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THE WHITE HOUSE
WASHINGTON

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DATE: Mar. 24, 1992

TO: Henson Moore/Dave Demarest

FROM: CLAYTON YEUTTER
Counsellor to the President for
Domestic Policy

A few weeks ago I asked Steve Farrar of my staff and David Walters of USTR to collaborate in drafting a proposed trade speech for the President. They did so, and their work product is attached.

It is labeled as a speech to the American Business Conference because that is a very export oriented organization. But it could be used for another occasion entirely if you wish.

Feel free to handle as you see fit. You'll undoubtedly wish to remold it some to fit within our themes in a cohesive way. But the content is good, and I hope it will be useful to you.



bc: S. Skinner
D. Darman
M. Boskin
B. Kristol
S. Rollins
M. Fitzwater
R. Porter
C. Kolb
F. Hill
:
;

TO
Dave
are we
using this?

DCP HAS SEEN

THE WHITE HOUSE

WASHINGTON

March 20, 1992

MEMORANDUM FOR CLAYTON YEUTTER ✓
ROGER B. PORTER

FROM: STEPHEN P. FARRAR *SPF*
WARREN MARUYAMA *WM*

SUBJECT: Trade Speech

Attached is a draft Presidential speech on trade. As we have discussed, it might be used in addressing the American Business Conference on April 7. Your comments would be appreciated.

Attachment

cc: French Hill

*TO
Dinner
on
this
now*

Draft
March 20, 1992

ADDRESS TO THE AMERICAN BUSINESS CONFERENCE
April 7, 1992

Introduction

Four years ago, I said: "America is not a[bout] decline. America is a rising nation."

There is great uncertainty today. There are people who fear that our nation's best days are past -- that the American century is almost over. But they are wrong.

America is a nation and a people with tremendous strengths. An industrial manufacturing base that is second to none. Expanding exports. Global leadership in science and technology. The best system of university and higher education in the world. People with the ambition, resiliency and determination to conquer whatever the world throws at them. And America is an idea: That freedom enables ordinary men and women to rise up and make better lives for themselves and their children.

This country has just undergone a painful economic recession. This recession has lasted longer, and cut deeper, than any of the economic experts -- including my own -- ever predicted. It has caused pain and worry for many families.

But it is ending. We are going to beat it. And we are going to come out of it stronger, and even more competitive.

In recent months, as we struggled to bring this recession to an end, some have suggested that America move away from the principles that have guided us for the last decade:

- Away from economic growth, and toward dividing up an ever smaller economic pie.
- Away from low taxes, and toward a "fairer," tax system . . . we've heard that before.
- Away from free enterprise, and toward an industrial policy where government bureaucrats make decisions for American companies that are now made by our businessmen and women.
- Away from free trade and open markets, and toward protectionism and managed trade.
- Away from international leadership, and toward America First.

The world has changed a lot in the four decades since Barbara and I packed up the kids in our station wagon, and

drove to Odessa Texas to get into the oil business. Back then, my partners and I sold oil and drilling services in an American market. We didn't look overseas. Our thinking and our customer list stopped at the water's edge.

Today, the world -- and America -- are very different. American businesses sell worldwide. Some of our best customers are in Europe, Asia, and now Latin America and Mexico. Our exports are booming -- up over 80 percent in the last five years. One in ten manufacturing jobs is based on foreign investment in a U.S. factory, and American companies have invested heavily overseas.

These changes are sometimes hard to comprehend. But understanding and dealing with them is important for our future.

Today, I'd like to talk about our future as a nation:

- About changes that are turning the world into one vast competitive marketplace;
- About trade agreements that can open up new opportunities and new markets for American companies and workers; and

-- About the ways that we can make sure that America stays a "rising nation" -- ways that we can strengthen our companies and workers to compete in the global marketplace.

Trade and Jobs

There are those who believe that American involvement in the world undermines our domestic prosperity.

But let me tell you. The world doesn't work that way. The "peace dividend" that some Members of Congress are so eager to get their hands on will go up in smoke if Russia and Eastern Europe fall apart. The Atlantic and Pacific oceans are no protection against Sadaam Hussein or some other nut with a nuclear weapon.

But closing our borders and isolationism are also unworkable for good, sound business reasons. Today, our country's economic prosperity depends on its ability to buy, sell, and compete in international markets. Staying engaged in the world is not "charity" or a "burden"; it is part of our livelihood and our future.

-- Trade creates jobs.

- Competing in international markets -- staying on top of the latest developments in technology and manufacturing -- creates jobs.

- Opening foreign markets, and keeping our market open to the best foreign products and ideas, creates jobs and raises our standard of living.

Since 1945, global trade has exploded from \$40 billion to over \$3 trillion. Global tariff barriers have been reduced sharply in successive rounds of GATT negotiations. The average tariff in industrialized countries has been cut over 60 percent to under 6 percent. Like other forms of de-regulation, cutting tariffs frees up trade flows and provides entrepreneurs with opportunities to create new markets.

The dramatic expansion of trade reflects the continuing advance of technology, which has revolutionized communications and the movement of goods and capital. Today, ideas and products move so rapidly that national borders are becoming almost meaningless.

Closing down, turning to protectionism and "managed trade" would mean jeopardizing jobs in cities, towns, and farms across America. It means accepting decline and stagnation for our children and grandchildren, not growth and opportunity.

You've all heard the joke that if you lay all the economists in the world end-to-end, you still can't get them to reach a conclusion. But economists have agreed on one proposition for over two-hundred years: International trade is a win-win proposition that benefits both parties.

Some people argue that the foreigners are clobbering us. That we are losing in international competition. Let me share some figures with you:

- The United States is the world's leading exporter, with 1991 exports of \$422 billion.

- American exports have increased by over 80 percent over the last five years. Our exports to Canada have increased by 51 percent; our exports to Japan have increased even more, [82] percent; to Europe by 84 percent; and exports to Mexico are up by an amazing 130 percent.

- As always, America's strength is its dynamic high-technology sector. U.S. exports of advanced technology products have increased from \$62 billion in 1987 to \$100 billion in 1991. Capital goods

account for 40 percent of our exports, up from ___ percent twenty years ago.

Nevertheless, the doom and gloom set says that America is de-industrializing. That we are losing jobs. Here are the facts:

- The export boom has created over 2.2 million new American jobs since 1986. Nearly 7.5 million American jobs are tied to exports.

- Manufacturing accounted for 21.1 percent of U.S. GNP in 1980. This figure rose to 23.3 percent in 1990 - - as large as a share as at any time since World War II.

- The productivity of the American manufacturing sector rose at a 3.8 percent rate during the 1980s, far above the 1.4 percent growth rate of the 1970s. Our workers are far and away the most productive in the world; and I challenge anyone -- in Japan, Germany, anywhere -- to prove otherwise.

In times of economic uncertainty, there is always fear that hard times will never end; that our nation is on a permanent downward spiral.

There are important challenges ahead. There are things that this nation can do better, and government policies that we can change for the better. But we should not fear the world. And we should not fear ourselves or our capacity to deal with change.

Trade Initiatives

My Administration is working on four initiatives to expand American trade and open new markets for our products.

The Uruguay Round. My principal trade objective is successfully finishing the Uruguay Round of multilateral trade negotiations. I am convinced that America's prosperity depends on a strong multilateral trading system that guarantees access to markets worldwide. The United States would be the clear loser in a system of exclusionary regional trading blocs that closes off our access to growth markets in Europe and Asia.

Let me be clear about how I define "success." The Uruguay Round is not going to result in another agreement that papers over our differences on farm subsidies. There have been a string of such agreements. Instead, Carla Hills and her negotiating team are seeking a package that:

- Sets agricultural reform firmly in place, and sharply reduces farm subsidies and protection from current levels;
- Strengthens global protection of intellectual property rights, particularly in developing countries;
- Extends GATT rules to the trade in services and investment; and
- Strengthens GATT as an institution, so that it can effectively police the continued expansion of global trade, and prevent any recurrence of the beggar-thy-neighbor trade policies that caused the Great Depression.

A strong GATT agreement can increase world output by over \$5 trillion over the next decade. The U.S. share of that growth could amount to \$1.2 trillion, or \$17,000 for each American family.

The draft agreement proposed by GATT Director-General Dunkel provides an appropriate basis for finishing the Uruguay Round. The text is not perfect. It requires everyone to make sacrifices. But it provides a comprehensive roadmap of

necessary reforms to the global trading system. We have come too far, and worked too hard, to turn back now.

The North American Free Trade Agreement.

In 1990, President Salinas, Prime Minister Mulroney, and I launched historic negotiations aimed at creating a North American Free Trade Agreement. Canada and Mexico are our first and third largest trading partners respectively. Since Mexico joined GATT in 1986 and embarked on economic reforms, U.S. exports have jumped from \$12 billion in 1986 to \$28 billion in 1990, or almost twice as fast as the increase in our overall exports.

A NAFTA would create over 360,000 American jobs. It could increase our trade with Mexico by \$10 billion. It would create competitive efficiencies and economies of scale that will help American companies compete in world markets.

But a NAFTA is about more than economic gain. The U.S. relationship with Mexico goes well beyond trade. Our countries are bound together by the people, culture, families, and two-thousand mile long border that we share. President Salinas is a bold and imaginative leader, who is not bound by the past. I am committed to working with him to forge a new U.S.-Mexico relationship based on free trade and mutual respect.

Enterprise for the Americas. There is a quiet revolution underway in Latin America. These revolutions have not gotten anywhere near the publicity of the changes in Eastern Europe or the Soviet Union. But they are just as important.

- Across Latin America, democratic governments have been elected. The old dictatorships and military juntas have fallen.

- The old Third World ideologies of state control and import substitution are being abandoned. In their place is a newfound faith in open trade, private enterprise, and markets. These reforms have created hope in place of despair, growth in place of economic stagnation and poverty

My Enterprise for the Americas initiative is aimed at opening markets, expanding investment flows, reducing official debt, and strengthening the environment. We are not seeking to impose our ideas on Latin America. Instead, our program is designed to complement and support economic reforms that Latin Americans have chosen to implement for themselves.

Latin America is a natural market for U.S. goods. As the region fell into a spiraling debt crisis and economic

stagnation, U.S. exports also stagnated, contributing to our trade deficits. And, as Latin America comes back, our trade is coming back. Last year, U.S. exports rose by [15] percent, the highest growth rate of any region.

Let me be clear. Our interest in expanding our trade with Mexico, Canada, and Latin America does not represent any weakening of my commitment to a strong multilateral trading system. Our regional strategies are designed to complement GATT and the multilateral trading system by creating zones of even freer trade and investment, generating greater growth and opportunity for all nations.

Japan and Asia

In times of economic uncertainty, there is often a temptation to seek scapegoats, to blame foreigners or outsiders for economic problems. The rhetoric has escalated in the United States and Japan in recent weeks. Nationalistic finger-pointing may be a form of politics that transcends national borders, but it is wrong.

In this difficult period, both the U.S. and Japan must reach back to the time-honored virtues of reason, understanding, and negotiation. I am committed to seeing that the U.S.-Japan alliance remains the cornerstone of

American interests in Asia. I am equally committed to seeing that U.S. concerns about free and fair access to the Japanese market are addressed constructively, that American companies and products get a fair shake in Japan, and that barriers to our trade and investment are removed.

During the last three years, we have made progress. We have negotiated agreements to open up markets for American lumber products, satellites, supercomputers, semiconductors, steel, construction, and amorphous metals. In 1990, Prime Minister Kaifu and I concluded an historic Structural Impediments Initiative that commits both countries to removing underlying barriers to trade and investment. During my trip to Tokyo in December, we reached new agreements to open markets for American cars, auto parts, glass, paper, and computers.

Contrary to what some say, these agreements are producing results. Our exports to Japan have increased by [82] percent over the last five years. Despite Japan's traditional resistance to imported manufactures, our industrial exports to Japan are up by 120 percent. And despite claims that negotiating with Japan is futile, objective studies show that market-opening trade agreements do work. Exports in sectors covered by trade agreements increased by 275 percent or almost four times faster than overall U.S. exports to Japan.

The greatest threat is to the U.S. and Japan is the extremists on either side. Instead, we must look to the fundamental realities that shape U.S.-Japan relations; the interests and values that we share; and the ties that we have worked so hard to build. I am convinced that we can build a win-win trading relationship that gives American products free and fair access to the Japanese market, and allows bilateral trade to continue to grow and expand. I am convinced that Prime Minister Miyazawa and the leaders of Japanese business and industry share my commitment to opening markets, reinvigorating the Structural Impediments Initiatives, and putting U.S.-Japan trade relations on a stable, fair, and lasting foundation.

U.S. Reform

Americans have always been a restless people. We are ambitious. We are not afraid of change. We always look for ways to make things better.

America is a strong nation. The American worker can compete head-to-head with anyone. But we can do better.

I have talked a lot about the trade agreements that Carla Hills and her team at USTR are negotiating.

But in a global economy, trade policy means more than trade agreements. It means giving American business and American workers the tools and working capital they need to succeed in a fiercely competitive global market.

I have sent proposals to the Congress that are designed to help our companies and workers compete:

- To lower the cost of capital, so our companies have money to build new plants and equipment and develop new products.
- To get our legal system under control, before our companies are destroyed by useless litigation and incredible legal fees.
- To cut health care costs, and reduce the burden on families and companies.
- To reform our school system, so American children get a world-class education.

Those of us in government have a basic responsibility to the American people, who honored us by electing us to public office, and sending us to represent them in Washington, D.C. We owe it to them to make their lives better. To lay the

foundations of future prosperity for their children and grandchildren.

And so, I say to my friends in the Congress: This is not the time for excuses, partisan bickering, or political one-upmanship. The American people are sick of government as usual. It is time to act, and act responsibly to safeguard our nation's future.

Conclusion

The world has changed in many ways since Barbara and I first set out together for West Texas.

Today, America stands on the verge of a new era that holds out unparalleled hope for peace and prosperity. We are witnessing the triumph of freedom. Political freedom that dignifies men and women. Economic freedom that creates the wealth of nations.

America set these forces in motion. Men and women from cities and towns across America fought and sacrificed at Belleau Wood, the Normandy Beaches, Chosin Reservoir, Khe Sanh, and Kuwait, to hold back the onslaught of totalitarianism. Fifty years ago, in the midst of world war, Americans, bipartisan, of many different views, conceived the idea of a

world trading system build on the principle of non-discrimination and the rule of law, and saw that it could be a lasting force for global peace and prosperity.

We have always been a nation and a people that put principle before privilege. We don't fear change. We don't shirk responsibility.

Let us take up the challenge of building a just, stable, and enduring peace, so that America never again need send armies abroad or fear nuclear attack. Let us turn from building armaments to exploring the outer reaches of space and the outer frontiers of science. Let us take up the challenge of negotiating trade treaties, instead of nuclear weapons treaties.

I am confident that our nation can meet these challenges. Our Constitution and our political and economic freedoms have carried us for over two hundred years, as countless empires, nations, and rulers have vanished into the history books. As Americans, we share certain fundamental beliefs and values. Let us, in the words of Isaiah, "mount up with wings like eagles . . . run and not be weary . . ." Let us take up together the challenge of ensuring that America stays a "rising nation."

Legislative Status of the EAI

- Congress has authorized reduction of P.L. 480 debt.
- Authorization for AID debt reduction, Eximbank debt swaps, and our contribution to the Multilateral Investment Fund is still pending.
 - o To gain this authority, 2 basic options seem to exist:
 - (1) House moves the foreign aid bill without veto items in one form or another; or
 - (2) Appropriators reference the conference report negotiated by the House and Senate authorizers on the foreign aid bill in an appropriations bill or continuing resolution.
- Appropriations
 - o Due to the continuing resolution on foreign operations, we currently cannot engage in any EAI debt reduction.
 - o The Administration has requested \$310 million for FY 1992 debt reduction; \$286 million for FY 1993 debt reduction; and \$100 million for the MIF for each of the next five years.
 - o The House only provided \$65 million of our \$305 million request last year for AID and Eximbank debt reduction. The Senate appropriators have not acted.
 - o House Agriculture appropriators took no action on CCC credits and zeroed out our PL-480 request.
- The Administration has taken a strong position that EAI appropriations must be included in any appropriations action, including a new C.R., for FY 1992.
 - o If we fail, there will be no more EAI debt reduction during the President's current term -- with broader ramifications for our relations with Latin America.
 - o We would also lose the \$500 million Japanese contribution to the MIF if we do not succeed with Congress.

ENTERPRISE FOR THE AMERICAS INITIATIVE

- Initiative aims to support economic reform in Latin America and the Caribbean through:
 - o expanding potential for trade;
 - o supporting the opening of investment regimes; and
 - o reducing debt burdens.
- Goal is to help these countries accomplish growth and development and pledge resources to preserve the environment.
- Important to the economic, political, and security interests of the United States.
- Stronger growth in the region will help increase demand for U.S. exports.
 - o Latin America and the Caribbean is already the fastest growing regional market for the U.S.
 - o U.S. commands a large share of their market, compared to goods from Japan and Europe. (57% of imports from industrial countries come from the U.S. compared to 11% from Japan.)
- Increased exports will mean more export-related jobs in the U.S.
- In addition, support for economic reform and increased trade, investment, and growth in the region is critical to regional peace and the consolidation of democracy.
 - o This is particularly true for countries like El Salvador.

Enterprise for the Americas Initiative -- Trade

Basic Facts

- In 1991 the United States took steps to further EAI's long term goal of hemispheric free trade, which will increase U.S. exports and export-related jobs in the U.S.
- The United States began negotiating a free trade agreement with Mexico and Canada.
- Sixteen trade and investment framework agreements are in place with 31 countries, including all the countries in the region except Cuba, Haiti and Suriname.
- The framework agreements establish Councils to identify and discuss obstacles to trade and investment liberalization.

Suggested Approach

- Latin American and Caribbean leaders are enthusiastic about the prospects of free trade in the hemisphere.
- Increased export opportunities for the U.S. are important to our growth prospects.
- FTAs will require deep commitments to trade liberalization and other economic reforms.
- We do not expect many countries to be ready to negotiate FTAs within the two year timeframe of fast-track negotiating authority, although Chile could be a candidate within that period.

Enterprise for the Americas Initiative -- Investment

Basic Facts

- As proposed under the EAI, the IDB has extended investment sector loans to Chile, Bolivia, Jamaica, and Colombia.
- Examples of reforms supported through these loans include:
 - o the opening of the mining sector to private joint ventures in Chile;
 - o exchange rate liberalization in Jamaica;
 - o the opening of mining, hydrocarbons and transportation sectors to private investment in Bolivia;
 - o continued liberalization of the financial sector in Colombia.
- The IDB has sent diagnostic teams to ten other countries to evaluate the investment climate and to discuss potential reform programs that could be supported by investment sector loans.
- As an essential complement to the investment sector loan program, a new Multilateral Investment Fund has been created in the IDB. (see separate fact sheet)

Suggested Approach

- Latin American and Caribbean countries themselves are eager to take the steps necessary to improve their creditworthiness and attract capital needed for growth.
- This growth in the region will create new opportunities for U.S. exports and investment.
- Exports to Latin America and the Caribbean have doubled since 1986 to \$2 billion. Every \$1 billion increase in U.S. exports generates 20,000 export-related jobs for Americans.

Enterprise for the Americas Initiative -- Debt**Basic Facts**

- To qualify for EAI debt reduction, countries must have an IMF and World Bank program in place, must have an investment sector reform program with the IDB, and must have completed a debt reduction package with their commercial banks, if a large share of their debt is to commercial banks.
- Congress has authorized reduction of P.L. 480 debt for eligible countries.
 - o In FY 1991, we reduced the P.L. 480 debt of Chile by 40% and Jamaica and Bolivia by 80% each.
- Beginning in FY 1992, appropriations are required under credit reform to offset the budget cost of debt reduction.
 - o Our request to Congress for \$310 million to cover the cost of AID debt reduction and Eximbank swaps in FY 1992 is still pending.
 - o No appropriations were provided for P.L. 480 and CCC action in FY 1992.
 - o The Administration has also requested \$286 million in FY93 to offset the budget cost of reducing AID and P.L. 480 debt and engaging in swaps of Eximbank and CCC debt.

Suggested Approach

- Failure to obtain authorization and appropriations for debt reduction will undermine reform efforts, U.S. leadership in the region, and potential for U.S. exports.

Enterprise for the Americas Initiative -- Environment

Basic Facts

- Countries which receive EAI debt reduction can repay the interest on remaining debt in local currency if they agree to use these resources for the environment.
- Environmental Framework Agreements have been concluded with Bolivia, Jamaica, and Chile.
- These countries are setting up local bodies to administer these resources, with a majority of non-governmental organizations.
- The following resources will be available for the environment in each country:

<u>Bolivia</u>	<u>Jamaica</u>	<u>Chile</u>
\$1.8 million plus \$20 million (over 10 years)	\$9.2 million (over 10 years)	\$1.4 million (over 4 yrs.)

- The Environment for the Americas Board was created by Congress to oversee this program.
 - o Now has 6 USG members; 4 NGO members are in place and a 5th seat has been created by Congress.
 - o Intended to provide advice on environmental framework agreements and ensure proper implementation of program.

Suggested Approach

- We believe that the EAI will make an important contribution to conservation and environmental protection in Latin America and the Caribbean.
 - o It will also help build partnerships between governments and non-governmental organizations.
 - o This structure was established in legislation crafted by Congress in cooperation with the Administration.
- Without the appropriations to proceed with debt reduction, further environmental funds will be derailed.

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THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release

September 14, 1990

The Enterprise for the Americas Initiative Act of 1990

The President will transmit to the Congress a legislative proposal to implement the investment, debt, and environmental elements of his Enterprise for the Americas Initiative. The purpose of this legislation is to encourage and support market-oriented reform and economic growth in Latin America and the Caribbean through inter-related actions that will promote investment reforms, debt reduction and environmental protection.

In the investment area, the proposed legislation will provide for contribution by the United States to the Enterprise for the Americas Investment Fund, a multilateral investment fund to be established at the Inter-American Development Bank.

Authorization for contributions of \$500 million to the Fund and authorization of appropriations for the contribution will be sought. The President will seek \$100 million a year over five years for the Fund. The Fund is designed to foster a climate favorable to investment in Latin American and Caribbean countries and would support efforts in these countries to facilitate investment and the reflow of flight capital. It would advance specific, market-oriented investment policy initiatives and reforms and finance technical assistance for privatization efforts, business infrastructure, and worker-training and education programs. The Secretary of the Treasury will seek contributions from other countries to the Fund.

The proposed legislation will also establish the Enterprise for the Americas Facility in the Department of the Treasury to support the objectives through administration of debt reduction operations for nations that meet certain investment reform and other policy conditions.

The legislation would establish criteria to govern eligibility to participate in the debt reduction operations under the Facility. These criteria will aim to encourage economic reform, including measures to liberalize investment regimes. An eligible country should:

- o have in effect an International Monetary Fund (IMF) stand-by arrangement, extended fund arrangement, or an arrangement under the structural adjustment facility or enhanced structural adjustment facility, or, in exceptional circumstances, an IMF-monitored program or its equivalent;

- o as appropriate, have received structural or sectoral adjustment loans under the International Bank for Reconstruction and Development (World Bank) or the International Development Association (IDA);
- o have in place major investment reforms in conjunction with an IDB loan or otherwise be implementing open investment regimes; and
- o as appropriate, have agreed on a satisfactory financing program with commercial banks including, if appropriate, debt and debt service reduction.

Clear authority will be necessary to undertake the actions proposed in the debt element of the Initiative. The Administration will seek authority to reduce concessional loans extended under the Foreign Assistance Act of 1961 (FAA) and credits extended under title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (P.L. 480). This reduction would be accomplished through an exchange of new obligations for obligations outstanding as of January 1, 1990. Once agreed by the President, the responsibility for executing an exchange of obligations that will result in the debt reduction rests with the agency that holds loans or credits to be affected. Such agency will act at the direction of the Facility.

Once an exchange is undertaken, principal payments on new obligations will be paid in U.S. dollars and credited to the accounts established to receive principal payments on the old debt obligations. Interest payments will be at a concessional rate and will be made in local currency if the debtor country has reached an environmental agreement with the United States establishing an Environmental Fund. Under such an agreement, interest payments would be deposited in an Environmental Fund and jointly programmed by the U.S. and debtor country government. In the absence of such an environmental agreement, interest would be paid in U.S. dollars into the account established for interest payments of the obligations exchanged therefor.

The President would be authorized to enter into agreements with countries receiving debt reduction under the Initiative which, in addition to establishing Environmental Funds and providing for joint programming, could specify the uses of monies in the Funds. The President intends to encourage the involvement of local private environmental groups in decisions on the use of grant funds and to consult with non-governmental organizations in the United States and abroad regarding the establishment, structure, and operation of the Environmental Fund program.

In addition to the authority to reduce concessional debts, the President would be authorized to sell, reduce, or cancel loans made to an eligible country under the Export-Import Bank Act of

1945, as amended, and assets acquired as a result of credit guarantees made in connection with export sales to eligible countries under programs authorized pursuant to the Commodity Credit Corporation (CCC) Charter Act, as amended, or section 4(b) of the Food for Peace Act of 1966, as amended. Such sale, reduction, or cancellation would only be undertaken for those loans made or assets acquired prior to January 1, 1990 and would be consistent with terms or conditions of prior agreements relating to the loans or assets.

Eligible purchasers for Eximbank loans and CCC assets would depend on the presentation of satisfactory plans for engaging in debt-for-equity or debt-for-nature swaps. Once an eligible purchaser is identified, the Facility will notify the agency that holds the loans or assets to be affected, and that agency will carry out the sale, reduction, or cancellation. Prior to such a transaction, consultations would be undertaken with the eligible country regarding the amounts to be affected and their uses for debt-for-equity or debt-for-nature swaps. The proceeds of any sale, reduction, or cancellation of a loan or asset would be credited to the account established for the repayment of that loan or those assets.

Such sales, reductions, or cancellations of loans or assets would be carried out in a way to maximize return to the U.S. Government. These transactions would not be required to be registered pursuant to the Securities Act of 1933 and, for the purposes of that Act, neither Eximbank nor CCC would be deemed an issuer or underwriter with respect to any subsequent sale or other disposition of such loan or asset pursuant to a debt-for-equity or debt-for-nature swap.

The President would transmit an annual report to Congress on the operation of the Facility.

Implementation of the Initiative

The key investment, debt, and environment components of the "Enterprise for the Americas" initiative are as follows:

- (1) Contributions to the Enterprise for the Americas Investment Fund to be administered by the Inter-American Development Bank (IDB).
- (2) Development of an investment sector lending program in the IDB to provide loans in support of investment reforms.
- (3) Creation of the Enterprise for the Americas Facility within the Treasury Department to support the

objectives of the Initiative through debt reduction operations for eligible nations.

- (4) Reduction of concessional (AID and PL 480) debts owed by eligible countries.
- (5) Use of interest payments on reduced concessional obligations to support environmental programs in the debtor country.
- (6) The sale, reduction, or cancellation of Eximbank loans and CCC assets to facilitate debt/equity or debt-for-nature swaps.

The following provides further detail on the expected operation of these elements.

Enterprise for the Americas Investment Fund

This fund is expected to be multilateral in nature, although it could commence operations based initially on U.S. contributions if other contributions are not available. The Administration will be seeking authority to contribute (as grants) \$100 million annually to this Fund over five years beginning in FY 1992.

The Fund is expected to provide support for investment policy initiatives and reforms and to finance technical assistance for privatization, development of business infrastructure, and worker training and education programs.

The Administration discussed this proposal with other G-7 industrial countries at the Houston Economic Summit and will continue to seek contributions from European countries, Japan, and Canada.

Although the IDB would manage the Fund, contributing countries would be expected to provide guidelines for disbursement of grants to eligible countries.

IDB Investment Sector Loan Program

The President has proposed the establishment of an IDB sector lending program to provide fundamental support for investment reforms. Liberalization of investment regimes is particularly important as a means of attracting the scarce capital critical to sustained growth. The objective for Latin America and the Caribbean must be to compete effectively for investment in a world of limited resources and to attract the capital of their nationals back home.

The U.S. Government will work with the Inter-American Development Bank to develop an investment sector lending program consistent with these goals.

Enterprise for the Americas Facility

The Enterprise for the Americas Facility will support the objectives of market-oriented reform and economic growth, investment reform, and environmental protection through the administration of debt reduction operations for eligible countries.

To be eligible for debt reduction, Latin American and Caribbean countries must:

- o Have in effect International Monetary Fund/World Bank economic reform programs;
- o Have in place major investment reforms in conjunction with an IDB loan, or otherwise be implementing an open investment regime; and
- o For countries that owe a substantial part of their debt to commercial banks, have negotiated a satisfactory financing program with commercial banks, including debt and debt service reduction if appropriate.

Decisions on country eligibility, based on these criteria, will be made through an interagency process chaired by the Secretary of the Treasury. The Enterprise for the Americas Facility will issue instructions to the appropriate Federal agencies to effect the debt reduction, sale, or cancellation which has been negotiated with eligible countries (see below). It will also provide technical support for an interagency team, to include relevant agencies, which will negotiate the terms of debt reduction with individual countries.

Reduction of Concessional Debts

Decisions on the extent of debt reduction on Agency for International Development and P.L. 480 obligations of individual eligible countries will be made through an interagency process chaired by the Secretary of the Treasury.

Debt reduction will be effected through the exchange of outstanding obligations for new, reduced AID and P.L. 480 obligations bearing concessional interest rates (see environmental support discussion below).

Reduction, Sale, or Cancellation of Eximbank and CCC Obligations

Decisions on the amount of Eximbank loans (and loans acquired pursuant to its guarantee and insurance programs) and the amount of CCC assets acquired as a result of its export sales guarantees which will be available for reduction, sale or cancellation for eligible countries will be made through an interagency process chaired by the Secretary of the Treasury.

Such reductions, sales, or cancellations will be made solely to facilitate debt/equity swaps or debt-for-nature swaps. Specific mechanisms will be developed to assure that this objective is realized.

Enterprise for the Americas Environmental Funds

The Administration will seek to negotiate an environmental agreement with each country determined eligible for debt reduction. Conclusion of such an agreement would allow the eligible country to make interest payments on new obligations resulting from debt reduction in local currency. The agreement would establish an Environmental Fund to receive interest payments and would determine the operation of the Fund and the use of its resources to provide grants for environmental projects and programs.

The local currency interest payments would be deposited in an eligible country's Environmental Fund and would be jointly-programmed by the United States and that country. It is contemplated that local committees -- composed of U.S. Government representatives, eligible country representatives, and representatives of local private environmental groups -- would have a significant role in formulating programs and projects funded by each country's Environmental Fund.

The Administration is committed to encouraging the involvement of local non-governmental environmental groups in the decision-making process. We have heard preliminary views from non-governmental organizations in Washington and believe it will be important to consult with these groups regarding the establishment, structure, and operation of the Environmental Fund program.

We anticipate that annual programs for individual countries would be formulated at the local committee level, as would proposals for specific projects to be funded. Annual programs would be subject to the joint approval of the USG and the debtor government.

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STATEMENTS ON THE ENTERPRISE INITIATIVE FROM THE
PRESIDENT'S TRIP TO LATIN AMERICA

"The Bush Plan heralds the United States' will to build a constructive agenda vis-a-vis Latin America. It is also a sign that the United States wishes to assign an effective priority to economic cooperation with our region...I deem the Bush Plan to be a promising possibility to definitively reconcile the unity of the Latin American nations with the strengthening of hemispheric cooperation."

President Collor
Brasilia, December 3, 1990

"Your historic Initiative of the Americas...was scarcely unveiled when we realized that it implied a qualitative change in the hemispheric relations and because of this, Mr. President, we hastened to support and praise it...We look forward to the effective implementation of your proposal."

President Lacalle
Montevideo, December 4, 1990

"The integration of Latin America is today something more than a project. It is as irreversible as its democratic systems...It is in this spirit that Argentina sees with hope the promising possibilities which may emerge from the proposals contained in the Enterprise for the Americas..."

President Menem
Buenos Aires, December 5, 1990

"The Enterprise for the Americas Initiative proposed by you, Mr. President, opens interesting perspectives...Your vision of a free trade area covering the whole continent is a bold concept, in line with the aspirations and interests of all Americans...This could be an historic opportunity, and we should not let it slip through our fingers."

President Aylwin
Santiago, December 6, 1990

"I do sincerely believe, Mr. President, that your Initiative has cleared the way for burying the historical mis-encounter that has so much disconcerted and distanced us."

President Perez
Caracas, December 7, 1990

"This Initiative is not going to be an empty slogan; I am determined to follow up on this...let me gun down, let me shoot down in flames this concept that some bureaucracy in our government will block this Initiative. It will not. This Initiative will be successful."

President Bush
Santiago, December 6, 1990

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release

September 14, 1990

TO THE CONGRESS OF THE UNITED STATES:

I am pleased to transmit a legislative proposal entitled the "Enterprise for the Americas Initiative Act of 1990." This proposal sets forward key measures to implement the investment, debt, and environmental components of my "Enterprise for the Americas" initiative announced on June 27, 1990. It will build more constructive relations in the Western Hemisphere and a more hopeful future.

The last 14 months have been a remarkable time for the world. Yet the rapid changes at which we have marveled in Eastern Europe are not unique. Freedom has made great gains in our hemisphere, as a resurgence of democratic rule has swept through the Americas.

Parallel to this political shift has come a realignment of policies in the economic sphere. As the people of Latin America and the Caribbean search for prosperity following a difficult decade of painful economic adjustment, their governments are focusing on economic growth and the free market policies needed to nourish it.

For the benefit of all people of this hemisphere, the United States needs to reach out to support the efforts of these countries as each undertakes its own approach to economic reform. My new Enterprise for the Americas initiative aims to build a broad-based partnership for the 1990s that will strengthen our economic ties and encourage economic growth and development throughout the Western Hemisphere.

This initiative rests on three pillars -- actions on trade, investment, and debt -- through which we can reach out to our neighbors and support economic reform and sustained growth. First, we want to expand trade both by cooperating closely with the nations of Latin America and the Caribbean as the Uruguay Round comes to a close and by entering into free trade agreements with the ultimate goal of a hemisphere-wide free trade system. Second, we want to encourage investment and help countries compete for capital by reforming broad economic policies and specific regulatory systems. Third, we want to build on our successful efforts to ease debt burdens and to increase the incentives for countries to reform their economies by offering additional measures in the debt area. As part of our efforts on debt, we want to support the environment by promoting sustainable natural resource management as a key element of building a strong future for the hemisphere.

The proposal I am transmitting to the Congress today focuses on the investment, debt, and environment components of the Enterprise for the Americas initiative.

The proposal provides for contributions by the United States to a multilateral investment fund to be established by the Inter-American Development Bank (IDB) to foster a climate favorable to investment in Latin American and Caribbean countries. This

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Enterprise for the Americas Investment Fund will provide additional support for reforms undertaken as part of the new IDB investment sector lending program. It will do so by advancing specific, market-oriented investment policy initiatives and reforms and financing technical assistance.

The proposal establishes the Enterprise for the Americas Facility to support the objectives of the initiative through administration of debt reduction operations for those nations that meet the investment reform and other policy conditions. Latin American and Caribbean countries can qualify for benefits under the Facility if they:

- o Have in effect International Monetary Fund/World Bank reform programs;
- o Have in place major investment reforms in conjunction with an IDB loan or are otherwise implementing an open investment regime; and
- o For countries that owe a substantial part of their debt to commercial banks, have negotiated a satisfactory financing program with commercial banks, including debt and debt service reduction if appropriate.

The proposal authorizes the reduction of concessional obligations extended under the Foreign Assistance Act of 1961 and credits extended pursuant to title I of the Agricultural Trade Development and Assistance Act of 1954. The agency whose loans or credits are affected will exchange -- at the direction of the Facility -- new obligations for obligations outstanding as of January 1, 1990. Principal on the new obligation will be paid in U.S. dollars. Interest will be at a concessional rate and paid in local currency if an eligible country has entered into a framework agreement establishing an Environmental Fund; otherwise, interest will be paid in U.S. dollars.

The Environmental Fund into which local currency interest payments are deposited will be owned by the debtor country but be subject to joint programming by the debtor country and the United States Government. An environmental framework agreement will establish joint programming requirements and will also specify the use of the Environmental Fund to support environmental projects and programs. It is envisioned that local committees in each eligible country will include strong representation of local private environmental groups, as well as the United States Government and the host government, and will initiate overall country plans and carry out a fundamental review of proposed projects. In setting up this broad framework and establishing relationships in each eligible country, we will consult closely with nongovernmental organizations with expertise in natural resource management and conservation.

The proposal also authorizes the sale, reduction, or cancellation of loans made to eligible countries under the Export-Import Bank Act of 1945, as amended, and assets acquired under export credit guarantee programs authorized pursuant to the Commodity Credit Corporation Charter Act or section 4(b) of the Food for Peace Act of 1966. These sales, reductions, or cancellations will be undertaken only when purchasers confirm that they will be used to carry out debt-for-equity or debt-for-nature swaps in eligible countries.

We believe that these investment, debt, and environment measures will provide significant support to the efforts of Latin America and the Caribbean to build strong economies.

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The United States has not gone untouched by the economic crisis faced by Latin America and the Caribbean over the last decade. As countries in the region cut imports, postponed investment, and struggled to service their foreign debt, we too were affected. We lost trade, markets, and opportunities.

Latin American and Caribbean leaders have made a great deal of progress in coping with this crisis. A new generation of democratically elected leaders is turning the tide away from economic decline. Enactment of the Enterprise for the Americas Initiative Act of 1990 will permit the United States to support the efforts of these leaders, increasing the prospects for economic growth and prosperity throughout the hemisphere.

GEORGE BUSH

THE WHITE HOUSE,
September 14, 1990.

#

Investment Reforms

Question:

What kinds of investment reform does the EAI advocate?

Answer:

-- Future IDB investment sector loans could address:

- o Private ownership.
- o Openness to foreign investment.
- o Property rights, including protection of intellectual property.
- o International legal standards for expropriation.
- o Procedures for dispute settlement.

OASIA/IDD

February 25, 1992

Extent of Debt Reduction

Question: How will the level of EAI debt reduction be determined for Latin American and Caribbean countries?

Answer:

- We expect the reduction of concessional claims to be substantial.
 - o 40% in Chile, 80% in Jamaica and Bolivia.
- The amount of debt reduction provided will be determined on a case-by-case basis taking numerous factors into account such as:
 - o countries' debt profiles, particularly the amount of their external debt burden owed to bilateral creditors;
 - o the economic circumstances of each country; and
 - o its debt servicing record.
- The amount of debt reduction possible will of course depend on the level of funding to offset the budget cost.

Budget Cost of Debt Reduction

Question:

What is the anticipated budget cost of debt reduction under the EAI?

Answer:

- Under credit reform, there will be a budget cost for EAI debt reduction beginning in FY 1992.
- The Administration has requested \$310 million for debt reduction in FY 1992.
- We have also requested \$286 million for debt reduction in FY 1993.
- These requests are based on anticipated country eligibility.

Background:

The FY 1992 request covers anticipated action to reduce AID debt and engage in Eximbank debt swaps.

The FY 1993 request breaks down as follows:

- ** \$166.5 million for AID debt reduction
- ** \$69.5 million for PL-480 debt reduction
- ** \$14.4 million for CCC debt reduction
- ** \$34.1 million for Eximbank debt reduction

Eligibility for Debt Reduction

Question:

What criteria must countries meet to qualify for debt reduction? Will these criteria be implemented in a way that takes into account special country circumstances?

Answer:

- To be eligible for bilateral debt reduction, a country must:
 - o have in place an IMF/World Bank reform program;
 - o be engaging in major investment reforms with the IDB; and
 - o as appropriate, have reached agreement with commercial banks on a debt/debt service reduction program.

- There is flexibility in these requirements to allow for country circumstances, but we do not believe debt reduction is worthwhile if a country is not reforming its economy.

Will Debt Reduction Produce Cash Flow Relief?**Question:**

Will countries experience cash flow relief through debt reduction?

Answer:

- Reduction of AID and P.L. 480 debt will provide significant benefits -- particularly to countries for which this represents a substantial portion of their external debt.
- Dollar payments on reduced debt will apply directly to principal, eliminating the obligation entirely in 10 or 15 years.
- These payments will be well below what countries are scheduled to pay and, in many cases, will represent significant cash flow savings from current payment levels.

Mechanics of Debt Swaps

Question:

How would the proposed debt sales work in practice? Would we sell the debt on the secondary market?

Answer:

- The swap program will provide for debt to be canceled in exchange for cash and evidence of a debt swap arrangement with the debtor country.
- The private party would pay cash to the U.S. Government, and the related CCC loan (or portion of a loan) would be canceled.
- The actual debt swap arrangement could be negotiated between the private party and the debtor country or could be the result of an auction.

Background:

The pricing mechanism for this operation would be transparent, generally based on the secondary market price of commercial bank debt, so that potential purchasers can structure their bids for equity, environmental and development financing accordingly. We do not expect actually to "sell" the CCC debt on the secondary market and transfer title to a private party. This approach would result in legal and administrative complications.

Resources for the Environment/Child Development

Question:

What level of resources will be provided for environmental and child development projects under the Initiative?

Answer:

- If a country agrees to use the resources for environmental and child development projects, they can pay interest on reduced debt in local currency.
- Our FY 1992 and FY 1993 budget requests could fund debt reduction which would create the following flows of local currency interest payments:

FY 1992: more than \$100 million

FY 1993: more than \$100 million

Background:

The current, though unpassed, version of the foreign aid authorization act calls for local currency interest payments to be used for "child survival and other child development related activities" as well as the environment. Current procedures for negotiating environmental framework agreements and establishing mechanisms for administering these resources would have to be changed accordingly.

EAI ENVIRONMENTAL DECISION-MAKING PROCESS**Question:**

How will decisions about spending resources for the environment be made in each country?

Answer:

- Environmental framework agreements negotiated with the advice of the Washington-based Environment for the Americas Board govern the use of local currency resources.
 - o The Board does not have a direct role in management of funds but instead will oversee general implementation of the program to ensure, for instance, that the grass roots focus of the program is preserved.
- Administering bodies in each country will decide how local currency resources will be used.
 - o These bodies will be made up of non-governmental organizations (environmental, community development, academic, and/or scientific), debtor government, and U.S. government representatives.
 - o NGO reps will be in the majority.
- The intention is for resources to be used primarily to fund projects initiated at the community level and implemented by NGOs.

Role of the Environment for the Americas Board

Question:

What is the role of the Environment for the Americas Board in implementing the Enterprise for the Americas Initiative?

Answer:

- When Congress passed legislation last year authorizing the reduction of PL-480 debt, it created the Environment for the Americas Board to implement the environmental aspects of the legislation.
- The Board includes U.S. Government representatives as well as non-governmental representatives from the environmental community.
- The Board advises the President on negotiations of the environmental framework agreements, ensures that local administering bodies are properly constituted and reviews countries' annual programs and reports on the use of funds.

Role of NGOs

Question:

What is the role of non-governmental organizations in the EAI?

Answer:

- We want the local resources generated for the environment to be targeted at small projects developed in communities affected by particular environmental problems or needs.
- Our intent is to nurture local initiative in developing environmental projects relevant to the community involved.
- We also hope to build long-term, grass roots support for the environment.
- This will also be true for the child development community.

Rationale for the EAI

- The United States has a special relationship with our neighbors in Latin America and the Caribbean.
 - o We share the psychology of the new world -- that new horizons are within our reach -- as well as a wealth of cultural, historical, and economic ties.
- More than ever before, we also share a vision of peace and prosperity for all our citizens.
- For the U.S., increasing trade, investment, and growth in Latin America and the Caribbean means more opportunities for our own economy.
 - o Already, Latin America and the Caribbean buy 1 in 7 dollars of U.S. exports, and the region is the fastest growing regional market for U.S. exports.
 - o We have the most to gain from stronger economies and more open markets: the U.S. accounts for 57% of the region's imports from industrialized countries, compared to 11% for Japan.
 - o Increased trade means more jobs for U.S. workers: every \$1 billion increase in U.S. exports generates 20,000 export-related jobs.
- Moreover, stronger economies in Latin America and the Caribbean are critical to consolidating democracy, and improving the lives of individuals in our hemisphere.
 - o Improved economic prospects can serve as a light at the end of the tunnel for citizens weary of war and economic deterioration.
 - o By reducing debt burdens, the U.S. can help countries free up resources for domestic needs.
 - o The effects will be felt, for example, in resources available for capital formation, imports, education, health, and the environment. This should benefit the poor.
 - o Finally, debt reduction, along with increased trade and investment opportunities, will provide critical support for the peace process in countries like El Salvador.

ENTERPRISE FOR THE AMERICAS INITIATIVE (EAI)

Need for Immediate, Strong and Sustained Administration Support for Congressional Funding of the EAI

- The Enterprise for the Americas Initiative is an historic foreign policy initiative which makes good economic sense for the U.S. and has been strongly welcomed in Latin America and the Caribbean.
- o Latin America and the Caribbean are the fastest-growing export market for the U.S., when exports are driving what little economic growth we have.
- o Exports to the region have doubled over the past 5 years to \$62 billion. 1 in every 7 dollars of U.S. exports now goes to Latin America and the Caribbean.
- o The U.S. dominates this market: 57% of the region's merchandise imports from industrial countries come from the U.S., versus 11% from Japan.
- o Every \$1 billion increase in U.S. exports generates 20,000 new export-related jobs in the U.S.
- o Economic growth, and increased trade and investment support democracy and stability in the region vital to U.S. interests.
- We are now at a crucial crossroad with Congress and risk the total collapse of the EAI.
- o The Administration faces grave consequences if we do not get:
 - oo Authorization and appropriation of \$310 million in FY 92 for 7 countries and \$286 million in FY 93 for 18 countries to pay for EAI debt reduction, following the successful debt reduction actions in FY 91 for Chile, Bolivia, and Jamaica.
 - oo Authorization and appropriations in FY 92 of the full \$100 million U.S. contribution to begin operations of the Multilateral Investment Fund (MIF), which was signed February 11 by 21 countries.
- o Failure to secure Congressional action results in:
 - oo Inability to meet our political commitment to reduce the debt of countries when they meet the reform eligibility criteria we ourselves set forth in the EAI legislation.

- oo Permanent loss of funds to pay for debt reduction of countries qualifying in FY 92 - thus pushing these countries into competition for limited funds in the FY 93 budget earmarked for the 18 countries we expect to be eligible in FY 93.
- oo Loss of the \$500 million in Japanese contributions to the MIF - effectively preventing the MIF from ever becoming operational.

-- This possible disaster of a failed Enterprise for the Americas Initiative can be over come only if:

- o We have strong and sustained senior White House leadership to mobilize broad and diverse support on the Hill for the EAI, including more effective projection of the President's commitment to EAI: (a) in the Cabinet; and (b) with key Congressional leaders.
- o Full funding of EAI is included in any "deal" on appropriations for FY 92 and must be a condition for the Administration's support of any FY 92 appropriations action.

ENTERPRISE FOR THE AMERICAS INITIATIVE - UPDATE

The President announced the EAI to spur a new partnership with our neighbors in Latin America and the Caribbean. The EAI proposes action in three areas of key importance to the region -- trade, investment, and debt.

Trade

The goal of the EAI in the trade area is to promote free trade throughout the hemisphere. Congress' extension of fast-track implementing authority has allowed us to begin this effort by seeking to negotiate a North American Free Trade Agreement with Mexico and Canada.

-- We are also negotiating bilateral framework agreements with countries throughout the region to begin to reduce barriers to trade. We now have framework agreements in place with 31 countries in the Western Hemisphere:

- o Mexico, Bolivia, Colombia, Chile, Costa Rica, Ecuador, El Salvador, Honduras, Peru, Venezuela, the Southern Cone countries of Argentina, Brazil, Uruguay and Paraguay, Panama, Nicaragua, the 13 Caribbean members of Caricom, Guatemala and the Dominican Republic.

Investment

To encourage countries to liberalize their investment regimes and thereby to help them compete for capital, the Initiative proposed creation of two new programs in the Inter-American Development Bank (IDB).

- The IDB is actively engaged in its investment sector loan program. The IDB Board has already approved loans to Chile, Bolivia, Jamaica and Colombia.
- Diagnostic missions have also been sent to other countries, including Costa Rica, El Salvador, Uruguay, Trinidad and Tobago, Argentina, and Guatemala to discuss potential ISLs.
- The Multilateral Investment Fund (MIF) is designed to assist countries in undertaking investment reforms that are fundamental to attract private capital into the region.
 - o The MIF Agreement was signed by creditor countries at a White House ceremony on February 11, 1992.
 - o The MIF has wide international support -- the U.S. and Japan will each contribute \$500 million, and Spain, Germany, Italy, France, Portugal, Canada, and 13 Latin countries have also pledged financial contributions.
 - o Additional countries may participate, advancing the MIF toward the \$1.5 billion funding target. Currently, pledges total approximately \$1.3 billion.

Debt

To reinforce the incentives for economic reform, we propose to reduce existing debts to the USG of countries which are undertaking macroeconomic and structural reforms, are liberalizing their investment regimes, and have negotiated agreements with their commercial banks, as appropriate.

- Under the authority we gained from Congress to reduce PL-480 obligations in the 1990 Farm Bill, we have concluded debt reduction agreements this summer with Chile, Bolivia and Jamaica.
 - o Local currency interest payments on the new, reduced PL-480 obligations will be channeled into local **Environmental Funds** established through an **Environmental Framework Agreement (EFA)** negotiated with each country which receives EAI debt reduction.

- On September 5, 1991 President Bush announced the nine members appointed to the **Environment for the Americas Board (EAB)**, the Board established by Congress to advise the President on the negotiations of EFAs and to review implementation of the environmental element of the EAI.
 - o Environmental Framework Agreements are in place with all three recipient countries of EAI debt reduction.
 - o The EAI's envisioned support for the environment is now a reality.

Looking Ahead

Full implementation of the EAI must await action from Congress. U.S. participation in the Multilateral Investment Fund, the reduction of AID debt, and swaps of nonconcessional loans require Congressional authorization and appropriations.

We have made great strides in advancing the new vision for the hemisphere embodied in the Enterprise for the Americas Initiative. Our neighbors in Latin America and the Caribbean have responded with enthusiasm to the prospect of increased trade, investment, and growth. Their commitment to economic reform is producing results. The Administration is committed to pressing forward to realize the full potential of the Initiative. We will be working with the Congress to ensure the continued success of the EAI.

March 13, 1992

NEWS

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**INSTITUTE FOR
 INTERNATIONAL
 ECONOMICS**

NEWS RELEASE

February 19, 1992

STRICT EMBARGO: February 27, 1992, 10:30 a.m., E.S.T.

NEWS CONFERENCE: 10:30 a.m., 11 Dupont Circle, NW, Eighth Floor

Contact: Fay Gold (202) 328-9000

NORTH AMERICAN FREE TRADE AGREEMENT TO CREATE JOBS IN AMERICA AND MEXICO, IMPROVE US TRADE BALANCE BY \$10 BILLION ANNUALLY

Washington, February 19—A North American Free Trade Agreement (NAFTA) will create 600,000 jobs in Mexico and 130,000 jobs in the United States, and lead to an improvement of about \$10 billion annually in the American trade balance, according to a new study from the Institute for International Economics. *North American Free Trade: Issues and Recommendations*, by Gary Clyde Hufbauer and Jeffrey J. Schott, analyzes the potential effects of a NAFTA on Canada, Mexico, and the United States with respect to trade and employment, national labor and environmental policies, and trade with third countries. Among the major findings:

- The US trade surplus with Mexico should reach \$9 billion by 1995, compared with a \$2 billion deficit in 1990, as Mexican policy reforms and the NAFTA boost annual US exports to Mexico by about \$16.7 billion and US imports from Mexico by about \$7.7 billion from 1989 levels (see table 1).
- US net export gains should, on balance, generate about 130,000 new US jobs. But while the NAFTA spells net US job gains, some 112,000 US workers could be dislocated by larger imports from Mexico during the ten-year period in which NAFTA reforms are implemented. The United States should commit at least \$900 million over the next five years for retraining these dislocated workers so that they can qualify for new jobs. (President Bush's fiscal year 1993 budget calls for the elimination of the Trade Adjustment Assistance program.)
- Mexico's trade deficit will rise by about \$12 billion as a result of its economic reforms and the NAFTA. However, inflows of foreign capital and repatriation of Mexican capital will fully finance these deficits and fuel a rapid acceleration of Mexican growth. Anticipation of the NAFTA already generated most of these effects by 1991.
- Because these larger imports will relax internal supply restraints, Mexico will gain more than 600,000 jobs as a near-term result of the trade accord.
- The NAFTA should expand Canada-Mexico trade by almost 30 percent by 1995.

Blueprint for a NAFTA

The authors outline the scope of the NAFTA and recommend that

- the NAFTA should be an improved, trilateral version of the Canada-US Free Trade Agreement (FTA).
- NAFTA trade reforms should be implemented within a ten-year period. Agriculture should be the only major exception to this rule: a fifteen-year transition period may be required for corn and wheat sold into Mexico, to avert a sudden dislocation of large numbers of peasant farmers, and for fruits and vegetables sold into the United States and Canada.
- For manufactured goods trade under the agreement, the NAFTA should establish rules of origin comparable to those in the Canada-US FTA and eliminate duty drawback incentives to ensure that nonmember countries do not use Mexico as an export platform to the US market. The accord should avoid special rules of origin for particular sectors or products, and any that do creep into the agreement should be subject to review within five years.
- The NAFTA offers an opportunity to achieve an integrated North American auto market, augmenting the trade benefits already derived from the US-Canada Auto Pact and the extensive system of maquiladora operations by US automakers in Mexico. The three countries should implement the reforms summarized in box 1.
- In the energy sector, the NAFTA should encourage Mexico to substantially expand production of petroleum and natural gas and to liberalize trade in natural gas and electricity. These steps need not entail a frontal attack on Mexico's constitutional ban on foreign control of energy resources but they will challenge Mexican policymakers to devise policies that attract foreign companies to explore and develop petroleum reserves, and to construct new gas pipelines and electricity grids. Mexico should aim to double its oil production by 2005 and should restructure Pemex into three holding companies that permit minority foreign participation through special trust mechanisms.
- The NAFTA should incorporate commitments by the three countries to monitor environmental standards and their enforcement, and to undertake negotiations by 1995 to "harmonize up" to the highest common denominator those less-demanding standards that are found to cause trade diversion. Moreover, the United States should commit several billion dollars for upgrading environmental conditions at the border. (President Bush's fiscal year 1993 budget calls for \$200 million for border environmental outlays.)
- In the short term, the NAFTA will not dent the flow of illegal workers from Mexico as young Mexican workers seek better paying jobs in the United States. The United States should therefore maintain its current border control program and its sanctions against employers who hire illegal aliens, and should allow Mexican economic growth to gradually assuage the migration problem. The only viable answer to illegal immigration over the long term is better job opportunities in Mexico, ushered in by internal economic reform and the NAFTA.
- For the most part, the NAFTA will result in large gains in two-way trade rather than the wholesale migration of individual industries (see table 2). If NAFTA reforms result in a substantial adverse surge in sectoral trade in exceptional cases, however, a partner government should be permitted to invoke special safeguards. In such cases, the first remedy should be accelerated liberalization within that sector by the partner enjoying a favorable surge in its net exports.

3

- The NAFTA should be compatible with the GATT and should complement and broaden the trade reforms under negotiation in the Uruguay Round. The NAFTA should not create new barriers against nonmember countries.
- The NAFTA should serve as a model for further trade liberalization in the Western Hemisphere under the Enterprise for the Americas Initiative. The NAFTA should include an accession clause to enable other countries in the hemisphere to join the pact once they are able to fulfill its obligations and have negotiated entry terms. However, the application of the NAFTA by the United States to new entrants should be subject to congressional approval.

Model for World Trade Liberalization

In the rush to conclude a bargain, the negotiators should be careful not to give the NAFTA any taint of a "Fortress North America." The NAFTA should be a model regional trade group: one that does not erect higher barriers against third countries and one that willingly subjects its details to GATT scrutiny. North America should avoid providing any excuse for European or Asian regional groups to adopt restrictive trade and investment measures.

The danger of a Fortress North America resides in technical details rather than the broad policy framework of the NAFTA. For example:

- Rules of origin might inappropriately be designed to exclude third-country goods. This danger is particularly worrisome in autos and auto parts, textiles and apparel, and electronic goods.
- US and Canadian quotas on sensitive products might be liberalized in a way that indirectly reduces imports from nonmember countries. Textiles and apparel, sugar, and dairy products are particularly at risk.
- Two-tier liberalization of trade in autos and auto parts could be designed in a way that hinders non-North American firms from establishing production facilities in Mexico.

A Landmark Agreement

Properly crafted, the NAFTA holds the promise of becoming a landmark agreement. The NAFTA should demonstrate that a middle-income nation (Mexico) can join economically with two high-income nations (the United States and Canada) to the mutual benefit of all three countries in terms of jobs and competitiveness. It should reinforce and lock in the impressive Mexican economic reforms implemented over the past seven years. It should pioneer the meaningful inclusion of labor and environmental issues in a trade pact.

This promise requires an ambitious NAFTA rather than a watered-down compromise. To date, Mexico has sought sweeping trade liberalization whereas the United States and Canada have sought sweeping investment liberalization. A successful NAFTA requires both.

US, Canadian, and Mexican trade barriers on a range of products need to be abolished. Meanwhile Mexican investment rules need to be substantially liberalized to allow the entry of foreign firms into those sectors of the Mexican economy still reserved primarily to domestic ownership such as financial services, deep-water oil drilling, and infrastructure projects. Even a maximum NAFTA accord should be seen as only a first step toward closer economic integration in North America. Box 2 describes the long-term process.

(3)

**Table 1. Projected effects of NAFTA, accompanied by Mexican policy reforms, in 1995
(changes from 1989 levels)**

Trade Effects (in billions of 1989 US dollars)	
Larger US exports to Mexico	16.7
Larger rest of world exports to Mexico	3.0
Larger Mexican exports to US	7.7
Net change in US trade balance	9.0
Net change in Mexico trade balance	(12.0)
Employment Effects (thousands)	
US jobs dislocated	112.0
US jobs created	242.0
Net US job gains	130.0
Mexican net employment gains	609.0
Wage Effects (percentages)	
Change in US wage rate	0.0
Change in Mexican wage rate	8.7

**Table 2. Sectors with potential for rapid expansion of two-way US-Mexico trade
(billions of US dollars)**

	US Exports to Mexico 1990	US Imports from Mexico 1990	Total two-way trade 1990	Projected two-way trade with NAFTA 1995
Autos and auto parts ^a	3.4	4.9	8.3	20.8
Textiles and apparel	0.9	0.7	1.6	5.0
Steel products	0.5	0.2	0.7	1.5

a. 1989 figures.

Box 1. Recommendations for Liberalizing North American Trade in Autos and Auto Parts

- Immediately eliminate all tariffs on North American auto and auto parts trade. Negotiate a common external tariff for this sector within ten years.
 - Phase out Canadian and Mexican local content requirements over ten years. Phase out the Mexican ban on used car imports and Mexican export performance requirements over five years.
 - Replace the Mexican quota on imports of new autos (now limited to 15 percent of the market) with a one-for-one production-to-sales ratio test. Like its Canadian counterpart, the Mexican production-to-sales ratio test should be phased out in ten years.
 - Allow auto parts purchased by Japanese firms in fulfillment of the "best-efforts" commitments made to President Bush in January 1992 to be sourced anywhere in North America.
 - Keep the rule of origin at its current figure of 50 percent North American factory cost to qualify for NAFTA benefits, but enact special provisions to close the "roll-up" loophole that allows goods with mostly foreign components to meet North American content requirements.
 - Designate Mexican and Canadian production as either "domestic" or "foreign," at the option of the producer, for the purpose of meeting corporate average fuel economy (CAFE) rules and providing greater scope for intraindustry trade in North America.
-

Box 2. Stages of North American Economic Integration

The NAFTA accords can be viewed in terms of four concentric circles. The inner circle comprises the trade and investment commitments, which are the mainstay of any free trade area: phasing out tariffs and quotas, liberalizing investment and access to service markets, and improving intellectual property protection.

In the next circle are accompanying commitments concerning environment and labor adjustment, made by each country to the other and by each executive branch to its own legislature.

In the third circle are areas that should be earmarked for follow-on negotiations, for example competition policy and antidumping rules, and ongoing harmonization of technical and environmental standards.

In the fourth, outer circle are topics that are too sensitive for negotiations, but for which the direction of each partner's policy should be clear:

- Mexico should unilaterally reform Pemex, probably by dividing it into two or three commercially oriented firms. In turn, the successors to Pemex should be allowed to contract with foreign oil companies for high-tech oil drilling, marketing, and refining.
 - Both Mexico and Canada should gradually reduce the fluctuation of their currencies vis-a-vis the US dollar.
 - Immigration policy should be kept off the table, but the United States should acknowledge that the long-term answer is not more fences and electronic sensors but greater prosperity in Mexico.
 - A customs union should not be negotiated anytime soon, but the parties should consult before they alter their tariffs and quotas applied to outside countries.
-

North American Free Trade: Issues and Recommendations
Gary Clyde Hufbauer and Jeffrey J. Schott

Acknowledgments

Preface C. Fred Bergsten

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Table 3.4 United States and Mexico: alternative projections of changes in trade levels, employment, and wage rates as a consequence of a NAFTA^a (billions of dollars except where noted)

	HE	Almon ^b	KPMG ^c	Berkeley ^d	Baylor ^e	Michigan-Tufts ^f	El Colegio ^g
US exports to Mexico	16.7	8.5 ^g	1.2	2.3	6.9	4.2	3.4
Mexican exports to US	7.7	2.7 ^g	3.9	2.5	5.1	3.5	1.3
US net exports to ROW	0	0.2 ^g	1.6	0.2	n.a.	-1.0	n.a.
Mexican net exports to ROW	-3	3.1 ^g	1.3	-0.2	n.a.	0.5	-1.3
US trade balance	9	6	-1.1	0	1.8	-0.3	2.1
Mexican trade balance	-12	-2.7	4	0	-1.8	-0.2	0
US employment (thousands of workers)	130	44 ^f	0	-234	n.a.	0.0	0.0
Mexican employment (thousands of workers)	609	-158 ^f	1,464	273	n.a.	0.0	0.0
US wage rate (percentage change)	0	0.02	0.03	0.4 ^g	0.01	0.10	n.a.
Mexican wage rate (percentage change)	8.7	n.a.	0	2.27 ^g	n.a.	2.90	16.0

row = rest of world.

n.a. = not estimated or not available.

a. The econometric and computable general equilibrium (CGE) models (all except the HE model) generally assume elimination of tariffs and total or partial elimination of nontariff barriers. However, the Baylor model only eliminates tariffs. The HE historical model assumes elimination of all trade barriers and continuation of major policy reforms, including liberalization of Mexican energy policy. The econometric and CGE models usually do not incorporate the effects of policy reforms, outside of trade liberalization. The dollar figures are expressed in terms of 1988 or 1989 price levels. The Berkeley, Michigan-Tufts, and El Colegio models assume fixed levels of employment and hence generate relatively large wage gains in Mexico. The wage gain in the HE model reflects real appreciation of the peso.

b. The trade figures in the Almon report are based on 1977 price levels. They were adjusted to 1988 price levels by applying a multiple of 1.70 (based on the US producer price index for industrial commodities). The employment figures in the Almon model are for the year 1995.

c. The KPMG model summarized here assumes that the FTA spurs an additional \$25 billion of investment in Mexico. The model is specified so that the change in the US employment level and the change in the Mexican wage rate are both zero.

d. The Berkeley model summarized here is described as the pro-competitive trade liberalization model. It reflects reduced distortions in US and (especially) Mexican capital allocation, together with complete trade liberalization. The wage rate figures in the Berkeley model are weighted averages for various skill categories. The decline in US employment largely reflects a return flow of illegal immigrants to Mexico.

e. The percentage change figures in the Baylor study are applied to 1989 trade flows to produce these estimates.

f. The Michigan-Tufts results summarized here are roughly calculated as the difference between the reported NAFTA results with investment liberalization that leads to a 10 percent increase in Mexico's capital stock, and the Canada-US FTA results. The NAFTA results in the Michigan-Tufts model reflect a partial rather than a total relaxation of agricultural and textile nontariff barriers.

g. The El Colegio results summarized here are from Version Three, which specifies zero change in Mexican employment, but allows the Mexican capital stock to increase.

Sources: The HE historical model is described in this chapter; KPMG CGE model: KPMG Peat Marwick, Economic Policy Group, *The Effects of a Free Trade Agreement Between the U.S. and Mexico* (Washington: KPMG Peat Marwick, May 1991), tables 21 through 30; Almon econometric model: Interindustry Economic Research Fund, *Industrial Effects of a Free Trade Agreement Between Mexico and the USA* (Washington: US Department of Labor, September 1990), 3, VII-A-9, IX-A-1; Berkeley CGE model: Raul Hinojosa-Ojeda and Sherman Robinson, *Alternative Scenarios of U.S.-Mexico Integration: A Computable General Equilibrium Approach* (Berkeley: University of California, Division of Agricultural and Resource Economics, 1991), tables 1, 5, 7, and 8; Baylor CGE model: Roy G. Boyd, Kerry Krutilla, and Joseph A. McKinney, *The Impact of Tariff Liberalization Between the United States and Mexico: A General Equilibrium Analysis* (Waco, TX: Baylor University, Hankamer School of Business, 1991), 13 and table 3; Michigan-Tufts econometric model: Drusilla K. Brown, Alan V. Deardorff, and Robert M. Stern, *A North American Free Trade Agreement: Analytical Issues and Computational Assessment* (Ann Arbor, MI: University of Michigan, and Medford, MA: Tufts University, 27-28 June 1991), table 4; El Colegio de México CGE model: Horacio E. Sobarzo, *A General Equilibrium Analysis of the Gains from Trade for the Mexican Economy of a North American Free Trade Agreement* (Mexico City: El Colegio de México, June 1991), table 7.

From: North America Free Trade: Issues & Recommendations, by Gary C. Hufbauer, et al. 1994

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THE WHITE HOUSE

WASHINGTON

April 20, 1992



MEMORANDUM FOR JOE DUGGAN

FROM: GARY BLUMENTHAL *Gary*

SUBJECT: POTUS Speech to Forum of the Americas

The week of April 20 - 24 carries a trade theme and a review of the President's schedule makes his speech before the "Forum of the Americas" the key opportunity to articulate his broadest vision for world trade. We discussed this fact in Long Range scheduling and I believe there was agreement that this forum should be used produce a strong trade speech.

Based on the lack of progress in U.S. - EC negotiations last week, there is a great deal of skepticism that the Silva/DeLors visit with the President on April 22 will result in any advancement of the Uruguay Round. Since April 15 was the latest in a long line of failed deadlines to complete the negotiations, it is desirable for the President to drive a rhetorical wedge between the intransigent European Community and the rest of the world. I would note that pre-empting domestic political opponents also makes it important for him to say at this time that his goal is open markets and his patience is wearing thin for those unwilling to make the political decision to conclude the agreement.

The draft for the speech supplied by NSC provides appropriate references to hemispheric issues, but fails to mention the President's larger vision for the world trading system. Since expanding trade is one of the President's five pillars, he should state his vision in both hemispheric and global terms. In the attached letter from business leaders located around the globe, they urge leaders to use bilateral and multilateral meetings to bring the Uruguay Round negotiations to a successful conclusion.

Following is some meandering background from which you should be able to draw a sound multilateral message:

Contrary to critics' charges, we do have a trade strategy. The President has shown more "vision" in this area than any former President in recent history. For the first time in memory, a U.S. President has personally become deeply engaged not only in advancing U.S. strategic interests through political/military policies, but he also has given tremendous weight to America's international economic position. He has directly intervened in Uruguay Round negotiations to conclude a multilateral trade

agreement. Further and contrary to the expectations of the EC and Japan--he has never flinched and backed down to accept a half-baked agreement in order to declare "victory" as the U.S. traditionally has done in the past.

A "new world order" is here. What does it stand for? It stands for America using the same force of political will and resources that it did in bringing down communism to strengthen America's competitive economy, open markets and structure a world trading system that permits fair competition and bigger growth in the global market economy. The U.S. has expended the resources necessary over the past fifty years to secure the world for economic growth and prosperity.

The whole world will benefit from the President's objective of opening markets. Since 95% of the world's consumers are outside the United States, we must look externally for the jobs we wish to create. That is why the President will not stand idly by and let countries deny access for our competitive products. One of our strengths is the fact that within our own borders we are the most "global" culture and economy in existence today. We can draw on the strength of this cultural and ethnic diversity to reinforce our own business development and competitiveness in the world.

Americans are not threatened--they are benefited by-- international markets. George Bush is demanding that high walls of trade protectionism be brought down. He is not standing idly by while other nations take markets from us.

Call me if you need more or want to discuss the overall thrust of the speech. USTR is sending a paragraph on this, and I believe Henson Moore made quite a point of it in scheduling.

Business leaders appeal to governments for successful conclusion of Uruguay Round

From Mr Joseph E Connor and others.

Sir, We the undersigned are chief executive officers of some of the world's leading corporations and officers of leading business organisations in our countries. Most of us have supported the Uruguay Round from its inception, and have given advice on its contents to our governments. At the initiative of the International Chamber of Commerce, we are writing to governments to convey our concern that deadline after deadline for concluding the Round is not being met and that the Round might be stalled indefinitely. Such a prospect impels us to express our

strongly felt views to our leaders once again.

We have consistently emphasised our conviction that a successful Round is crucial to the long-term growth prospects of our economies. A reformed and strengthened multilateral trading system with substantially improved market access for goods and services is the key to that success.

The industrialised countries are plagued by recession directly attributable to a pervasive lack of business confidence impeding investment and prolonging retrenchment. Failure to complete the Uruguay Round would be a further serious blow to confidence. We

know from our own experience and from that of our business colleagues that the continuing stalemate over the trade negotiations has contributed to the deterioration of the economic climate and the postponement of many business initiatives around the world, and thus to persistent and growing unemployment. Governments must demonstrate the political will necessary to conclude a strong and comprehensive agreement.

In addition to the negative impact on jobs at home, we want to draw our leaders' attention to the impact such failure to complete the negotiations would have on the situation of the developing coun-

tries and the former communist countries, most of which are trying to reform the structure of their economies and work their way out of large debt burdens. The ability to provide markets for them will be critical to the success of their efforts to develop sound market economies and maintain healthy democracies.

Convinced that a failure of the negotiations may have serious adverse repercussions on a global level and may threaten emergence of a new and better world order, we urge our leaders to use upcoming bilateral and multilateral meetings to bring the Uruguay Round to a successful conclusion.

Joseph E Connor, ICC president, Price Waterhouse World Firm, US; Hari Shankar Singhanian, ICC vice-president, J K Organisation, India; Peter Wallenberg, ICC past president, Skandinaviska Enskilda Banken, Sweden.

Torvild Aakvaag, Norsk Hydro, Norway; Giovanni Agnelli, Fiat, Italy; John Akers, IBM Corporation, US; Robert E Allen, AT & T Corporation, US; Roberto de Andraca, CAP, Chile; Joichi Aoi, Toshiba Corporation, Japan; Edwin L. Artzt, The Procter and Gamble Company, US; Ernesto Ayala, Compania Manufacturera de Papeles y Cartones, Chile.

Pedro Nicolas Baridon, Distribuidor de Ancap, Uruguay; Percy Barnevik, ABB Asea Brown Boveri, Switzerland; Thomas J. Bata, Bata, Canada; Pertti Berg, Starckjohann-Telko, Finland; Harry Berner, Berner, Finland; Sir Derek Birkin, RTZ Corporation, UK; S K Birla, Birla Group of India, India; Jorge Born, Bunge & Born, Argentina; Lawrence A Bossidy, Allied Signal, US.

Gabriele Cagliari, Ente Nazionale Idrocaruri, Italy; Sergio de Castro, CINTAC, Chile; Ricardo Claro, Compania Sud Americana de Vapores, Chile; Carlo De Benedetti, Ing C Olivett & C, Italy.

Werner Dieter, Mannesmann, Germany; C I van den Driest, Van Ommeren Ceteco NV, Netherlands; V L Dutt, KCP, India.

Agustin Edwards, Empresa El Mercurio, Chile; Koichiro Ejiri, Mitsui & Co, Japan; Robert B Findlay, MacMillan Bloedel, Canada; Donald V Fites, Caterpillar Inc, US; Donald Fullerton, Canadian Imperial Bank of Commerce, Canada; Franz Galliker, Swiss Bank Corporation, Switzerland; Rodney Galpin, Standard Chartered Bank, UK; Patrick J Gillam, Asda Group, UK; José Tomas Guzman, Celulosa Arauco y Constitucion, Chile.

Carl Hahn, Volkswagen, Germany; Sir Denys Henderson, Imperial Chemical Industries, UK; Gaishi Hiraiwa, Tokyo Electric Power Company Inc, Japan; Sir Peter Holmes, Shell Transport and Trading Company, UK; Robert Horton, The British Petroleum Company, UK; José Luis Ibanez, LADECO, Chile; Carl Heinz Illies, C Illies & Co, Germany; Rokuro Ishikawa, Kajima Corporation, Japan.

Allen Jacobson, 3M Company, US; Baron Paul-Emmanuel Janssen, Générale de Banque, Belgium; Baron Daniel Janssen, Solvay & Cie, Belgium; Wolfgang Jentzsch, BASF, Germany.

Jak Kamhi, Profilo Holding Inc, Turkey; Yusuke Kashiwagi, Bank of Tokyo, Japan; Karlheinz Kaske, Siemens, Germany; Adnan Kassar, Fransabank, Lebanon; S L Kirloskar, Kirloskar Group of Industries, India; Yotaro Kobayashi, Finji Xerox Co, Japan; Rahni Koc, KOC Holding, Turkey; Chen-Fu Koo, Taiwan Cement Corporation, Taiwan; Hilmar Kopper, Deutsche Bank, Germany; Alex Krauer, Ciba Geigy, Switzerland; Yoh Kurosawa, Industrial Bank of Japan, Japan.

Lord Hall of Ipsden, S G Warburg Group, UK; Sir David Lees, GKN, UK; André Leysen, Agfa Gevaert, Belgium; Erling Lorentzen, Aracruz Celulose, Brazil; A A Loudon, Akzo, Netherlands.

Floris Maljers, Unilever, Netherlands; Rodrigo Mañtibens, Empresa Nacional de Electricidad, Chile; Manuel Martinez Dominguez, Laboratorios Columbia, Mexico; Helmut Maucher, Nestlé, Switzerland; Francis Mer, Usinor-Sacilor, France; Hans Messer, Messer Griesheim, Germany; José E Mindlin, Metal Leve, Brazil; Jérôme Monod, Lyonnaise des Eaux, France; S Morohashi,

Mitsubishi Corporation, Japan; Akio Morita, Sony, Japan; Sir Jeremy Morse, Lloyds Bank, UK; David Morton, Alcan Aluminium, Canada.

R J Neilssen, ABN-AMRO Holding, Netherlands; Curt Nicolini, Incentive, Sweden; Luigi Orlando, Societa Metallurgica Italiana, Italy; François-Xavier Ortoli, Total, France; Theodore Papalexopoulos, Titan Cement Company, Greece.

Timo Peltola, Huhtamaki, Finland; Michael S Perry, Unilever, UK; Filiberto Pittini, Pirelli, Italy; Frank Popoff, Dow Chemical Company, US; Alfred Powis, Noranda Inc, Canada; John B Prescott, Broken Hill Proprietary Company, Australia.

Eero Rantala, Osuuskunta Eka-Yhtymä, Finland; Erik B Rasmussen, Danish Development Finance Corporation, Denmark; Lawrence G Rawl, Exxon Corporation, US; John Reed, Citicorp, US; Jürgen Reimnitz, Commerzbank, Germany; Edzard Reuter, Daimler Benz, Germany; Cedric Ritchie, Bank of Nova Scotia, Canada; James D. Robinson III, American Express Company, US; H Roothiep, Royal Nedlloyd Group, Netherlands; O H A van Royen, Hoogoven Groep, Netherlands; Bo Rydin, Svenska Cellulosa, Sweden.

Karl-Erik Sahlberg, Perstorp, Sweden; Rolf Sammet, Hoechst, Germany; N Sankar, Chemicals &

Plastics India, India; Ernest-Antoine Seillière, CGIP, France; Sir Patrick Sheehy, BAT Industries, UK; Helmut Sihler, Henkel, Germany; Dr Hans Singer, Ferrostaal, Germany; Raumaq Singh, Raumaq Group of Enterprises, India; Robert Stempel, General Motors Corporation, US; Hans Peter Stihl, Andreas Stihl, Association of German Chambers of Industry and Commerce, Germany.

Akio Tanii, Matsushita Electric Industrial Co, Japan; Allan J Taylor, Royal Bank of Canada, Canada; Abderrahman Tazi, SCI, Morocco; P Fentener van Vlissingen, SHV Holdings, Netherlands; Paulo D. Villares, Villares, Brazil; Simo Vuorilehto, Oy Nokia, Finland.

L C van Wachem, Royal Dutch Petroleum Co, Netherlands; Gerhard Wendt, Kone, Finland; Heinrich Weiss, SMS Schloemann Siemens, Federation of German Industries, Germany; Wilhelm Wilhelmussen, Wilhelm Wilhelmussen, Norway; Lynton R Wilson, BCE Inc, Canada; Rona Yircali, Yapi Kredi Bank and Mortas Mining Co, Turkey.

This letter has also been sent to heads of state and governments of major trading nations.

State Dept.

FORUM OF THE AMERICAS

April 23, 1992

I can't think of a more important moment than now to convene this Forum on the Americas.

Over the last three years, we have seen: Our world transformed: the Berlin Wall torn down and Germany peacefully re-unified; the people of eastern Europe and the Soviet Union liberated from communism, and the Baltic nations freed; in South Africa an historic vote to end apartheid. We have seen frontline Arab states, negotiating for the first time face-to-face with Israel; and a worldwide coalition, under the banner of the United Nations, stand up, and turn back, Iraqi aggression against Kuwait.

These revolutionary changes fill me with hope for the future. Yet, nowhere in my three years as President have I witnessed more dramatic, far-reaching, or more hopeful change than here in this hemisphere.

Today, here in the Americas, we have it in our power to create something mankind has never seen: a hemisphere where democracy is the only legitimate form of government, and trade is free, and prosperity is shared from Alaska to Argentina.

Today, from Mexico City to Buenos Aires, that vision is becoming a reality. The lost decade through which the Americas suffered has ended. For the first time in many years, more capital is flowing into the Americas for new investments than is flowing out to pay old debts. In country after country, the hyperinflation that devastated the region's economies, particularly its poor, has been halted. In nearly every nation, real growth has returned. Already, Mexico, Costa Rica, Venezuela, Uruguay, and Argentina, have reduced their commercial debt burdens under the Brady Plan, and more are on the way. From Mercosur, in the southern cone, to the Andean Pact, from Caricom to Central America from Mexico, to the United States, to Canada, the nations of the Americas are dismantling the barriers to trade and investment. Go to the financial centers of the world and they will tell you the same message, the most exciting region for growth and investment is Latin America.

Along side this economic revolution, we have witnessed a political revolution, every bit as far-reaching and every bit as powerful. Consider this: if we had held this conference just three years ago, we could not have welcomed a democratic Chile, a democratic Paraguay, a democratic Panama, a democratic Nicaragua, or an El Salvador at peace.

This economic and political revolution throughout the Americas did not happen by accident. It is the work of a new generation of democratic leaders of courage, commitment, and will.

The challenge we face is clear: to accelerate the momentum towards free markets and open trade; to consolidate and fortify democracy so that its roots are permanent and deep; and to build a new inter-American partnership that will secure the freedom and expand the prosperity of all our citizens.

That will not be easy. For we confront a revolution of rising expectations from millions of citizens who remain mired in abject poverty and political alienation. Recent events in Haiti, Venezuela, and ~~new~~ Peru remind us--that democracy is still fragile and faces continued dangers and assaults. In all our nations, powerful, entrenched special interests cling to old ideas and privileges, defend protectionism, and resist expanded trade.

To build that more hopeful future, each of us must meet his responsibilities. I intend to meet mine. For I believe deeply that the coming decade can be the most hopeful in the history of our hemisphere. But it will not be if the United States repeats its historic mistake towards the Americas and disengages or is distracted elsewhere at a moment of maximum opportunity and crisis. I know that there are fears in the hemisphere that the

United States its turning inward and will neglect Latin America. Let me put it plainly: not so long as I am President. No nation is an island any longer in an interdependent world and a global economy. The future of the United States is bound together with that of its neighbors. Here in the Americas, we will either participate together in growing trade and rising incomes and increased prosperity for all our citizens, or we will pay the price together in instability, economic stagnation, more cocaine trafficking, and increased refugee flows.

That is why the United States, working with our partners in the OAS, will continue to defend democracy in Haiti, Venezuela, and Peru. We will defend democracy because we believe in freedom and because having democracies as full partners makes a difference on every issue we care about.

It was democratic Brazil and Argentina who joined together to stop the spread of nuclear weapons proliferation in the Southern Cone. It was democratic Brazil that slowed deforestation of the rainforest in the Amazon. It was democratic Argentina that suspended the Condor ballistic missile program financed by Libya and Iraq. Democratic Colombia is leading the fight against the narco-trafficking cartels. And democratic Panama passed tough, new laws to combat money laundering.

*at every step in
asia, I forcefully
argued that
NAFTA & EAE
were good for
Asia.*

To those who say we must compete successfully with Europe and Japan, I say look to the South. The Latin American and Caribbean population rivals that of Europe. The regions \$860 billion economy is larger than the entire Southeast Asia market. In this hemisphere, the United States commands a 57 percent market share. In the last two years alone, as Latin America and the Caribbean began to recover, we increased our exports to the region by 29 percent. By the year 2000, just 8 years from now, this can be a \$100 billion export market for the United States, supporting 2 million jobs for Americans.

That is why I will continue to negotiate and fight to ratify a North American Free Trade Agreement joining Mexico, Canada, and the United States, an agreement that will mean more jobs and more growth for all three countries.

To those who still question whether this a good economic policy, consider this: our exports to Mexico have increased ___ percent over the last three years. Some think that only those states along the Mexican border benefit from this growth. In fact, since 1989, 45 of the 50 states, and the District of Columbia, have increased their exports of U.S. products to Mexico. The top ten exporters to Mexico include Michigan, Illinois, New York, Louisiana, Pennsylvania, Florida, and Ohio along with California, Texas, and Arizona.

The North American free trade agreement is only a beginning. When I announced the Enterprise for the Americas Initiative, I made it clear: the United States is committed to negotiating a freer trade regime throughout this hemisphere.

Congress must also meet its responsibility. I understand some[?] far that supporting foreign initiatives in this political season may not be popular. I say: it is time to tell our citizens the truth. Growth and prosperity in this hemisphere ^{mean} ~~man~~ growth and prosperity in the United States.

Three weeks ago, I asked Congress for \$276 million in authority to write off \$11 billion in Latin America's debt and ~~create~~ \$100 million to preserve the environment. Congress did not provide a penny. We hear many lectures from the Congress about convincing our allies to share our burdens. Through the Enterprise for the Americas Initiative, we did just that. Japan committed \$500 million to a new \$1.5 billion fund in the Inter-American Development Bank. It would help retrain workers in privatized state enterprises and offer loans to microentrepreneurs. European and Latin American nations also committed nearly \$500 million. But Congress would not ~~vote a penny for the U.S. share.~~

irresponsible, lacking in vision -- no sense of building a legacy

I hope Congress will reverse these shortsighted decisions in the next appropriations bill.

Together, North and South, we must continue to explain, defend, and support economic and trade reforms. For those courageous leaders who are reforming their economies and breaking down barriers to trade need and deserve our support. The populists and demagogues who argue they are defending the poor against free markets have got the argument exactly wrong. No one paid a bigger price for the closed statist model of economic development in Latin America than the working people and the poor. Those systems were rigged against ordinary people. They were open only to the political influence of the privileged and powerful.

The answer to poverty in this hemisphere is to accelerate and strengthen the process of growth. The licenses and regulations that prevent slum dwellers from starting a new business or campesinos from gaining access to credit and title to their land, must be swept away. The energies, hard work, and imagination of the region's entrepreneurs, small merchants, shopkeepers, and farmers must be liberated and released.

Economic reform must also include honest government. Corruption is the enemy of both growth and democracy. New investment will flow only where the rule of law is secure, the courts are fair, and bidding processes are transparent.

Real economic reform must mean upward mobility to all those left out and shut out of the formal economy. For reform will be

supported and democracy will endure only if the future offers a better life and rising incomes for the countless millions living in squalor and malnutrition in shanty towns and barrios and in the impoverished countryside.

Five centuries ago, a sailor set out from Europe searching for a new world. His voyage to the Americas transformed human history. Today, the world is rediscovering the Americas and finding them a fertile ground for new investment, growth, and trade. If all of us, in the coming years, North and South, rise to the challenges before us, we can look back and say: this was the era when the Americas finally came into its own. This was the time when all the nations of the hemisphere joined together in freer trade, renewed growth, and rising incomes for all our citizens. That is my vision for our hemisphere. I believe that here in the Americas, through forums such as this, that vision is becoming a reality.

Thank you.

*Demarest
changes*

*OK to start
w/changes*

Duggan/Simon
April 20, 1992
Draft Two
Trade

PRESIDENTIAL REMARKS:

FORUM OF THE AMERICAS
WASHINGTON SHERATON HOTEL
WASHINGTON, D.C.
THURSDAY, APRIL 23, 1992
[TIME]

[Acknowledgments]

I can't think of a more important moment than now to convene this Forum on the Americas. Over the last three years, we have seen our world transformed: The Berlin Wall torn down and Germany peacefully unified; the people of eastern Europe and the Soviet Union liberated from communism, and the Baltic nations freed; in South Africa an historic vote to end apartheid. We have seen frontline Arab states, negotiating for the first time face-to-face with Israel; and a worldwide coalition, under the banner of the United Nations, stand up, and turn back, Iraqi aggression against Kuwait.

These revolutionary changes fill me with hope for the future. Yet, nowhere in my three years as President have I witnessed more dramatic, far-reaching, or more hopeful change than here in our own hemisphere.

Here in the Americas, we have it in our power to create something mankind has never seen: a hemisphere wholly free and democratic, with prosperity flowing from open trade.

From Mexico City to Buenos Aires, that vision is becoming a reality. For the first time in many years, more capital is flowing into the Americas for new investments than is flowing out as flight capital. In country after country, the hyperinflation

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that devastated the region's economies, particularly its poor, has been halted. In nearly every nation, real growth has returned. Barriers to trade and investment are coming down. Go to the financial centers of the world and they will give you the same message: The most exciting region for growth and investment is Latin America.

Alongside this economic revolution, we have witnessed a political revolution, every bit as far-reaching and every bit as powerful. Two years after Operation Just Cause, Panama has replaced the repression of the Noriega era with freedom and democracy. After 12 years of civil war, El Salvador is at peace. In Central America, civilian presidents hold office in each country, and the principle of consent of the governed is now firmly established. In South America, Chile and Paraguay have rejoined the community of democracies.

This peaceful revolution throughout the Americas did not happen by accident. It is the work of a new generation of *Courageous and committed* democratic leaders. ~~of courage, commitment, and will.~~

Consolidating this revolution will not be easy. Millions of people in our hemisphere still are mired in poverty and political alienation. Recent events in Haiti, Venezuela, and Peru remind us that democracy is still fragile and faces continued dangers. In all our nations, powerful special interests cling to old ideas and privileges, *promote* defend protectionism, and resist expanded trade.

For the diehards -- for Castro's totalitarian regime, for those in the hemisphere who would turn the clock back to military

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dictatorship, for the stubborn holdouts for economic isolation -
- I want to make one point clear: Hundreds of millions of Latin Americans share a faith in human freedom and opportunity. And I stand with them. As long as I am President, the United States will devote its energies to the true and lasting liberation of the people of the Western Hemisphere.

Sharing the democratic spirit makes a difference on every issue we care about: The new birth of democracy led Brazil and Argentina to join hands to halt the spread of nuclear arms. Democracy energized Brazil to slow deforestation of the Amazon rainforest. Democracy gave Argentina the will to stop the Condor ballistic missile program financed by Libya and Iraq. Colombia's democracy is leading the fight against the drug trade. And the restored democracy in Panama has passed tough new laws to combat money laundering.

And make no mistake: Political and economic freedom are inseparable. Just as people have a God-given right to choose who will govern them, they also must be free to make their own economic choices. And when we lift barriers to economic freedom within and among our countries, we unleash powerful forces of growth and creativity.

Before I leave office -- and please be assured, my timeframe is years, not months from now -- I want manufacturers in Pittsburgh to enjoy virtually the same access to markets in Monterrey as they now have in Minneapolis. With new technologies, creators of services in Denver may be able to tap

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markets in Santiago as readily as those in Chicago. And I'll work to assure that government protection and excessive regulation don't stand in their way. To do this, we'll have to overcome the stunted vision of the special interests. And I am determined that we can and will do exactly that. \\

I've made it a top priority to conclude a free trade agreement opening Mexico's markets to Canada and the United States. We can't achieve this breakthrough by equivocating between the status quo protectionists and the movement for freedom and change. Some suggest that we can hide in a cocoon of protection and still benefit from the fresh air of competition. Well, you and I know that is simply not possible. We can't have it both ways. I will fight to tear down economic barriers with Mexico and throughout the hemisphere -- and I'll fight any special interest that tries to stand in our way. \\

A common market of the United States, Mexico and Canada would be the largest in the world -- 360 million consumers in a \$6 trillion economy. Mexico is the fastest growing national market for U.S. exports today. Over the last five years, since Mexico began opening its markets and joined the GATT organization, American merchandise exports to Mexico have increased from \$12.4 billion to \$31.3 billion. Our exports of autos, auto parts, and telecommunications equipment to Mexico have doubled; our exports of corn have tripled.

It's not just the border states that profit from this growth. During my presidency, 45 of our 50 states have increased

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their exports to Mexico. Our top 10 exporters to Mexico today include Michigan, Illinois, New York, Louisiana, Pennsylvania and Florida -- as well as Texas, California and Arizona.

A NAFTA would create over 360,000 American jobs. It could increase our trade with Mexico by \$10 billion. It would create competitive efficiencies and economies of scale that will help American companies compete in world markets.

ck facts pls.

Free trade with Mexico will make both of us winners in economic endeavor -- but our relationship goes well beyond trade. We share a border two thousand miles long. We're linked by centuries-old ties of family and culture. I share a warm friendship with President Carlos Salinas -- as close a relationship as I enjoy with any other foreign leader. President Salinas is a bold and imaginative leader -- and I am committed to working with him to forge an enduring friendship between our countries, based on open trade, cooperation and mutual respect.

The North American Free Trade Agreement is only a beginning. Our Enterprise for the Americas Initiative aims to open markets, expand investment flows, reduce official debt, and strengthen the environment throughout the hemisphere. During just the past year, EAI has brought about three new debt agreements, three new environmental agreements, and 31 new framework agreements for opening trade. EAI reflects a revolution in thinking. Through EAI, the United States is not seeking to impose our ideas on our neighbors. Rather, our program is designed to empower our neighbors to succeed with reforms they have chosen to undertake.

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The courageous Latin American leaders who are reforming their economies and breaking down barriers to trade need and deserve our support. They are the true liberators of our era. Their success will mean opening up statist systems formerly rigged to protect wealthy elites and closed to working people and the poor. Free market reforms will banish burdensome regulations that now prevent the urban poor from starting new businesses or campesinos from gaining access to credit and title to their land.

Economic reform must also include honest government. Corruption is the enemy of both growth and democracy. New investment will flow only where the rule of law is secure, the courts are fair, and bidding processes are transparent.

To support reformers -- to realize the hopeful new vision in Latin America -- the United States Congress must meet its responsibility. I asked Congress for \$310 million in this fiscal year under the Enterprise for the Americas Initiative. With that authority we could write off more than \$1 billion in the hemisphere's debts and provide millions of dollars to preserve the environment. Congress did not provide a penny.

I've helped persuade our allies in Europe and Japan to contribute nearly two-thirds of a \$1.3 billion fund to help Latin American reformers. This fund, administered by the Inter-American Development Bank, would help people privatize old state enterprises at the grass roots -- with job retraining and small business loans. But Congress would not vote a penny for the U.S. share.

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I'll keep on fighting for these vital programs of the Enterprise for the Americas Initiative until I get a Congress with the vision and fortitude to provide the support they deserve. If we can aid the transformation of Eastern Europe and the old Soviet Union -- and we must do so -- then we can and we must help our closest neighbors on their peaceful road to true liberation and prosperity.

When any of us speak with our friends outside the Western Hemisphere, we need to assure them as clearly as possible: There is nothing exclusionary in our vision of open trade and economic integration in our hemisphere. Our aim is simply to lower barriers to economic freedom within and among the nations of the Western Hemisphere -- not, I repeat, not -- to create any barriers between ourselves and the nations of Africa, Europe and Asia. All of our aims are consistent with the global policies of GATT -- indeed, we urgently want to open up global markets through the current Uruguay Round of the GATT talks.

If the equivocators and the pleaders for special interests want to debate this, bring them on. \\ I will take the case for increased trade to the people in every corner of the United States. And I'll make this abundantly clear: Free trade multiplies choices for consumers. It lowers real prices and increases quality. And it creates and enhances jobs. Every billion dollars in U.S. exports supports more than 20,000 jobs in the United States.

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The status quo ~~is~~ *seizes*
the special interests.
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Five centuries ago, a man of courage and vision set out from Europe searching for new trade routes and opportunities. He defied the timid counsel of those who said the earth was flat. Christopher Columbus's voyage to the Americas transformed human history.

Today, we still have to combat the flat-earth mentality -- the mindset that urges us to barricade our borders against competition, to shut off the free exchange of food and machinery and skills and ideas.

But the future doesn't belong to the status quo. It is the legacy of people like yourselves -- people with far-sighted vision and a spirit of enterprise. The future awaiting the Americas is a time of rediscovery. A time for empowering the poor through new investment, trade and growth. A time for cultural renewal. Our efforts -- and the efforts of millions of citizens of the Americas -- can achieve new gains for honest and limited government. Together we can usher in a new order of peace and prosperity animated by personal freedom.

Thank you, and may God bless all of you.

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FORUM OF THE AMERICAS AGENDA

WEDNESDAY, APRIL 22, 1992

8:00-9:00 a.m. Registration

9:00 a.m.-
12:30 p.m. Concurrent Working Groups
(Morning Session)

• Manufacturing

Co-chairmen:

CARLOS ARTURO ANGEL,
President, Colombian National
Association of Industrialists
(ANDI), *Colombia*
REUBEN MARK, Chairman,
President and Chief Executive Officer,
Colgate-Palmolive Company,
U.S.A.

• Agriculture

Co-chairmen:

OCTAVIO CARABALLO,
Chairman and Chief Executive
Officer, Bunge y Born, *Argentina*
WHITNEY MACMILLAN,
Chairman and Chief Executive
Officer, Cargill, Inc., *U.S.A.*

• Services/Capital Markets

Co-chairmen:

JOHN M. HENNESSY,
President and Chief Executive
Officer, CS First Boston, Inc., *U.S.A.*
ALVARO SAEIH, Chairman and
Chief Executive Officer, Bancos
de Osorno y La Union, *Chile*

• Energy/Natural Resources

Co-chairmen:

C. ROBERT BLACK,
President, Texaco Latin America/
West Africa, *U.S.A.*
JULIO SOSA RODRIGUEZ,
President, Grupo Sosa Rodriguez,
Venezuela

• Sustainable Development

Co-chairmen:

ISRAEL KLABIN,
President, Brazilian Foundation for
Sustainable Development, *Brazil*
JOHN A. LUKE, President and Chief
Executive Officer, Westvaco Corp., *U.S.A.*

• Competitiveness

Co-chairmen:

LUIS BERRONDO, Executive Vice
President, Organizacion Mabe,
S.A. de C.V., *Mexico*
MARSHALL A. COHEN,
President and Chief Executive
Officer, The Molson Companies
Limited, *Canada*

• Judicial/Legal Issues

Co-chairmen:

JOSE GRANA, Chairman and Chief
Executive Officer, Grana y Montero, *Peru*
DANIEL R. MARTIN, President
and Chief Operating Officer,
E-Z-EM, Inc., *U.S.A.*

12:30-2:30 p.m. Luncheon Address

HENRY A. KISSINGER,
Kissinger Associates

2:30-5:30 p.m. Concurrent Working Groups
(Afternoon Session)

6:00-9:00 p.m. Kennedy Center Reception/Concert

THURSDAY, APRIL 23, 1992

8:00-8:30 a.m. Registration

8:30-9:45 a.m. Session I

"The World Trading System:
Bloc Versus GATT"

ARTHUR DUNKEL, Director
General, GATT
DOMINGO CAVALLO,
Minister of Economy, *Argentina*

10:00 a.m.-

12:00 p.m.

Session II

"Regional Agreements in the
Western Hemisphere"

NICOLAS ARDITO BARLETTA,
Former President of Panama

FRANCISCO GROS, President,
Central Bank, *Brazil*
JAIME SERRA PUCHE, Secretary of
Commerce and Industrial Development,
Mexico

12:00-2:00 p.m. Reception/Luncheon Address
"An Agenda for the Future"

DAVID ROCKEFELLER, Chairman,
Americas Society/Council of the Americas

2:30-4:15 p.m. Session III

"A Single Market in the Hemisphere:
Is It Realistic?"

4:30-6:00 p.m. Session IV

"Confronting the Policy Issues"

7:00-10:00 p.m. Reception and Dinner Address

GEORGE BUSH, President of the
United States (Confirmed subject to
unforeseen events)

FORUM OF THE AMERICAS

Nearing the end of the twentieth century, the world has reached an historic crossroads. In Europe the formation of a real common market is near at hand; in Eastern Europe and the ex-Soviet lands, market-oriented reforms are being tested in newly formed democracies; in the Western Hemisphere significant economic reforms have led to an improved business climate and the possibility of hemisphere-wide open trade. Today, open economies, trade, and private enterprise are the moving forces which promise to create high levels of economic growth and opportunity for all. President Bush's Enterprise for the Americas Initiative has been welcomed throughout the hemisphere. There is no better time than now for the private sectors in Latin America, the Caribbean, Canada and the United States to affirm the present course and lend strength to the political and policy process that must underlie the shift to open markets.

The Forum Of The Americas is a high-level, multinational public policy conference aimed at building broad-based support in the international business community for a vast free trade and investment area encompassing the entire Western Hemisphere. The Forum will serve as an excellent means of enhancing public understanding of how trade liberalization and economic integration contribute to growth and human development.

The Forum is designed to be a participatory event enabling conferees maximum opportunity to become individually engaged with the core issues involved in shaping new economic relationships among the countries of the Americas.

April 22, the first day of the Forum, is devoted to seven Working Groups which will discuss in detail the background and central questions involved in transforming

the hemispheric economy. Four business sectors and three issue-related areas will be considered. Each Working Group will be co-chaired by two prominent business leaders, drawn from major multinational corporations located in countries throughout the hemisphere, assisted by a professional project director familiar with the subject matter. The Working Groups provide an opportunity for conference participants to immerse themselves in a single issue. Each group will formulate a short policy paper to be presented to the Forum's plenary session and ultimately published as a Forum document.

April 23, the second day of the Forum, will be the plenary session. The morning meeting will be devoted to a discussion of the current state of the world trading system. Speakers will focus on the controversial issue of blocs versus GATT; an update on the progress toward a North American Free Trade Area; and prospects for the subregional groups MERCOSUR, CARICOM, and the Andean and Central American Common Markets.

The afternoon of the plenary session will be devoted to consideration of the Working Groups papers. Two panels of experts will comment on the substance of the Working Groups papers in a dialogue with the groups chairmen.

The final result of the Forum of the Americas will be a conference document which will embody the Working Groups papers, a summary of plenary discussions and a set of specific observations and recommendations. These will be forwarded to appropriate government authorities, political figures and policy makers around the hemisphere, and will serve participants in the ongoing task of advocating the Forum's goal of achieving a free trade and investment area in the Western Hemisphere by the year 2000.

"WORKING GROUP" PROJECT DIRECTORS SELECTED

World-class professionals have been selected to serve as Project Directors for each of the seven Working Groups that will meet separately on the opening day, Wednesday, April 22, of the "Forum of the Americas, Open Trade and Investment: A Vision and an Agenda for the Americas." The Project Directors — working in cooperation with the co-chairmen of each Working Group — will each prepare a draft issue paper to be distributed prior to the opening session to the conference participants electing to take part in that particular Working Group. The seven Working Groups meeting separately on the first day of the conference will draw upon the Project Director's draft to prepare a brief report — including dissenting views if necessary — which will be presented by the Working Group chairmen to the Forum's plenary session on the second, closing afternoon of the conference. The Working Group papers will be reviewed, debated, and approved by consensus with any revisions necessary at the second afternoon's plenary session.

The conference's sponsors will subsequently publish a Forum of the Americas conference document to include the revised Working Group papers, a summary of plenary discussions and President Bush's address to the Forum, as well as other relevant observations and recommendations. This document will be presented to appropriate government authorities, political figures and policymakers in both the public and private sectors throughout the hemisphere. The conference document will also serve participants as a blueprint/action agenda in the on-going task of seeking the implementation of the Forum's goal of achieving open trade and investment in the Western Hemisphere.

There follows a list of the seven Working Groups and the Project Directors who have been selected:

Economic Sectors

- **MANUFACTURING** (Including automobile assembly and textiles and apparel.)

Gary Clyde Hufbauer is Marcus Wallenberg Professor of International Financial Diplomacy at Georgetown University and a Visiting Fellow at the Institute for International Economics. He was formerly Deputy Assistant Secretary of the Treasury for International Trade and Investment, and Director of the International Tax Staff at the Treasury. He is the author of numerous publications on international trade, investment and tax issues. Professor Hufbauer is the coauthor of the soon-to-be-released book, *North American Free Trade: Issues and Recommendations*.

- **AGRICULTURE** (Including processed agricultural products.)

Alejandro Vegh Villegas is Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay at the International Monetary Fund, Washington, D.C. Dr. Villegas served as the Finance Minister of Uruguay on two occasions, and was Uruguay's Ambassador to the United States in 1982-83. Amb. Villegas received his Ph.D. degree in economics from Harvard University in 1960.

- **ENERGY/NATURAL RESOURCES** (Non-renewable resources including oil, natural gas, and minerals.)

J. Michael Trevino, Manager, Public Affairs, Texaco Latin America/West Africa, Coral Gables, Florida.

- **SERVICES/CAPITAL MARKETS** (Including banking, finance, retailing, insurance, and construction.)

Carlos Langoni, Director, Nucleo de Economia Mundial, Fundacao Getulio Vargas, Rio de Janeiro, Brazil. Dr. Langoni was a former head of the Central Bank of Brazil. He has written widely on debt and financial issues.

Issue Areas

- **SUSTAINABLE DEVELOPMENT** (Environmental impact of open trade and investment, focusing on balancing environmental concerns with those of economic growth and human development.)

Marclo Fortes, Brazilian engineer and businessman. Brazilian representative to the Business Council for Sustainable Development. Resident in Rio de Janeiro.

R. Scott Wallinger, Senior Vice President, Westvaco Corporation.

- **COMPETITIVENESS** (Labor issues, training and education, focusing on those areas in which business and union actions and government policy significantly affect a country's comparative advantage.)

Joseph D'Cruz, Associate Professor of Strategic Management, University of Toronto, Canada.

- **LEGAL/JUDICIAL ISSUES** (Regulatory and judicial practices effects on trade, investment, economic growth and human development. Focus on property rights, including intellectual property rights; contract enforcement; and transaction costs.)

Robert M. Sherwood, international business counselor, Alexandria, Virginia. Mr. Sherwood leads the Brazil Ad Hoc Group on Intellectual Property and the World Bank Intellectual Property Initiative. Former corporate attorney with INCO and Pfizer. Mr. Sherwood is a graduate of Harvard College and Harvard Law School.

FORUM OF THE AMERICAS

*A Public Policy Conference on
Open Trade and Investment:
A Vision and an Agenda for the Americas*

President George Bush will be the closing dinner speaker at the Forum of the Americas—a greatly enlarged public policy conference—which will replace the 1992 annual Washington Conference of the Council of the Americas. The Forum will take place at the Sheraton Washington Hotel, Wednesday and Thursday, April 22-23, 1992. It will be a high-level, multinational public policy conference in which 300-400 private-sector leaders from throughout the hemisphere will participate.

Purpose

To build broad-based support in the international business community for a free trade and investment area encompassing the Western Hemisphere and to serve as an effective means of enhancing public understanding of how trade liberalization, economic integration, and private enterprise contribute to growth and human development.

The Focus

The timing of the Forum is especially apt. Within the Western Hemisphere significant economic reforms have led to an improved business climate and the possibility of hemisphere-wide open trade. Previously lagging integration movements have been energized by President Bush's June 27, 1990, announcement of the Enterprise for the Americas Initiative, calling for an eventual free trade area in the Hemisphere.

Throughout the world, market-based economies, liberalized trade, and private enterprise are the moving forces which promise to create high levels of economic growth and

opportunity for all. The North American Free Trade Area (NAFTA) negotiations among Mexico, Canada and the United States have been underway for nine months and are well advanced. While elections in the United States and Canada could delay conclusion of the negotiations until 1993, Mexico's actions to open its economy, begun over six years ago, are already bringing successful results. In addition, the economic effects of the anticipated NAFTA agreement are already being reflected in increasing trade and investment flows.

In Europe the formation of a common market is near achievement, even while negotiations continue to add additional European countries to the trading area. In Eastern Europe and the ex-Soviet lands, market-oriented reforms are being tested in newly formed democracies, many of which also aspire to eventual participation in the European Community. Now is the time for the private sectors in Latin America, the Caribbean, Canada and the United States to affirm the present course and lend strength to the political and policy process that must underlie the shift to open markets.

The Design

The Forum is designed to be a participatory event providing conferees maximum opportunity to become individually engaged with the core issues involved in shaping new economic relationships among the countries of the Americas. Seven working groups will prepare brief analytical papers with recommendations—including any differences of opinion—which will be reviewed with a panel of experts and the Forum as a whole. The papers and a summary of the conference discussions will be published as the "action agenda" for follow-through in the decade ahead.

The Forum also differs from past Washington Conferences in that, in addition to U.S. corporate leaders active in Latin America, outstanding business leaders from Latin America and Canada are playing key roles in both the design and execution of the conference. The Forum sponsors are:

- The Americas Society and its business affiliate, the Council of the Americas;
- Consejo Empresario de America Latina; and
- Business Council on National Issues of Canada.

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Also cooperating is the International Center for Economic Growth of San Francisco, California. This unique combination of the highest-level business leaders in the hemisphere will ensure that private sector views from throughout the hemisphere are heard.

The Program

The *opening day* of the Forum, Wednesday, April 22, will be devoted to seven Working Groups (see box for brief description of each group) which will discuss in detail the background and central questions involved in transforming the hemispheric economy from the point of view of that working group. To be considered are four business sectors—manufacturing, agriculture, services/capital markets, and energy/natural resources—and three issue-related areas—sustainable development, competitiveness (education/employment), and judicial/legal issues.

Each Working Group will be co-chaired by two prominent business leaders, drawn from major multinational corporations throughout the hemisphere. They will be assisted by a project director who is a professional deeply immersed in the subject matter. The *Working Groups* provide an opportunity for conference participants to involve themselves in developing recommendations for one specific sector or issue.

The Working Groups will be asked to focus their discussions on:

- expectations and apprehensions as to the results of opening trade and investment;
- realistic assumptions of the process and results; and
- obstacles to their achievement and ways to remove them.

The project director will prepare a draft issue paper to be distributed beforehand to Working Group participants. The Working Group will then prepare its report to be presented to the Forum's plenary session by the Working Group chairmen and published as a Forum document.

The reports will focus on:

- major issues of concern to business regarding open trade and investment and the process of reaching it; and
- the means by which open trade and investment can contribute to sustained economic growth and broad-based human development.

The report will reflect both consensus views as well as any strongly-held contrary views.

Henry Kissinger, former Secretary of State, will give the luncheon address on the first day of the conference to place the evolution of the global economy—with its regional trade groupings—into the perspective of global political transformation following the demise of communism.

The *plenary session* will be held on the *second day* of the Forum, Thursday, April 23. The morning session will be devoted to a discussion of the current state of the world trading system, including the controversial issue of the compatibility of regional trading blocs with the global multilateral trading system based on the General Agreement on Tariffs and Trade (GATT). **Arthur Dunkel**, the Director General of GATT, will lead the discussion which will occur shortly after a key date has passed for the conclusion of the current Uruguay

THE FORUM OF THE AMERICAS

Description of Working Groups

Economic Sectors

- **Manufacturing**
Including automobile assembly and textiles and apparel
- **Agriculture**
Including processed agricultural products
- **Energy/Natural Resources**
Non-renewable resources including oil, natural gas, and minerals
- **Services/Capital Markets**
Including banking, finance, retailing, insurance, and construction

Issue Areas

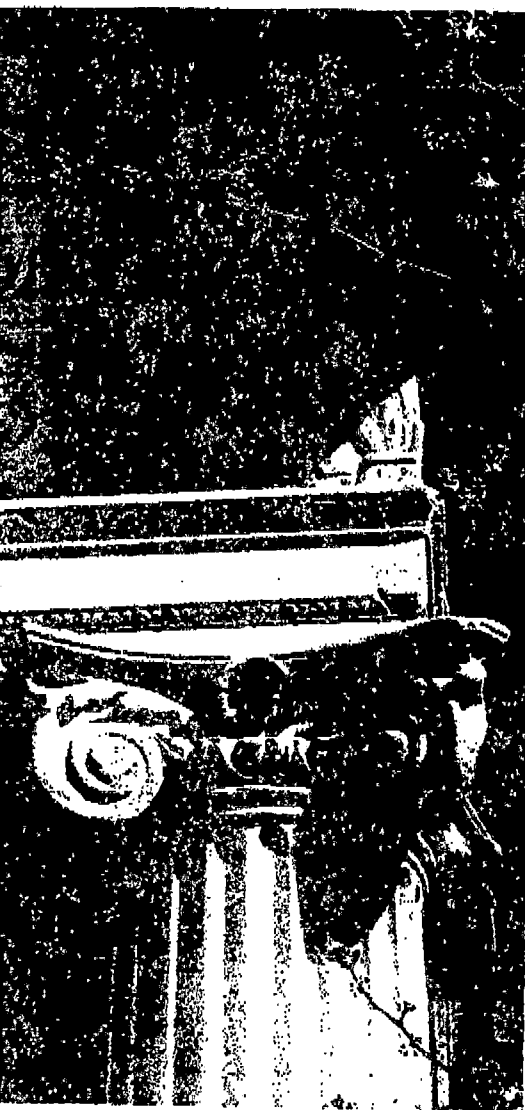
- **Sustainable Development**
The environmental impact of open trade and investment has been raised as an issue in trade negotiations. This Working Group will review the major issues raised, from both a Latin American and North American perspective, and set forth a response focusing on how to balance environmental concerns with those for economic growth and human development.
- **Competitiveness**
This Working Group will deal with labor issues, training and education, focusing on those areas in which business and union actions and government policy can have a significant effect on a country's comparative advantage.
- **Legal/Judicial Issues**
Regulatory and judicial practices have a significant effect not only on trade and investment but on the ability of a country to advance in economic growth and human development as result of more open trade and investments. This Working Group will focus on areas of concern in both Latin America and North America such as property rights, including intellectual property rights; contract enforcement; and transaction costs.

Round of global trade negotiations. A Western Hemisphere viewpoint on this issue will be given by **Domingo Cavallo**, Argentina's Minister of Economy.

Jaime Serra Puche, Mexico's Secretary of Commerce and Industrial Development, has been invited to give an update on the progress toward a North American Free Trade Area. **Francisco Gros**, Brazil's Central Bank President, has been invited to review the prospects for the subregional group MERCOSUR. The Andean Common Market will be

(continued on page 8)

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The Americas Society is a unique national not-for-profit institution dedicated to informing the people of the United States about the societies and cultures of their Western Hemisphere neighbors. The goal of the Society is 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 its neighbors.

The Society strives to achieve this goal 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. High priority is given to providing information useful to the policy-making process toward Latin America and to developing channels of communication with governments and private groups and institutions in the region. Topics are addressed in lectures by distinguished speakers, in conferences and other meetings and publications aimed at informing the public.

The Canadian Affairs program addresses policy issues of importance to the Canada-United States relationship. The program, founded in 1981, provides an influential American audience with a clear understanding of such pertinent bilateral issues as trade, investment, health care, regional security, energy and the environment. In its two dozen or more events each year, the program also examines the fundamental differences between two nations in the broader cultural and political sense.

The Cultural Affairs division is comprised of the departments of Visual Arts, Education and Literature. Through its exhibition program, the Visual Arts program exposes the American public to a wide variety of cultural traditions in the Americas. The Americas Society Art Gallery has achieved an international reputation for presenting some of the outstanding artistic achievements of the Western Hemisphere. The Education department organizes scholarly lectures, gallery tours and special outreach activities for New York City's public schools and community groups. The Literature department of the Cultural Affairs division promotes Latin American literature in English translation and publishes its critically acclaimed biannual journal, *Review: Latin American Literature and Arts*.

Also affiliated with the Americas Society is the Council of the Americas which is a United States business organization made up of multinational corporations with interests in Latin America and the Caribbean.

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Miguel Espinal

Left to right: Amb. George W. Landau, President, Council of the Americas; Ana Milena de Gaviria; César Gaviria Trujillo, President of Colombia and David Rockefeller, Chairman, Council of the Americas.

As we look to the future, it is important to acknowledge the new forces that are shaping international affairs in the post-Cold War era. The collapse of communism in Eastern Europe and the diminishing threat of the Soviet Union coincide with the movement toward democratic government nearly everywhere. Equally significant, the movement toward a truly global economy is occurring in the context of the widespread acceptance of open markets and free enterprise.

Latin America is deeply involved in these processes of change. As the 1990s begin, the region is in the unprecedented situation of having democratically elected presidents at the helm of all its governments, with the notable exception of Cuba. Latin America is also undergoing a profound economic restructuring, substituting obsolete and inefficient protectionist policies for more liberal ones that are accelerating the region's integration into the rapidly changing world economy.

In response to these dramatic and positive changes, President Bush has called for a renewed partnership between the United States and Latin America aimed at

achieving greater economic growth and development in the hemisphere. Prefigured by his remarks to the 1990 Washington Conference of the Council of the Americas, the President announced his Enterprise for the Americas Initiative in June 1990. A realistic and pragmatic plan, the Initiative provides for further debt reduction and new investment incentives and calls for the eventual creation of a Western Hemisphere Free Trade Area. Unlike previous U.S. government efforts, the Initiative focuses on the dynamic, wealth-creating potential of private enterprise and seeks to reinforce Latin America's movement toward open and competitive economies.

The president's Initiative has captured the imagination of Latin America's new, democratic and reform-minded leaders. They have responded by accelerating their efforts to open and privatize their economies as well as create subregional free trade agreements to serve as stepping stones toward hemispheric free trade. Mexico, Canada and the United States are already actively negotiating a North American Free Trade Area, which would establish a market of 365 million people. If successfully extended

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to the rest of the hemisphere, the resulting market of 700 million people would exceed the population of Eastern and Western Europe combined.

We believe that a hemispheric free trade area is a truly grand vision that fully warrants our enthusiastic support. Unfortunately, despite the warm support that the Enterprise for the Americas Initiative has received in Latin America, little public attention has been focused on it in this country due to the more dramatic international events and pressing domestic needs. The Americas Society and the Council of the Americas have been trying to correct this situation by making the Initiative and the prospective free trade agreements priority issues for discussion and action.

The Americas Society is ideally positioned to play a key role in helping Latin America, Canada and the United States take advantage of the unprecedented opportunity before us to consolidate a more mutually beneficial and constructive hemispheric partnership. From the beginning, the Americas Society and its business affiliate, the Council of the Americas have been dedicated to fostering a stronger sense of community among the nations of the Western Hemisphere. The fact that Latin America is now largely democratic and interested in greater economic integration with the United States and Canada makes our role more important than ever and we are eager to meet the exciting challenge before us.

The pages of this annual report show that we have sponsored a great number of conferences, seminars and speakers with the aim of increasing public understanding of the economic and political forces that are transforming Latin America and U.S.-Latin American relations. Most noteworthy is the fact that we hosted the New York City visits of seven Latin American and Caribbean heads of state during 1990, an accomplishment without precedent in our history. We also provided a platform for Latin American leaders actively engaged in promoting and implementing privatization policies and new foreign investment laws and trade regimes to discuss their efforts and plans with interested members of the business community, the media and the academic community.

In an effort to explore in more detail the implications of the new international environment, the Americas Society organized a study group on "Latin America: U.S. Policy after the Cold War." Papers written for the group will be published as a book in 1991. Our new Ambassadors Lecture Series featured as speakers Latin American ambassadors accredited to Washington, the United Nations and the Organization of American States. And in recognition of the ongoing efforts strengthening democracy in the region, the Society launched a new "Election Series," which featured an important panel discussion on the Nicaraguan election of February 1990.

Because of the growing movement toward North American free trade, the Latin American Affairs and Canadian Affairs Departments of the Americas Society cosponsored a number of programs that highlighted the points of agreement as well as potential difficulties in moving toward a single North American market. Latin American Affairs also sponsored a conference on Mexico, while the annual meeting of Canadian Affairs explored Canada's role in and attitude toward the free trade negotiations. The Council of the Americas actively worked with the Bush administration and lobbied the U.S. Congress to help turn the concepts of North American and hemispheric free trade into realities.

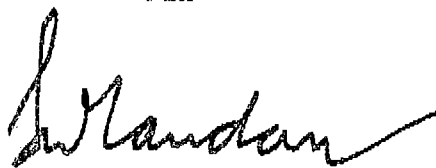
In recognition of the growing leadership role of Mexico in the movement toward hemispheric free trade, the Chairman's International Advisory Council held its 1990 Winter Meeting there. President Carlos Salinas de Gortari and his economic team addressed the membership on Mexico's economic and political reforms. Discussions were also held in Mexico City and Monterrey with leaders of Mexico's private sector.

The Society's cultural programs continued to expand. The Visual Arts department sponsored a critically acclaimed exhibition of contemporary Mexican painting, which drew an unprecedented audience and was very well reviewed. The exhibition, which was honored by a visit by the First Lady of Mexico, coincided with the Metropolitan Museum's gala exhibition, "Thirty Centuries of Mexican Splendor." The exhibition of the work of five contemporary Argentine women painters also broke new ground. The Literature department offered a fine series of lectures to complement both exhibitions, as well as others reflecting new hemispheric literary trends, and continued to publish its much praised *Review: Latin American Literature and Arts*.

After the "lost decade" of the 1980s, the 1990s could become Latin America's "growth decade." The Americas Society is excited about the new opportunities for developing a mutually beneficial and ever more cooperative relationship with the countries of the hemisphere during the coming years and will continue to work hard to help create this modern and dynamic Western Hemisphere.



David Rockefeller



George W. Landau

Peru's Brutal Insurgency: *Sendero Luminoso*

Bernard W. Aronson, Assistant Secretary
for Inter-American Affairs

Statement before the Subcommittee on Western Hemisphere Affairs
of the House Foreign Affairs Committee, March 12, 1992

I appreciate this opportunity to discuss the Communist Party of Peru—usually known as *Sendero Luminoso*, or Shining Path—with you. I want to begin by commending you, Mr. Chairman, and the members of this subcommittee for devoting your attention to one of the most important, and least discussed, issues in this hemisphere.

A little over a half century ago, Nazi Germany exterminated one-third of the Jewish population in the world—mothers, fathers, and children—while the world stood by and failed to stop it. After the Holocaust, the world community vowed “Never again.” But in the 1970s, in Cambodia under Pol Pot, we saw genocide repeated. We need to learn that lesson and never repeat it again.

We welcome these hearings and asked that you hold them to stimulate public discussion about an important policy issue. The congressional foreign affairs committees have a long tradition of fostering public discussion of difficult foreign policy questions. Under your leadership, Mr. Chairman, this subcommittee has focused public attention on key questions concerning US interests in this hemisphere. It is in that spirit that I asked the opportunity to testify.

What I would like to do is begin a dialogue with the Congress about what needs to be done in Peru. I hope this hearing generates wider public debate here and abroad on what can be done to strengthen a democratic government that is confronting this hemisphere's most brutal insurgency.

Sendero Luminoso's Aims and Activities

Sendero Luminoso is unlike any other insurgent or terrorist group that has ever operated in Latin America. Put out of your mind the FMLN [Farabundo Marti National Liberation Front] of El Salvador which just signed a peace agreement, the Sandinistas in Nicaragua who allowed themselves to be voted out of office, the M-19 of Colombia, and other South American insurgencies that have ended their violent struggle to take advantage of the political space open to the peaceful, democratic left. *Sendero Luminoso* is in a category by itself.

There are other communist insurgencies, but only *Sendero* saw the fall of Eastern European communist governments as a positive step where the people overthrew decadent, bourgeois communism to make way for pure communism; *Sendero* bombed the North Korean commercial office in Lima and believes Fidel Castro is a US lackey. Latin America has seen violence and terror but none like *Sendero's*, where children are forced to commit acts of brutality as part of their indoctrination [and] where entire towns are forced to witness the so-called trial, torture, and killing of nuns or municipal leaders. Latin America has seen many variations of the Marxist vision but none so sweeping as *Sendero's* war against “Western culture.” A *Sendero* victory would compare not to Cuba under Castro or Nicaragua under the Sandinistas but to Cambodia under Pol Pot.

In the words of [*Sendero's* leader] Abimael Guzman,

“We start from a principle established by Chairman Mao: Violence is a universal law with no exception. . . . without revolutionary violence we cannot replace one class for another. . . .”

The revolution will triumph, according to Guzman, after the Peruvian people “cross over the river of blood” to the other side.

Make no mistake: If *Sendero* were to take power, we would see this century's third genocide. Luis Arce Borja, *Sendero's* representative in Europe, told a Lima newspaper last November that the current stage of the war—“strategic equilibrium”—will cost 1 million Peruvian lives.

Sendero began its armed campaign in 1981 just as Peru returned to democratic government. It is a movement of the “unreconstructed” Peruvian left born in protest against Peru's return to democracy. When most of Peru's left decided to re-enter the democratic process, a small, fringe, university-based Marxist elite cried “treason” and evolved into *Sendero Luminoso*.

Its founders, especially the undisputed leader Abimael Guzman, the so-called Presidente Gonzalo, were deeply influenced by Chinese communism during the Cultural Revolution and brought a strong Maoist orientation to *Sendero*, hence the strategy of a rural, peasant-based movement that hopes to capture the cities as its final objective.

Sendero takes advantage of two factors unique to Peru. In its ideology, it plays on the sharp division of Peruvian society between white descendants of the Spaniards, the mestizos, and the rural indigenous Indian population, much of which speaks only Quechua, the language of the Incas. In its finances, it profits from Peru's key role in cocaine production. We do not believe that *Sendero* receives significant material or financial support from foreign governments or revolutionary movements, but it does raise funds from gullible publics in Europe.

Roughly estimated, we believe *Sendero* has 3,000-5,000 full-time armed fighters and up to twice that many part-time militia. Including political cadre of various types, *Sendero* may be able to count on as many as 25,000 supporters. In addition, 15%-20% of Peru's population lives in "pink" or "red" zones under significant or predominant *Sendero* influence. Some of these citizens provide support out of intimidation and fear.

In response to the combined threat of *Sendero* and the Tupac Amaru (MRTA) guerrillas, about one-third of Peru's 183 provinces and nearly half of its people have been placed under "emergency zones" where civilian rule is suspended and the local military commander is effectively in charge of government and security.

Sendero knows that in the past 2 decades, the expansion of participatory democracy in Latin America has delegitimized revolutionary movements. From El Salvador to Chile, violent revolutionaries lost their *raison d'être* as democracy grew and citizens gained a real role in governing their own affairs.

Sendero's strategy, then, is to use violence to destroy democratic institutions, to stop citizens from participating in local government, to destroy the functioning economy, and to cripple programs which provide aid and services to the population. This form of terror often succeeds. Mayors and municipal leaders refuse to run—or take office—because not only will they be targeted by *Sendero*, but their families and the entire community will be subject to *Sendero's* terror. *Sendero's* intimidation caused a round of municipal elections scheduled for 1989 to be delayed until 1991. When the balloting was held last August, guerrilla intimidation prevented candidates from running in 104 towns. Overall, elections had to be annulled in 220 out of 498 jurisdictions because either no candidate ran, the winner resigned after being elected, or too few people cast ballots.

In *Sendero's* mind, any Peruvian or any foreigner who takes up the democratic cause, tries to ease human suffering, or resists terrorist threats is hampering the development of revolutionary consciousness and delaying the

day when the people will turn to armed revolt. That makes them targets for terror:

- Last May 18, *Sendero* terrorists publicly shot to death [an] Australian nun, Sister Irene McCormick, of the Catholic relief organization Caritas, who worked to help the poorest of Peru's poor in Junin department. Her body was left lying where it fell for 24 hours on orders from *Sendero*.

- *Sendero* has bombed Catholic and Baptist churches and murdered religious workers. On August 22, 1990, *Sendero* killed two young Baptist missionaries in Junin, one with a knife thrust through his neck.

- Norman Tattersall, a Canadian working in Lima with the Protestant social services organization World Vision, lost his life in a *Sendero* attack last May 17, as did his Colombian associate Jose Chuquin.

- In January 1990, a *Sendero* group, mostly of children under 16, shot two French tourists they took off a bus passing through a rural area. The youngest member of the group was made to beat one of the victims' skulls with a large rock until it was completely crushed.

- Two other tourists were taken off a bus, tortured, and shot in November 1989. In this killing, *Sendero* slashed a young woman's chest and stomach so badly that it had to be bound to hold in its internal organs before it could be moved.

- *Sendero* killed two Polish and one Italian priest who worked with poor children in Ancash department last August.

- Last July 12, *Sendero* murdered three Japanese development workers near Huaral. The Japanese have withdrawn most of their aid workers in response to this and other attacks.

- On February 15, Maria Elena Moyano, Vice Mayor of Lima's largest shanty town of Villa El Salvador, was leaving a neighborhood barbecue party with her family. She had met Senator [Mark] Hatfield and Assistant Secretary of State for Human Rights Richard Shifter in Lima last fall. She bravely, vocally, and actively resisted *Sendero* terror, even after they bombed the local community food warehouse. *Sendero* assassins shot her

point-blank then threw a dynamite charge that scattered pieces of her body over 100 yards away.

- Juana Lopez directed the Glass of Milk feeding program in Callao, north of Lima. *Sendero* killed her and others last fall in attacks against food distribution and emergency aid projects.

- Andres Davila Arnao organized a local self-defense force to protect his neighborhood against *Sendero* brutality. He was killed February 17 just outside of Lima.

- A Catholic priest from the Ayacucho area told of ritual murders of peasants who refused to cooperate with or tried to escape from *Sendero* during its early years of terror. After a so-called people's trial, victims were stripped and tied to a post in the town square. Every person in the town—men, women, and children—was forced to cut a piece of flesh from the living body. The *Sendero* torture went on for as long as an hour before victims died from shock and loss of blood.

- Peruvian police found the body of a fellow officer in the summer of 1989, completely eviscerated and filled with human feces—*Sendero's* work.

- *Sendero* assassins machine-gunned the mayor of one small town, then set off a dynamite charge in his lap, while they forced his wife and four children to watch.

- *Sendero's* campaign against Peru's Ashaninka Indians in 1990 and 1991 was terrifying in its brutality: A 14-year-old struck in the head with a machete, shot, stabbed, and dumped in a river; victims doused in gasoline and set afire; children forced to eat their parents' tongues.

- A November 1991 *Sendero* attack on a village near Ayacucho left 37 dead, including 9 children.

- Since 1980, *Sendero* has killed 42 Peruvians working with US Government development projects.

On February 14, *Sendero* climaxed a bombing campaign against government offices, banks, diplomatic missions—including US Ambassador Quainton's residence, where a bomb killed three Peruvian policemen and severely damaged a security wall—and other targets with an "armed strike" in Lima. Armed strikes are a long-standing *Sendero* tactic in which the guerrillas seek to enforce compliance

assisted in professionalizing themselves with training, equipment, technical assistance, and human rights standards.

Fourth, Peru must fundamentally reform and strengthen its system for administering justice. Peru must ensure swift, efficient due process that protects the innocent but also a system of justice that prosecutes terrorists effectively while safeguarding judges and jurors and police officials. Today the conviction rate for accused terrorists is less than 10%. Prosecutors and police are underpaid and ill-equipped. They lack law books, typewriters, and even buses to transport prisoners. Corruption must be rooted out of judicial systems as well.

We are now in the third year of a \$3.4-million US Agency for International Development (USAID) administration of justice program. That program supports Peruvian efforts to establish a national register of detainees; increase cooperation between prosecutors, judges, and police; and improve access to legal services. USAID is developing new programs to help improve court information systems, implement the new procedural code, establish legal aid offices, and provide technical support and equipment. Peru has asked for our help to consolidate its three existing police organizations into a single national police force, determine future training needs, and recommend needed legal reforms. Our USAID program foresees the creation of a nonpartisan, public-private sector institution to develop a national consensus on—and national support for—judicial reform. The \$5 million we plan to request for this 3- to 5-year program will be money well spent.

Our \$500,000 ICITAP [US Department of Justice's International Criminal Investigative Training Assistance Program] has trained 120 Peruvian judges, prosecutors, and police officers in proper police and investigative techniques. We turned over the materials used in these programs to the Peruvians so they can train additional personnel. We plan a pilot human rights training course for police officers next year.

Fifth, we and the international community must go forward with our commitments made at Cartagena and, now, San Antonio. Contrary to conventional myth, this does not mean militarization of the drug war. It requires, first and foremost—by the United States and, hopefully, by the European democracies as well—continued, steady, sustained effort to reduce the demand for drugs, and here the United States has a record that shows progress. It involves sustained, multilateral efforts to attack the drug trafficking cartels in every area: the chemicals they transport and ship, the money they launder, the aircraft and ships that move their product, and the corruption they breed.

I understand why Peru places *Sendero* higher on their list of priorities than coca leaf. I also understand why the United States, when it thinks about Peru, thinks about cocaine. But that does not mean we cannot cooperate in ways that strengthen the ability of both governments to deal with their relative priorities.

The problem of cocaine production is related to the problem of insurgency. *Sendero* earns money from the drug traffickers by having its units protect coca processing labs. But *Sendero*'s role is often more direct. In large parts of the Huallaga Valley, *Sendero* is the drug business: It allocates land [and] dictates prices paid to coca farmers then negotiates and sells directly to the Colombian cartels.

The Upper Huallaga Valley is *Sendero*'s chief logistical base; *Sendero* controls about 30,000 hectares there, amounting to over half the valley's coca leaf cultivation. The guerrillas "tax" narcotics flights, earning \$5,000-\$15,000 for each use of an airport they control. These funds give *Sendero* access to weapons they otherwise wouldn't get. Captured documents show that in 1989, for example, *Sendero* was able to buy some Belgian-made assault rifles from drug traffickers.

Both we and the Peruvian Government are working to create alternative economic development to replace coca cultivation. However, that work won't succeed in Peru unless we drive the price of coca leaf down and provide security to allow alternative development to go forward. *Sendero* has destroyed roads and bridges linking the

Huallaga Valley to Lima and killed development workers as part of a strategy to isolate the coca farmers and make them dependent on *Sendero*. Adequate security for development efforts will require assistance to the police, and, in some instances, the military is needed. I believe we made a mistake in depriving the army of these funds in this year's aid package. We fully share the Congress' concerns about human rights in Peru. We also believe that our engagement will do more than get better results in the drug war—it will further the progress President Fujimori is already making in advancing the cause of human rights.

Alternative economic development for coca farmers is a fundamental goal of both Peru and the United States in its counter-narcotics strategy. Despite the difficulties, through our aid in the Upper Huallaga project, more than 14,000 farmers have received technical assistance and planted more than 1,700 demonstration plots. More than 2,100 agricultural loans and 4,700 land titles have been provided to farmers. A total of 1,256 kilometers of road and 12 bridges have been rehabilitated, thereby reducing travel time by 60% along a key section of the coastal road from the valley to the coast. The project has provided 38 potable water systems, 16 medical posts, and 88 water pumps as well as scores of community vegetable gardens. Still, serious alternative economic development programs cannot go forward without providing security.

[Sixth], the international community should also support the efforts of Peru and Ecuador to finally resolve their longstanding border dispute stemming from the conflict fought between them in 1942. President Fujimori courageously was the first Peruvian President to visit Quito last January, and President Borja has agreed to make a return visit. President Bush praised these efforts at the San Antonio drug summit. As a guarantor of the 1942 Rio Protocols, the United States has a role to play in supporting this diplomacy. For, despite the fundamental threat which *Sendero* poses, the bulk of Peru's army is still organized, mobilized, and stationed to deal with the threat of conflict with neighbors like Ecuador

with the strike through waves of killings against those who dare to go to work. Despite numerous bombings in last month's strike, Lima citizens tried bravely to go about their business.

This past decade of violence has cost Peru 24,000 lives and about \$20 billion in economic damage—about 1 year's GNP.

What Can Be Done About *Sendero Luminoso*

The crucial question is what can be done about the threat of *Sendero*. There are no easy answers. But I agree wholeheartedly with statements members of the subcommittee made yesterday: *Sendero* confronts us not only with a question of geopolitical interest but also with the defense of fundamental moral values.

Sendero will only be defeated by Peruvians. There is no US solution to this threat. Still, the United States can and must help and so must the democratic community worldwide.

Scott Palmer, who testified yesterday, posed the problem well. He said revolutions don't succeed; governments fail. Therefore, our challenge is to help the Peruvian Government succeed in its expressed agenda of strengthening democratic institutions, reviving the Peruvian economy, meeting long neglected social needs, strengthening the capacity of peasant farmers to develop alternatives to coca leaf production, and defending human rights.

First, the international community and respected human rights organizations must focus the spotlight of world attention on the threat which *Sendero* poses. I am not suggesting that the Peruvian Government get a pass on human rights. They should not, and they will not. But if the world had held tribunals, issued reports, and alerted governments and multilateral institutions to the threat that the Khmer Rouge posed to Cambodia early in the 1970s, perhaps the horrors of its rule might have been averted in time.

Second, *Sendero* does not operate in a vacuum. Two-thirds of Peruvians live in poverty today; that human misery offers fertile breeding grounds for a messianic group like *Sendero*.

The guerrillas take advantage of Peru's profound economic crisis, and the international community must help the Peruvian Government to overcome that crisis.

When President Fujimori took office 20 months ago, Peru's 1990 GDP was down 22% from only 2 years before. It would take Peru 12 straight years of 5% growth to get per capita income back to 1987 levels. Inflation ran at a staggering 7,650%. The previous government's suspension of external debt payments cut off Peru from any resources of the international financial institutions—the IMF [International Monetary Fund], the IDB [Inter-American Development Bank], [and] the IBRD [International Bank for Reconstruction and Development]. Peru's debts totaled \$22 billion; fully two-thirds of Peru's external debt was in arrears.

President Fujimori has proven one of the boldest, most far-reaching reformers in today's generation of Latin American leaders. He slashed inflation to 220% in 1990; in December 1991, inflation was only 3.7%—under 55% annually. He balanced Peru's budget, ended longstanding price controls and subsidies, and reduced the government payroll by 50,000 employees. Peru's average tariff, 80% in August 1990, is down to 17% today. Almost all barriers to foreign investment are gone. Last fall, Peru settled three multi-million-dollar investment disputes with US companies. President Fujimori's currency exchange, interest rate, and labor reforms have made Peru's economy more competitive. Peru has resumed debt payments to international financial institutions.

As a result of these policies, the Peruvian economy grew 2.8% last year after contracting 4.6% in 1990 and 11.9% the year before.

The United States has done much to support President Fujimori's economic policies, and I hope we can do more. We took the lead in forming a support group of donors that pledged \$1.1 billion—\$416 million of that from the United States—in new money over 2 years. With this help and that of other international donor countries and institutions, Peru has begun to pay off its arrears so it can receive fresh capital inflows. The IDB has already resumed new lending.

We are providing Peru \$200.7 million in direct assistance this year, \$157.2 million of it [in] economic aid. The Andean Trade Preference Initiative passed by Congress and signed into law by the President last December will expand Peru's trade access to the United States. We have requested \$286 million in budget authority for official debt reduction under the Enterprise for the Americas Initiative in FY 1993, and we hope to include reduction of Peru's official debt in this year's program. Full funding of this initiative by the Congress would permit us to provide significant relief to Peru.

Our aid has helped Peru in other key areas. US assistance feeds one in seven Peruvians. When the cholera epidemic struck in January 1991, afflicting about 300,000 Peruvians, programs we had in place for a decade were key to containing the disease and keeping the fatality rate low—1.3%. We have continued and expanded our infant mortality program—training health care personnel and providing oral rehydration salts—with \$5 million in extra aid last year and \$5 million more to be spent this year.

Third, the Peruvian Government must develop a comprehensive political, economic, and social strategy to confront *Sendero*. The military component of that strategy must support and be subsumed by the larger political, economic, and social goals. A fundamental part of that strategy must be to extend the government's presence and services to the marginalized rural areas and to the new urban [areas]—*pueblos juvenes*—where *Sendero* has sunk its roots, in part, because there is no government presence. The United States can help as well by supporting economic development projects that emphasize grassroots participation by local communities in developing project goals, overseeing their implementation, and providing volunteer efforts to carry them out. Security is also necessary for such projects to be effective. So far this year, eight foreign development workers and six foreign nationals involved in religious and humanitarian organizations have been assassinated by *Sendero*. The Peruvian armed forces and police must be

and Chile. Final settlement of this border conflict would allow Peru to concentrate its security forces on the real enemy of the Peruvian people—*Sendero Luminoso*.

Conclusion

Mr. Chairman, the programs we support in Peru today are not counterinsurgency programs. They each have specific, limited objectives. But they also contribute to strengthening the government's economic, administrative, and military capacity to confront and defeat *Sendero*.

Economic development and administration of justice programs strengthen Peru's democracy and give the lie to the guerrillas' argument that the state cannot serve justice or human needs. Our counter-narcotics programs impart basic security skills and an understanding of human rights—that makes Peru's security forces more effective in any mission they undertake. As the drug trade is disrupted, *Sendero* loses a source of financing.

Certainly, there is a convincing case against US involvement in a counterinsurgency program in Peru. The Administration has no such plans, nor would we propose them without close consultation with the Peruvian Government and the Congress and only after careful consideration and debate.

Yet there is a case for closer engagement with Peru. The plain fact is that while drug trafficking is our top interest in Peru, the *Sendero Luminoso* is a direct threat to the government's survival. Peru's insurgencies threaten more than democracy and prosperity—they pose serious obstacles to all aspects of an effective counter-narcotics strategy, from interdicting coca shipments to economic development to enforcing the law against captured traffickers. They threaten democracy in Latin America and the prospects for regional economic integration and trade.

I look forward to the debate these hearings will generate, and I look forward to continuing our work with Congress on a policy toward Peru that serves US interests of stopping drug trafficking, strengthening democracy, and defending human rights. ■

El Salvador: Pickett-Dawson Murders

Statement by Department Deputy Spokesman Richard Boucher, Washington, DC, March 14, 1992.

The FMLN [Farabundo Marti National Liberation Front] has announced that the suspects in the January 1991 murders of US citizens David Pickett and Earnest Dawson will be turned over to Salvadoran authorities. This step will not, in itself, ensure that those responsible for this crime will face the bar of justice.

The US Government is engaged in an ongoing investigation of these murders and has obtained an indictment against one defendant in the United States. The United States continues to believe that those responsible for this case should answer to the US justice system for violations of US law. The

FMLN is aware of our position on this matter.

The FMLN's announcement in no way relieves it of the obligation to provide all the evidence in its possession, including the results of its internal investigation, testimony from witnesses, the witnesses themselves, prior statements by the accused, and physical evidence.

We call upon the FMLN to go beyond their announcement and to cooperate immediately and fully with US and Salvadoran authorities in order to make the legal case against all those who were involved in these murders. For its part, the United States will continue its full cooperation with Salvadoran investigative authorities. □

New US Embassies Open

Notice to the press released by the Office of the Assistant Secretary/Spokesman, Washington, DC, March, 17, 1992.

Embassies of the United States of America are staffed and functioning in the following countries:

Moldova: The Embassy is located at 103 Ulitsa Alexei Matoovich in Chisinau. There currently is no phone hookup to the Embassy building, but the staff can be reached at the Seabaco Hotel, phone number 0422-23-28-94. Pending the designation of an ambassador, Howard Steers has been appointed as Charge d'Affaires ad interim.

Uzbekistan: The Embassy is located at 55 Chelendarskaya in Tashkent. There currently is no phone hookup to the Embassy building, but the staff can be reached at the Hotel Uzbekistan, phone number 7-3630-24-49-08. Pending the designation of an ambassador, Michael Mozur has been appointed as Charge d'Affaires ad interim.

Azerbaijan: The Embassy is located in the Intourist Hotel in Baku, phone number 8922-91-79-56. Pending the designation of an ambassador, Robert

Finn has been appointed as Charge d'Affaires ad interim.

Turkmenistan: The Embassy is located in the Yuvelinaya Hotel in Ashkhabad, phone number 3630-24-49-08. Pending the designation of an ambassador, Jeffrey White has been appointed as Charge d'Affaires ad interim.

Tajikistan: The Embassy is located in the Oktyabrskaya Hotel in Dushanbe, phone number 3772-24-32-23. Pending the designation of an ambassador, Edmund McWilliams has been appointed as Charge d'Affaires ad interim.

The Embassies currently are providing limited consular services to American citizens. Americans in need of emergency services may contact the local Embassy. All Americans residing or traveling in these countries are urged to register with the US Embassy.

Routine visa services will be provided at the new Embassies as soon as the offices are readied and appropriate staff assigned. In the meantime, citizens of Moldova, Uzbekistan, Azerbaijan, Turkmenistan, and Tajikistan will continue to apply for US visas at other US Embassies or consulates. □