Rajmil.

CANADIAN AFFAIRS

Opening Fall Lecture: Canada's Hemispheric Role in the 1990s

The Canadian Affairs program opened its fall season on September 20 with a luncheon lecture entitled "Canada: A Greater Hemispheric Role in the 1990s?," delivered by Anthony T. Eyton, Canada's Consul General in New York and former Ambassador to Brazil. Mr. Eyton reviewed the historical role of Canadian missionaries and corporations in Latin America's development, noting that through economic aid, refugee absorption and peace-keeping efforts, the Canadian government has assumed an increasingly active profile in the region. During a time when Canada is considering entrance into the Organization of American States (OAS), Mr. Eyton predicted a strengthening of his country's ties to Latin America, stressing Canada's commitment to independent policymaking on hemispheric issues. The event convened an audience drawn from the private sector, the government and academe.

Jean Lesage Lecture

Louis Balthazar, author and professor of political science at Laval University, was the guest speaker at Canadian Affairs' fourth annual Jean Lesage Lecture on September 28. Dr. Balthazar's lecture, "Quebec: Reading the Storm Clouds," which followed the province's general elections on September 25, traced the roots of French Canada's nationalism and its challenge of maintaining identity as a cultural and linguistic minority. He concluded that the 1990s agenda would center on formally resolving Quebec's relationship with the rest of Canada. The lecture, attended by a distinguished audience at the Americas Society, is part of a series made possible by a grant from Alcan Aluminium Ltd.

Toronto Filmmaker Honored

At a private brunch on October 1, Canadian Affairs toasted Toronto filmmaker Atom Egoyan to celebrate the screening of his film, "Speaking Parts," at the 27th New York Film Festival. The Ontario Film Development Corporation, Telefilm Canada and the Canadian Consulate General sponsored the event, which brought together actors, directors and producers, among others in the film industry.

Filmmaker Atom Egoyan with Laura Blum, Assistant Director, Canadian Affairs (left); and actress Arsinée Khanjian (right). Photo credit: Valerie Jennings, Toronto Sun.

VISUAL ARTS

Fall Exhibit

The fall exhibition, *House of Miracles: Votive Sculpture from Northeastern Brazil*, curated by Fatima Bercht, Director of Visual Arts, continues on view in the Americas Society gallery through December 31. Gallery hours are Tuesday-Sunday, 12:00-6:00 p.m. The exhibition, which presents outstanding contemporary examples of votive sculpture *(ex-votos)* selected from the major collections of Brazilian folk art, received funding from the National Endowment for the Arts, the New York Council for the Humanities and the New York State Council on the Arts; and from corporations including Brascan-Brazil; Coca-Cola Indústrias Ltda., Brazil; Companhia Auxiliar de Mineracão (CAEMI); IBM, and Seagram Latin America. The exhibit travels next to the Lowie Museum of Anthropology, University of California, Berkeley, and the Laband Art Gallery, Loyola Marymount University, Los Angeles. An illustrated catalogue is available through the Americas Society.

Education—Lecture Series

Concurrent to the *House of Miracles* exhibition, the Americas Society has hosted a lecture series providing overviews of the *ex-voto* tradition. On October 17, Don Yoder, Professor of Folklore and Folklife at the University of Pennsylvania, spoke about "The Ex-Voto in European Religion and Folk Art." On November 9, Candace Slater, Associate Professor, Department of Spanish and Portuguese at the University of California, Berkeley, discussed the role of stories as offerings in her lecture, "The Padre Cicero Stories as Verbal Ex-Votos." On November 15, Fatima Bercht, Director of Visual Arts and the exhibit's curator, lectured on "Milagros and Milagres: An Iberian Votive Tradition in the New World," exploring the arrival and development of the *ex-voto* tradition in Brazil. The series concluded on November 30, at the Americas Society, when Emily Socolov, Department of Folklore and Folklife, University of Pennsylvania, discussed "Objects of Personal Faith"—an examination of how objects serve as manifestations of personal belief systems in Latin American folk religion. The series was partially funded by the National Endowment for the Arts, the New York Council for the Humanities, the New York State Council on the Arts and Seagram Latin America.

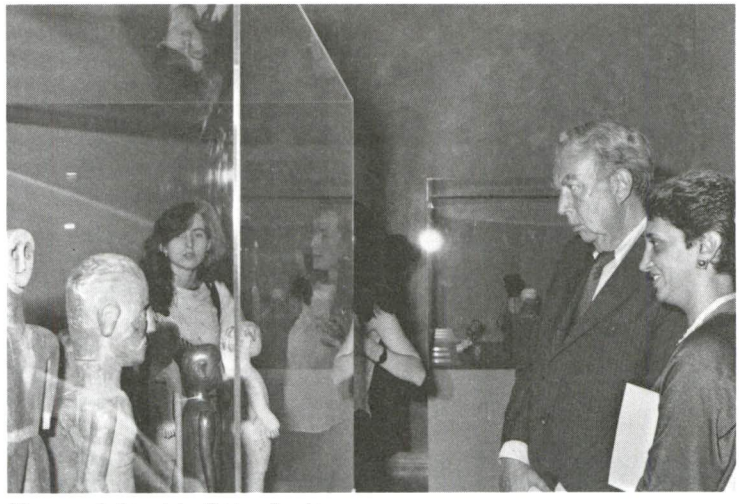


Photo top. Left to right: Fatima Bercht, Director, Visual Arts; César Paternosto, Argentine artist; Stanton Catlin, Professor Emeritus, Syracuse University. September 14 opening, House of Miracles *exhibit. Photo credit: George Hirose.*

Photo bottom. William S. Lieberman, curator, Twentieth-century art, Metropolitan Museum of Art; and guest. September 14 opening, House of Miracles *exhibit. Photo credit: George Hirose.*

LITERATURE

Fall issue of *Review* magazine

Review 41, scheduled for publication in December 1989, focuses on contemporary Latin American fiction. The issue features an article on Gabriel García Márquez's latest novel, *El general en su laberinto;* fiction by Uruguayan master Juan Carlos Onetti and Brazilian novelist Rubem Fonseca; a commemoration of Chilean poet Gabriela Mistral; photo essays of work by Mexican and Venezuelan photographers; highlights of the Tenth International Festival of New Latin American Cinema; and book reviews. For information regarding subscriptions, back-issues or advertising, call 249-8950, ext. 587.

Literature Programs

On October 26, the Literature Department and the Dalkey Archive Press sponsored a reception to celebrate the publication of *Interviews with Latin American Writers*, by Marie-Lise Gazarian Gautier. Dr. Gazarian Gautier, a professor of Spanish and Latin American literature at St. John's University who writes frequently about Latin American literature as well as hosting local television interview shows, commented on her experience of compiling the collection, which includes interviews with Isabel Allende, Guillermo Cabrera Infante, José Donoso, Carlos Fuentes, Luisa Valenzuela, and Mario Vargas Llosa. The audience was comprised of writers, scholars, publishers, and members of the press and the Americas Society.

Candace Slater, professor of Spanish and Portuguese, University of California, Berkeley, and the author of *Trail of Miracles*, lectured on Brazil's oral tradition, on November 9, through the Department of Visual Arts in cooperation with the Literature Department. Prof. Slater is the editor/translator of Manuel Bandeira's collection of poems, *This Earth, That Sky*, a selection of which appeared in *Review* 36.

The Literature Department and the Latin American Writers Institute of City College hosted an awards presentation and bilingual reading, on November 27 at the Americas Society, featuring the winners of the Institute's 1989 Translation Prize for Poetry and Short Fiction. Translators and writers read respectively from their work: Ben Heller and poet Raúl Barrientos; Amy Prince and writer Dionisio Cañas; and Asa Zatz and writer Homero Carvalho. A reception followed the event, which attracted a large audience from the literary and Latin American communities, as well as Americas Society members. The jury members for the prize were poet and critic Jonathan Cohen, and translators Hardie St. Martin, and Ellen Watson.

SPECIAL EVENTS

Americas Society Inaugural Dinner

On September 13, trustees, and members of the Chairman's International Advisory Council and the diplomatic corps gathered at the Americas Society for its annual black-tie dinner inaugurating the 1989-90 program season. After previewing the gallery's fall exhibition, *House of Miracles: Votive Sculpture from Northeastern Brazil*, which opened to the public on September 14, the guests convened in the Salón Simón Bolívar. After dinner, Chairman of the Americas Society David Rockefeller introduced the evening's speaker, Ambassador Thomas R. Pickering, United States Permanent Representative to the United Nations, who gave an overview of issues to be addressed at the United Nations. Americas Society President George W. Landau welcomed the guests and summarized the Americas Society's and Council of the Americas' fall program schedule.

Photo top. Left to right: Chairman's International Advisory Council members Amb. Amalia Lacroze de Fortabat and José A. Estenssoro; and Americas Society Trustee Seymour Milstein at Americas Society Inaugural Dinner. Photo credit: Chuck Robison.

Photo left. Ambassador Thomas R. Pickering speaks at Americas Society Inaugural Dinner. Photo credit: Chuck Robison.

Americas Society
Update

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Christina —

CW would like you to work on this for Dooley.

Peg gave it to Ted & he has no clue what to do.

The staffing is due @ 3pm today.

5/22/90

9:40

Mary Kate,

Patsy Semple called yesterday at about 6:30. She discussed paragraph (4) with Mary Gail, and they have problems with two clauses.

(1) "... bringing children with disabilities into the mainstream..."

They say that the reference to "disabilities" implies severe disabilities. While it is the intent of Head-start to attract more kids with severe disabilities, there are in fact very few in the program now. Most of the disabled

kids currently in the Program have "functional" disabilities — minor disabilities. (e.g. learning to read in 4th grade as opposed to the 3rd grade) They do not feel that the sentence can be salvaged by inserting "functionally" into the sentence before "disabled." Rather, they would feel better with a sentence that refered to H.S.'s intent to increase ~~its~~ participation of severely disabled (eg. handicapped) children.

② "...career opportunities for parents..." They are not sure if the phrase "career opportunities" refers to the fact that many H.S. parents (35%) work for Headstart. If so, the word "career" might be replaced by "employment." Otherwise, they know of no outside career training or career programs that are sponsored by H.S. for H.S. parents.

EOG.

P.S. They still have not received a draft of the speech and would like to have one.